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ELEVENTH LEGISLATURE - First Session

SPECIAL COMMITTEES

--House of Representatives--

AGRICULTURE COMMITTEE, SPECIAL

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ELECTIONS, "STATE AFFAIRS" SUB-COMMITTEE ON

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Membership:

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PERMANENT FUND COMMITTEE, SPECIAL

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Rep. Leo P. Schaeffer, Jr.
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ROADS AND HIGHWAYS, SPECIAL COMMITTEE ON

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HOUSE SPECIAL PERMANENT FUND COMMITTEE

TESTIMONY BY WALTER FILKIN

ON MARKETING ASPECTS OF BONDS

29 MARCH 1979

Filkin: A key consideration in a program of this type is the fact that there would be two sources of security for bonds, and it almost by definition says that one is not sufficient. Judging from the permitted acts or the permitted loan activities that can be engaged in, I think it is reasonably clear that some might require additional security. The broad categories of municipal, housing, residential, and commercial do lend themselves to all grades of lending activities. Certainly in the municipal category alone, which I'm most familiar with, there are borrowing activities that are equal to that of the Federal government which would be AAA rated down to activities that are of very highly questionable ability to repay such as start-up ventures by very small water or sewer systems, or other sorts of bond issues in areas where there are declining populations or reducing tax bases, or in the case of New York City, some of the problems in borrowing are well documented and we need not go into them. But in any event, there is a vast range of quality. So when you come to an activity of borrowing in the long-term market, the question of can the issue repay and pay not only the debt but also the interest on a timely basis, is the critical question in terms of what additional will be needed if there is some question about its marketability. So we get into the area of a loan program covering a vast array of possibilities, having as an ultimate or a backup security the earning power of the Permanent Fund. I think that's what we're really dealing with today.

To the extent that the security of the loans that are being made are sufficient in the market place, the Permanent Fund pledge itself isn't necessary. And so what we are dealing with is something where I presume the drafters of the bill would say the pledge of the Permanent Fund would be a vital necessity here and the question is, first of all, how does it impact the ability of the State to conduct its more typical or more normal borrowing programs and, secondly, what is the prospect of being able to conduct a continuing program like this in the general market.

Let's consider the make-up of the Permanent Fund itself. I think it is important if it is viewed as a true source of security for this loan program and the financing of this loan program, that sufficient boundaries be put on the investment uses of the Permanent Fund so that the benefit that is hoped for doesn't get dissipated. I mention that because part of the uses of the Permanent Fund might certainly be valid but their impact on security for bonds might be very limited... For instance, the Permanent Fund, at an extreme, if it were used for loans that had little or no chance of being repaid, the pledge of that fund as security for another loan would not be viewed as a good security in the market place. The other extreme, if the Permanent Fund were restricted to its investment only in U.S. Government Treasury bills and bonds as the Texas Permanent Fund is for example, the security of that Fund on another borrowing would make that other borrowing AAA rated. And that's exactly what the U. of Texas, whose Permanent Fund secures much of its borrowing, has right now... Somewhere in the middle is probably where the Alaska Permanent Fund would fall, but keep in mind that two independent pledges are important for the market to view the combination of the two as adequate in the long term. If, for instance, you had a $100 million Permanent

Fund that was currently 50% in U.S. Government and 50% in commercial loans such as fisheries and other small business type loans, that in itself probably wouldn't be sufficient without some other parameters around that Permanent Fund and some other limitations on the amount of debt that could be incurred that would be secured by a pledge of that fund. Even though at the outset you could say our first borrowing is going to be $25 million and we have the income from that $100 million fund as a backstop pledge. So I would suggest that it is important that the limitations on the investment opportunities in that fund be considered carefully in order to gain what is hoped to be gained by a pledge of the fund for borrowing to secure these various loan programs.

The impact of the loan programs on the State borrowing program itself - which today is in the neighborhood of about 250-300 million dollars every two years; it could have some impact. If in the transition of the General Fund surplus there is a view of the market place that it can be funneled into the loan program to the extent that they are not credit worthy programs could somehow draw down on the balance in the State's bank account, the market place could view the State far differently than it currently does. In the last ten years, the State excess of revenue over expenditures has been about four years out of ten. The other six years, there's been a slight to large excess of expenditure over revenue. The market place has not disregarded this but has accepted it, because ten years ago there was roughly a billion dollar surplus in the General Fund and has accepted the fact that there could be an excess of expenditures from time to time but overall has not looked at it as an alarming trend. It might have if there had been no surplus... If in the future there is a program which in some way could draw down, in the view of the market place, an unlimited amount of that surplus through the operation of the program

such as the Permanent Fund pledge and State loan programs, then I think the impact on the State for its own borrowings would be negative.

Rogers: If we're going to use this money to guarantee one form of loan, or one issue, then we'd have to pledge that we wouldn't use it to guarantee something else?

Filkin: That would go without saying. What I'm suggesting, though, is that, in addition to that, if you comtemplate selling a block of bonds, and you've got an adequate revenue flow from the Permanent Fund to support the debt service on that issue, the only real way that the market would accept that sort of an arrangement would be if they could be assured that a year from now or ten years from now you wouldn't issue ten times the amount of debt with the same revenue projections that you now have. In other words, you'd be relying more on the loans themselves to provide the cash flow rather than the Permanent Fund. And to the extent that they thought that might happen, you'd probably feel it today when you issue that first issue of bonds.

Rogers: Are you saying that that would effectively put a lid on our other issuances that are completely unrelated; revenue bonds or G.O. bonds that were not secured by...?

Filkin: No, not necessarily. What I'm saying is that the way you would get your Permanent Fund bond program off the ground would be to show two things: first of all, that the debt service on that first issue can be well secured by the cash flow from the Permanent Fund; and secondly, that if you're going to incur more debt in the future, that the cash flow from the Permanent Fund will have to have increased sufficiently to support that debt as well.

Rogers: You're only referring to debt which is guaranteed by Permanent Fund income? You're not referring to other debt...?

Filkin: I was in an earlier comment and I'll get back to that, but on this question

here that is all I'm referring to. If your principal and interest requirements are $5 million per year... and suppose you have $4 million of Permanent Fund income pledged to the payment of those bonds, then another bond issue is proposed a year or two years out that's going to have an additional $5 million of debt service; if it can't be shown that Permanent Fund income is going to increase at least proportionately to support that additional debt, then you've got problems not only doing it then but selling this first issue....

If there are ways in which the unappropriated General Fund balance, which I guess now becomes an unallocated reserve, can be utilized; in other words, if there are deficiencies in various accounts that have to be filled, and the Commissioner of Revenue or whoever is going to administer it is required or even has permission to fill those reserves because they've been drawn down to pay bonds or something due to the fact that the loan program itself hasn't been self-supporting, then that would have an impact on State borrowing for general obligation purposes.

Rogers: Because the market would realize that even though we've been keeping a fairly steady even revenue vs. expenditure you'd have in effect a possible sudden large expenditure drawing out all of our surplus...?

Filkin: The market would view that as a possible leak even though every year there is that possibility... this sort of a program, it might focus as a new program and focus on that....

Rogers: The market sort of weighs these as probabilities and this would increase just a new opportunity for leak as a higher probability...?

Filkin: That's a good way to put it, yes.

Rhode: Unless I'm ahead of your remarks, we spoke a moment ago about the possibility

of issuing up to a billion in revenue bonds on behalf of the Northwest proposal, assuming we got an IRS exemption, and others are talking about the Susitna project, the current estimate of the Corps of Engineers brings the final cost of that up to 3½ billion. How interrelated are these things? Is the market going to judge Susitna or Northwest proposal strictly on its own without regard to a large revenue bond program of the kind in this bill or?

Filkin: That really depends on where the possible relationship between the State and these particular projects... what that relationship is. If it is truly a revenue bond project, payable only out of the revenues that flow from the gas pipeline or from the Susitna and the contracted sale of power, they should have little impact on the State's finances. The fact that they are so large and the fact that today the State is so committed to petroleum (means that) something that happens in the petroleum area does have an impact on how the market views the State of Alaska general obligation bonds. If that weren't the case, the State of Alaska probably would still be rated BAA1, but instead it's rated A1 and so that was a positive thing, but at the same time if negative things do happen in areas so vast as petroleum or in the future so vast as natural gas or hydro power, those each could have some impact on the State's loan financing arrangements.

Rhode: Maybe another way to put the question, when New York City got in trouble, did other agencies,say of the State of New York or revenue bonding authorities, ... (get in trouble)?

Filkin: For a time there was sort of a ripple effect or a neighborhood effect on municipals and it was felt the greatest on the East Coast. It was felt in greatest in New York City. To some extent it had little or no impact

and in fact there were a number of municipalities in New York State that really suffered a close out from the market place for several months. As a result of New York City's problems, people didn't want to associate with anything close to New York. It was a little bit irrational but nevertheless that's what some of the investors as a group decided to do. They had enough of an alternative in the Midwest and the West and Alaska that they said, wait this one out. That's more temporary -- even though for somebody else it's minor, when it happens to you it's major -- but it was a temporary thing that ultimately corrected itself and the problem was zeroed in on and sort of isolated. Just to give you some idea, seven or eight years ago when the State of Alaska went to the market place to borrow money, the comparison was sort of three-way: should this be a slightly higher rate or slightly lower rate than New York City and Puerto Rico? Well, today the conversation is: how much more should it be than the State of California, which is AAA rated, or Virginia, or Minnesota or Illinois, and there's no discussion at all about how Alaska rates with New York State or Puerto Rico, because they have declined at a time when Alaska has improved. The one area, though, where there was some valid concern was if this is happening in New York, is it also happening in Boston and Baltimore and Detroit and Cleveland. And the fact is, it was, and people weren't focusing on it quite as much. So it did highlight the problem and probably bring it to light in other areas a little more clearly....

Malone: Are there other points you think you should touch on in the legislation?

Filkin: I hesitate to go through point by point in the legislation. I guess my concern is that it appears to be so all-inclusive that I would urge a little concern on that point alone. If I could cite just one example, the permitted investments have a long list, starting with U.S. Government and going all the

way down through prime corporate bonds and then any other sorts of securities as a separate category.

Malone: This is the Permanent Fund you're referring to?

Filkin: Yes. Again, given the objective of the Permanent Fund as a source of security for another group of loans which needs that source of security, the opportunity to invest in such a broad range loses the impact that was designed for that fund. I'm not suggesting how the investments ought to be made, but the restrictions on the investments ought to be made with the objective of what the pledge of that fund is designed to do.

In the area of the municipal loan program, there is a section dealing with the fund's purchase of municipal bonds on a set formula.

Malone: It requires the loan fund to submit a bid for certain types of municipal bonds according to the formula.

Filkin: Where we've observed formulas like this in the past and there haven't been many but the experience has been roughly the same, the fund either buys all the bonds in a given market or none of them simply because there hasn't yet been devised a formula that is simple enough to administer and yet sensitive enough to react to the changes in the market place on a day-to-day basis. And I would say that even though there has been some care taken in drafting that section, I think the experience would prove to be true in Alaska, too, that the fund would wind up the purchaser of alot of bonds or no bonds depending on the market; and I guess a corollary to that is that the marketable bonds which might go to the rest of the bond market and the poor security or those that are not deemed credit worthy would line up in the portfolio of the Permanent Fund because there isn't any limitation other than A rated and better or BAA rated or worse, as I recall.

Rhode: Another witness from New York the other day gave his judgment that revenue bonds of the kind in this bill which are a mixture of everything from student loans to commercial lending would not, at least initially, be marketable without this guarantee of earnings coming off the Permanent Fund.

Filkin: I think that's a good generalization. You could always find a situation where the source of security for an unusual commercial loan or a student loan was so strong that it wouldn't need any additional security, but I think, by and large, a combination such as this with its broad ability to lend under just about any circumstances, is dependent on the fund. I think the pledge of a very strict source of pretty much unrelated security is a requirement.

APPROVED

HOUSE SPECIAL PERMANENT FUND COMMITTEE

TRANSCRIPT OF TESTIMONY BY SAMUEL PLAIA ON SS SB 1

27 MARCH 1979

Plaia: Senator Hohman's bill is a very extensive one, but rather than make a detailed analysis of it, due to time constraints I'd prefer to make some general comments on the intent of the bill and what problems I feel may arise from the bill as it's presently constituted.

Your comments earlier about the use of the income of the Permanent Fund to support debt to provide the capital funds quickly to bring massive investment into the State to help the State develop a series of industries and help the State's citizens receive money under favorable terms and conditions is certainly the essence of Sen. Hohman's bill. The theory of it is that the income from the Permanent Fund could be used as the security for the sale of so-called revenue bonds (being revenue in the sense that they would be paid back not by the general obligation resources of the State, but from the income produced from the investments that such a loan program would make... i.e., the loans themselves when repaid or paid down on a schedule would presumably amortize the revenue bonds). But recognizing that such programs would require a substantial amount of time to put into action, as well as several of the purposes for such loans being ones which would require extensive time for their repayment, the attempt is made to provide the specific income from the Permanent Fund's investments as the security or collateral which would make an investor willing to buy the bonds. Because the investor does not have the specifics of what the particular loans would be made in and, therefore, could not make a judgment as to the value of that particular program and the likelihood as to whether the investment is going to be repaid through the earnings of that particular loan, he would need such additional collateral. In addition, it would provide the investor an opportunity to examine perhaps more closely the projected income of the P.F. over a period of years and give the investor a certain sense of security that without regard to whether the loan programs succeed or fail, in effect the money is going to be segregated and kept there so that principal and interest can be paid when due. It is also true that that kind of a collateral would allow bonds to be sold at a somewhat lesser interest rate and, as a matter of fact, without it, I don't think bonds for such programs as proposed here in this bill could be sold at least for some of the purposes which have been outlined in the bill.

Given that introduction, I'd prefer to address some of the loan purposes. There are certain areas I feel require comment.... (page # referred to are from original version of SB 1, and same as HB 279)

Starting on page 25, we have the loan purposes: residential housing, commercial purposes, public purposes, and education. In the case of residential housing, I see no general problems since that is a well-established public purpose and is being used in the State presently and throughout the lower 48.

The area that I have the prime concern with is commercial purposes... (here reads what bill says about commercial loans). It seems to me that the intent here is somewhat similar to that of the Federal government Small Business Administration, which is to provide loans for smaller industries which do not have ready access to capital from other sources, either because there's an inefficient market mechanism by which they can raise such funds or there are not appropriate investors prepared to make such funds available.

The record of the SBA has not been particularly good. The intent has been sound and despite the very elaborate documentation that is required before such loans are granted, there have been a significant and outstanding number of defaults. When I read this bill, I tried to imagine a situation which could arise, and that is let's assume we have an idea which we believe is commercial and can create cash flow and, presumably profit. And what I'm concerned about is what can happen as a result of the State making an investment in such a commercial venture. And that is that a group of people would get together as provided in the bill and form a corporation and put in a certain amount of capital and then go to this particular program and outline a plan for the expenditure of let's say one million. And they make projections and show that if they are successful they will be able to produce a profit and a cash flow and after administrative costs and expenses will then produce a source of funds which can be used to repay the loan. There will be an enormous temptation, if this program is put into effect, for somebody who's always wanted to be a successful entrepreneur to come up with some pretty good ideas which seem to be sound, and form a corporation and get let's say the million dollars, which will provide for salaries and the rent and overhead and travel expenses of the corporation, and set aside a certain amount as a reserve for the repayment program and successfully repay their obligation. Unfortunately, what they can also do.... (Here tape was changed; scenario of corporation that might default on loan payments was continued).

And the only recourse is that the State or the program can now go to the individual who has personally guaranteed the particular obligation and say now I want to collect from you or the group of shareholders the $750,000 that's not been paid back. And at that point any individual who does not have the money has available the appropriate mechanism through bankruptcy court to be relieved of that obligation.

As a result, the funds which made this investment have now lost this principal and the Permanent Fund income will now have to be used to make up that deficit. So that you have here a State going into the business of loaning funds to corporations in ways in which that corporation can very, very easily bleed off the assets leaving you with nothing at some particular time, either by intent or unintended, because of poor business judgment.

Malone: In the commercial loan section of the bill, it provides for collateralization... such safeguards... can they be built into the law so the loan fund or the Permanent Fund, I don't know, would have recourse against the collateral...?

Plaia: Yes, that can certainly be done, however if collateral is a building, it's pretty hard to move a building; and if collateral is inventory and expended money, then the collateral is not existent. A ship, for example, yes you could probably re-capture a ship... and we have records of the attempt to collect such collateral... but it's not so easy to collect....

Malone: ...To what extent would the legislation concept encourage defaults... Is the fact that the buyer of the revenue bond is not looking to the operation of the loan fund (unclear)...?

Plaia: It's the only security he has, and that's the only reason he would buy the bond. For example, several years ago the Small Business Administration encouraged the formation of private small businesses and corporations to get the private sector into particular businesses and it provided certain incentives and tax advantages to encourage them to develop these small business investment corporations (SBIC). And there was a great flurry of raising capital for these SBICs, publicly held but non-governmental corporations, to provide such funds because the assumption was that you could put together a sophisticated group of investment decision-makers and that they could provide the funds for let's say a small company that needed $350,000 for expansion of existing facilities or that had a new idea or a new patent which seemed to have a strong possibility of success. And the SBICs would provide the capital for this in return for a share in the equity of the corporation. The record of this as it stands today is pretty dismal despite the presumed sophistication... there were banks, for example, that had SBICs formed as subsidiaries and the record of investments is extremely poor, and these were investments that were made with the same intent and purposes as here by people who presumably had a great deal of sophistication and the record is that it was not successful. Not only was it not successful, but in most cases it failed. Now the value of these SBICs has (unclear) because the portfolios have not produced the income which would allow them to pay the dividends to the equity shareholders in a way which would make good market price on the security. In addition, ...over the last five years the SBA itself, in guaranteeing or making some of these loans, has found that the primary purpose of the loans seems to have been to feather the nest of the officers of the corporations who borrowed the money.

Malone: Why did the SBICs encounter these problems?

Plaia: The problem is the pressure for investment. If you have the funds sitting around, you want to put them to work. Now if the purpose in putting them to work is not just to invest the principal and get a prudent income out of it, you're going to have to find investment opportunities, and you become far more willing to look at investment opportunities when the job that you have is to make investment in such opportunities. So while you may not seek them out, you certainly become far more receptive to them when they come in because who knows when the next opportunity is going to come along for you to make such an investment and fulfill your duties and responsibilities. Pressure -- the funds are there and they are supposed to be put to work.

Malone: What sort of standards do the officers of the SBIC have to meet...?

Plaia: Judgment, mature judgment, in terms of the people involved, what their record is in making a company go. They look at officers, they look at the product, they look at the product's share of the market or they make a judgment of how valuable the product is....

Malone: I understand that they do that... But what I'm getting at is what is the essential difference... I mean if we talk about a loan fund secured by a separate fund with its own earnings... maybe there's no incentive for the loan fund to turn in a good record as opposed to a bad one... What is the parallel with the SBICs?

Plaia: In the case of the SBICs, number one they would require far less equity than a bank because they are depending much more on their judgment.

Kocsis: Re. value limitations section of the bill, isn't that a fairly conservative way of approaching it and that would protect it about as much as a private bank or anyone could be protected?

Plaia: If banks are doing that, it's not for some of the kinds of purposes as these commercial loans. No bank would make a commercial loan on these standards, at least in my opinion. They might make it for housing... 90% is pretty standard but that's based on the theory and feeling that real estate is a continual and constantly increasing asset because of its diminishing availability... But this is not the case in commercial ventures. Take fishing for example, which depends solely on nature... Re. 95% of the appraised real property... I'm not sure the bank would go along with that. 80% of tangible personal property... what might constitute tangible personal property as security for the loan... car, furniture, paintings, jewelry... you can't get 80%....

(Comments from Haugen and Bushre unclear).

Rhode: Mr. Chairman, I just have a comment. Surely it must make a difference if I have some kind of plant and equipment worth a half million, but it's located in Barrow. If the State has to go in on a default and sell off the property, it's true the replacement cost of that project is as I stated in my appraisal, but can you get that kind of money? You are asking someone to come in to take over a failed business.

Plaia: You will sell it at so-called distress prices, so that even 75% would be good if this is in an area that is remote or has been chosen simply because that is the place where the incorporated individual has chosen to live and reside. If you want to encourage somebody else to come in there, you are going to have to give them a big carrot. The big carrot is that they are going to be able to buy something really cheap. The market place is pretty vicious when it comes to things like that.

Malone: To summarize the points you've raised so far... In at least the initial years, the operational loan fund may not be held to reasonable standards because at least in the issuance of bonds the buyer is going to be looking at the Permanent Fund for security, not the operation of a new loan fund. Secondly, you have said that the operators of the loan fund may be under considerable pressure to get the money out and that may lead to problems in getting money back again. (Plaia confirms these).

One of the things that came up in the last session of the last legislature... a very complicated area... The public purposes section here, particularly the section where the loan program or fund would purchase municipal bonds....

Plaia: (Referring to series of formulas on pp.32-3). First of all, let me give you a little background. Municipal securities for the most part are sold in what's called serial maturities, in other words the total loan will mature over let's say a 20-year period and in the first year x amount of principal will be paid and whatever the interest is and in the second year another amount of principal will be paid etc. so that in each year you have part of the debt maturing. So it's called a serial loan, as opposed to a so-called term loan... Serial maturities sell at generally increasing rates of yield. In other words, the shorter the maturity, the less the yield; the longer the maturity the higher the yield. For example, a bank would be willing to accept a much lesser rate of interest for a bond due in one year than it would for one due in several years. So we have then what is called a yield curve... that is a curve whereby the shorter maturities generally sell at a lower price, the longer maturities sell at a higher price... Now the yield curve itself is subject to constant changes and distortions in the market place, depending upon the amount of investment money available for certain maturity ranges. Therefore, you go into periods where you will have a so-called normal yield curve whereby the one year maturity will be much lower than the longest maturity... But in cases of fluctuations in interest rate patterns and the availability of money, there may be less money available for shorter term investments than are available for longer term investments. Therefore, to create an interest in the shorter term investments, the yield has to be raised so there you get what is called flattened yield curve...i.e. the differential between these two is much closer... we are currently going through what is called a flat yield curve... Now this formula fixes the rate at which the State must buy securities, and it fixes it in such a way that it does not take into account the distortions that may occur from time to time in the yield curve. So consequently, the State would be forced to buy securities whether it wanted to or not, because the investor would not under this formula be able to find a way in which he could develop a security and a yield curve that he could sell in the market place....

Malone: Then you're saying the formula set out in the bill may result in the director of the loan program buying bonds for more than they can be sold for. (Plaia confirms). Is that because the formula is defective?

Plaia: It's not that the formula itself is defective. It's not possible to accept such a formula. Any formula of this type would be defective. It might be effective at one particular time, but a year later that formula is still fixed, you haven't changed it, and the conditions in the market has changed so that distortions occur which would then force the State to buy not at so-called market rates.

(Discussion among members re. subsidies unclear).

(Comment from Bushre re. State loan programs unclear).

In this particular instance, I'm saying this formula simply will not work. It will encourage investment bankers to not bid on the bonds at times in certain maturities and under other conditions it will not only discourage them but it will make it impossible for them to submit bids for the bonds. So that in effect, the State would have to purchase those bonds... at rates which are not so-called market rates and therefore, the State would also lose the benefit of the additional income it could get by investing in non tax-exempt securities. (Discussion re. interest rates, guarantees, and more about yield curve unclear).

...If the yield curve proposed here is different from the yield curve in the market place, people are going to buy which is the more effective and in this instance they are not even going to be able to buy it because the State....

Kocsis: Do you think mixing the bonds together would still have that effect of lowering it?

Plaia: No, the market is the market. It makes its own curve and what makes the curve is the amount of money that's available for investment in a particular security range. For example, now we have a flattened yield curve where the differential between one year securities and thirty year securities is very narrow, the reason being that the banks do not have that much money available to put into tax-exempt securities. (Example of insurance companies having money to invest recently, compared to several years ago when natural disasters left them with less money but at that time banks had plenty of dough).

(Question from Malone re. municipal bonds and discussion unclear).

Malone: Re. commercial loans, to what extent are we likely to run into any problems for issuing tax-exempt bonds for that? How is this treated in other jurisdictions?

Plaia: One can under certain conditions issue tax exempt bonds for so-called industrial purposes, e.g. in the area of pollution control that's being done frequently. I believe the limit has recently been raised to $10 million from 5 million. Most of the bonds that I do see issued, however, for pollution control run from 1-3 million. That has been defined as a genuine public purpose. I think that what would happen in this particular program would be that the very people who would come to you to receive the benefits from this kind of a program would not qualify... therefore, there is serious question here as to whether the bonds that would be sold would be tax exempt. In other words, the bonds would be sold using the income of the Permanent Fund to provide the... to make these loans and there might be very serious questions and it would have to be examined, yes.

Kocsis: It was examined by E.F. Hutton and they felt it would be tax exempt.

Plaia: But in all due respect to E.F. Hutton, they are investment bankers as I am and they are not tax counsel....

To continue with my conerns about the loan purposes as drafted here, re. the student loans as it's drafted here I would think that it would be an encouragement to default on the loans... It's not so much an invitation but it's certainly a suggestion that if you do default you won't be punished very severely. And in effect that's a subsidy and that's all right, too, except that it's a little unfair because in effect the person who does pay the loan off is subsidizing the person who doesn't pay it off.

I believe those were the major concerns I had about the bill....

#18:1

HOUSE SPECIAL PERMANENT FUND COMMITTEE

PARTIAL TRANSCRIPT OF TESTIMONY BY THEODORE SWICK

10 APRIL 1979

Swick: ...From my experience and from examination of the procedures that are outlined in this proposed legislation (HB 279), this method of aid to local government, in my judgment, will not work at all unless the intent of this provision is to have the State, in fact, buy all of the bonds put up for sale by these various cities. If that's the goal, then I think this will work. If it's a provision that's trying to help the weaker cities, why that's fine, too, and I think it will happen. But the fact that the State will be making a bid that is presumably competitive with the marketplace; I think this thing is all out of shape and all out of reality. In fact, I don't believe it even could be restructured to work. It'd really almost be re-inventing the wheel....

First of all, it's based on the Bond Buyer average. The Bond Buyer is a newspaper that services the municipal bond industry... That average is made up of a determination of the market every Thursday morning in New York by a series of phone calls and is established by the market price for a 20-year a-rated or aa-rated bonds....

The municipal market is a over-the-counter market in the purest sense... On any particular list of bonds,... if you ask ten traders what they're worth, you're going to get a disparity in the price. That's the way the Bond Buyer average is made up....

For example, Matanuska-Susitna recently sold $20 million in the public marketplace, a-rated bonds... If we took this formula in the bill and took

the Bond Buyer average as it was that day, that issue would've been bought by the State. And it would've been bought at prices which were probably 50/100s off the marketplace... The State would've paid on the average about $7 per 1,000 more than competitive marketplace said the bonds were worth. I don't think the motive here was to provide a financing mechanism with State funds for a-rated (unclear) in Alaska. Now if it was, you've got it.

Again, based on ratings and on the index, the thing is I think unworkable because in the marketplace there are very subtle variations within a rating category... So when you apply a pricing mechanism based on credit rating as this does, there's no way that that formula is going to come up with a price that has any reality to the real market for those bonds.

Another flaw in it is we have what we call a yield curve and that deals with the fact that most municipal issues are issued in serial form... In so-called normal times, each year you go out in the life of the loan, and each principal installment attached to each year, has a yield on it higher than the one proceeding it. So as the bonds get longer in life the yield goes up, and as a result the interest rate goes up.

Now when you take an artificial arrangement, where you have every five years a set... where your yield curve is absolutely flat for five years... again, no reality to the marketplace at all.

...If the intent were to buy all the bonds put up for public sale by issuers in Alaska, then this thing would work like a charm. But you will not get any competition from Wall Street people.

Now the act goes on to say that the award will be made to a combination of bidders... that they will combine pieces of the best bids of several parties and come up with an award... From our point of view, on the

underwriting side in Wall Street, if that is the prospect we would not even bid on the bonds... The reason for that being that the way your procedure is structured, the chances are that if we were going to make a split award, the State would buy the shorter years and we on Wall Street would end up with the longer years.

Again, the award of the securities is made on the best cost of money to the issuer. (Describes calculation of arrival at "net interest cost")... What happens is we have our profit built into the short bonds and we make no money or sell at a loss for long bonds... So again, in the marketplace, this is all out of reality... I don't think this thing will work and that's an attempt to explain why. If the State, through this formula, takes off the bonds where we have some profit in it and leaves us the ones where we have some loss in it, we're only going to do that once, and probably never....

(Re. proposal in HB 414 for use of Permanent Fund income to guarantee debt for power projects, Swick gives some history of how he and other consultants to prior committee came up with idea)... The opportunity appeared to be there to take advantage of this very high quality cash flow to contribute to other needs in the State of Alaska and at the same time not invade or violate the spirit or intent of this trusted part of the income. So what we came up with led to this 595. Here's the way we envisioned it. That money comes out of very high grade investments and we took this towards another developing major problem in Alaska which was the demand for energy....

So this seemed a positive place to go to make an important contribution with this very high grade cash flow. The idea then would be that under the Power Authority Act... they are only permitted to fund "feasible"

projects... so first of all we want our projects to pass all those tests... and they'd be revenue projects which would be funded... in the bond market... the people who lend money to tax-exempt borrowers are used to that sort of thing....

So you have a project that already passed all those tests and seems feasible, but the lenders are still depending on estimates of experts that 10, 20, 30 years from now certain events are going to take place so that lender is going to get his money back. We can lend that guy alot of comfort in his examination of an Alaska revenue project as to whether he wants to lend them any money or not by saying we will take and pledge the income from this very high grade investment account and we will have that available in the event that the predicted results of the revenue producing project did in fact not occur in any given year, you would have access to the cash flow from the Permanent Fund to make you whole and pay the interest and principal.

Now, one thing that would accomplish would be to drive down the cost of borrowing for that particular project... And I think you could come up with aa bonds... I could envision that guarantee providing a aa-rating for project security.

Secondly,... I could see the cost of borrowing for a project getting down to within about 50/100s of the cost of your general obligation borrowing. In other words, if it cost the State of Alaska 5½ to borrow towards general obligation debt, I could envision these bonds selling for something like 5 3/4 or 6%, I think no more that 50/100s. I would go further to say that if that income flow guarantee was not there, the cost of borrowing could be anywhere from 6½ to 7, 7½, depending wholly on the

belief of the figures in the feasibility study and the convictions of the consulting engineer. Now, the important thing in this is the expectation that the project will be self-supporting and that the money will never be used. If it's needed it is there and it will be used, of course. But the expectation is that the project will be self-supporting and feasible.

Now what happens -- every year that those bonds are outstanding, you have an obligation to either pay interest or interest and principal on the project debt. If that year goes by, and the project in fact does cover its debt service obligations, then that flow of money from the Permanent Fund income is freed up and can be used for anything else. If you didn't do anything with it, it would go to the General Fund. The legislature could provide a second use for it.

In very simple terms, you're getting a double dip on that money. And if you want to go on to a development program and use the money for that, or if you wanted to subsidize some other lesser feasible project after the guarantee has been removed, you have it. And the delay is only a year, one year's income. Once it isn't needed, you can do anything you want to with it. It is not committed to the debt issue for 30-year bonds.

I think it's a valuable thing to do with that flow. I think it can perform a great service for you. You're not tying up any money in a long term way. It would be possible because in the way we handle cash flow in a revenue project is (technical description)....

So it serves a purpose, it drives down the cost of borrowing, but it's a one-shot deal on that dollar income. And once you don't need it, you can do whatever you want to with it. I wouldn't want any grant program... As I see it, I want to hold that trusted part of this Permanent Fund so

it can't be attacked at all. You could eat into the income as one of these projects goes by of course, but you could put into the agreements that... it can be recovered. You never violate the principal at all, and you never give anything away.

Malone: So the basic argument is this be done for projects that were, first of all, adjudged by standard criteria to be financially and economically feasible to begin with and that, secondly,... it'd be for those projects for which bonds could be sold but they'd be sold at higher rates than this would bring?

Swick: That's correct.

Freeman: What you're talking about here, isn't that what's normally referred to as double barrel bonds, guaranteed not only by the revenues but also backed up by funds...?

Swick: Yes,... it is... In a double barrel bond you have a revenue flow which is dedicated and you have a general obligation pledge which is there and they're both there all the time. But I guess that's right, once that revenue flow in any one year goes by then it's no longer an obligation... I hadn't thought of it that way. There are double barrel bonds that have a very enviable position in the market.

Haugen: Is it adviseable to get yourself into a double barrel bond... heavy front end costs in the development of hydro projects... if you pledged revenue and other income so you have the ability to say to the borrower here's what I can offer you...?

Swick: If it's a revenue producing project, you have the income flow which is pledged to the bonds... but you also, in a classic double barrel situation, you also pledge to the lender or the bond holder that you will use the full taxing power of your community if necessary. And the result of that is to drive down the cost of borrowing because the lender sees

additional security for his protection.

Haugen: ...You're pledging the income of (unclear)?

Swick: No, I was talking about the double barrel bond itself. The suggestion here that this bill embraces is that you're not pledging anything but the revenues of the project. And the Permanent Fund income is there in the event that everybody who guessed what those revenues were going to be on a projected basis is totally wrong and the... revenue will not meet the obligations for bonds, then you have the Permanent Fund. But as I say... the project would have to pass the tests... in regards to what the Power Authority can do and what the legislature will in fact authorize them to do.

Hayes: I've heard the concern expressed about power projects that initially there is alot of front end costs and possibility of negative cash flow, but as any power project proceeds on into time it becomes more and more viable in terms of cash flow to retire bonds. To the extent that guarantees from the Permanent Fund would lower the interest rate on the bonds, it would accommodate the negative cash flow, the problem in the earlier years which is part of the problem that Ernie's concerned about....

Swick: ...You would be saving somewhere in the neighborhood of 100 (unclear)... it's the difference between a 5% and a 6% bond.

Hayes: It's enough to possibly make a very tight situation a viable project.

Swick: The point of the feasibility test that any of these engineers make is what is the cost of money.

(Duscussion of effect of difference of one percentage point).

Rhode: I want to clarify one point. The use of the earnings of the Permanent Fund as a guarantee was described as a double barrel and in a large sense I see that's true. But,... with a G.O. pledge you are at least initially

cutting down your bond capacity....

Swick: Absolutely. That is a committment which lasts for the whole length of the debt.

Malone: We have a number of proposals to use income from the Permanent Fund to guarantee debt... As I understand the difference here is that, number one, that this would be done on a project basis and the particular project would meet standard criteria for practicality and feasibility. And that the debt or bonds would be issued pretty much on a project basis... so we wouldn't be aggregating apples and oranges....

Swick: That's my view. Again,... the point being is you can get something of value out of this income flow, you're putting it in very mild jeopardy if any, hopefully none, and it doesn't stop you from using it for whatever else at a very nearby later date. Two shots with the same dollar.

Malone: ...The reason this is probably possible in this case, does it rest on those points I raised or does it rest on other things? Because an argument made previously to the committee was that in the case of debt issued on the strength of a Permanent Fund income guarantee, that the creditor was going to look solely to the Permanent Fund income as his source of guarantee and was not going to pay any attention to the possibility of the project or the use of the proceeds paying back his loan that he's made. This is in cases where the Permanent Fund is guaranteeing revenue bonds that were issued to buy home mortgages or small business loans or fisherman's loans, etc. If there's a difference in this case, I want to isolate what it is....

Swick: Your points are right. That the project will be evaluated to the best of the professional peoples' ability that it will never in fact touch any of the Permanent Fund income money. That's the first series of tests but that's what it comes to. Now, if you had a loan program to which this revenue flow was pledged, particularly if it had multiple purposes, there is

no way that anyone could make a prediciton that you were never going to touch that Permanent Fund money, because you're going to have a default ratio... You are right that the investor will forget about the ingredients of an issue unless in the marketing of the securities and the solicitation of lenders' money it is carefully pointed out that that's the intent of this thing and that's what the legislation says and that's the way it's going to be because it would be a very bad thing, in my judgment, if the cost of money as a result of this guarantee caused an unfeasible project to be made feasible. I don't think they should be in there.

Malone: Could you comment on the energy reserve account?

Swick: I don't believe that that fund, as it's presently legislated and constituted, is the basis for security for any borrowing. I just don't think it will work... Secondly, I think it could be a source of a grant program, whether it's an out-and-out contribution of, say, a couple of million dollars here and there... It could be used for early investigation of a project, for some of these front end costs we're talking about. The pot, if you will, as I understand it, renews itself at a fairly modest but regular rate each year... probably generating about, roughly, $20 million a year. I think you can use that in conjunction with all these other things we've been talking about as a source of money for, in effect, a subsidy type item where you put a little equity into a project to help a small thing get off the ground. It could be used for these small hydro developments that I think are going to be developed all over the lower 48... I don't think it can be an ingredient of security for borrowing in it's present state.

Malone: Because it's subject to appropriation?

Swick: That's correct.

Haugen: Way I understood, that fund would be used to leverage money for energy development projects.

Swick: In my judgment, I'm putting a squash on that. I'm saying that the way that money is generated and the way it's handled, it will not support debt, it will not support leverage, because the lender has no assurances that it's going to be there next year.

(End of testimony).

HOUSE SPECIAL PERMANENT FUND COMMITTEE 1979
reel-to-reel tapes

Tape No.	Date	Significant Information, etc.
1	3/6	Revenue estimates (Milt Barker), Alberta Heritage (Jime Rhode)
	3/8	"Capital Gap" (Arlon Tussing)
2	3/17	HB277, HJR23; Fran Ulmer, Pete Bushre, Bob Greeley
	3/20	HB400, HB162, HB414
	3/23	Sen. Sumner on SB122; Ken Vassar on Residency Requirement Legality
3	3/23-3/27	Ken Vassar (con't), Pete Bushre, Sam Plaia on SB122 and SSSB1
	3/29	George Wolf on SSSB1; Walter Filkin on "Marketing aspects of Bonds"
4	3/29	Filkin (con't), Martin Moore
	4/8	Preparation for mark-up
5	3/30	Clark Greuning
	4/26	Mark-up on HB281 - final draft review
6	4/10	Conference call--Robert Greeley; Theodore Swick

cassettes:

7	4/11,4/12	Mark-up, conference call with Clark Greuning
8	4/12, 4/18	Mark-up
9	4/18, 4/21	"
10 and 11:	Library did not receive any tapes for these numbers	
12	4/23, 4/24	Mark-up
13	4/24	"
14	4/24	"

Note: see tape #5 for 4/26, final draft review

SEE COMMITTEE FILES FOR MINUTES AND NOTES FROM THESE MEETINGS

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE

March 6, 1979

This was the first meeting of the committee, aside from a previous brief organizational one. All members were present except for Representatives Schaeffer and Freeman.

Copies of a tentative schedule (attached) were distributed, and the schedule was discussed. Rep. Rogers said that he would like the AGSOC bills to also be considered by the committee.

Milt Barker, from Legislative Finance, passed out some hand-outs concerning revenue estimates and reviewed for the committee the permanent fund income prospects. Pete Bushre, from the Department of Revenue, was also present and commented on the estimates. The fund currently has about $100 million and is growing at a rate of $63 million per year; this is roughly half the rate estimated earlier. The committee questioned Barker and Bushre concerning the accuracy of the present estimates and the factors which might result in unpredicted decreases or increases.

Jim Rhode, committee aide, reviewed for the committee what he knew about the Alberta Heritage Fund, including the structure of it in three separate funds which correspond to trust and development bank elements. He pointed out in particular the provision that openly identifies any subsidies as such instead of concealing them. He read from a transcript of the Permanent

March 6, cont.

Fund Symposium in 1977, in which the Canadian economist Dr. Gordon identified some of the negative effects the Alberta Heritage Fund has had on Albertans (attached).

House Special Committee on the Permanent Fund

Proposed Schedule as of 6 March 1979

Agenda	Meetings		
Discussion of Schedule Review of Revenue Estimates Review of Alberta Heritage Fund Analysis of "Capital Gap" Issue	Tuesday 6 March 4:30 p.m.	Thursday 8 March 4:30 p.m.	Saturday (as needed)
Administration Testimony Analysis of Administration and 1978 House Proposals	Tuesday 13 March 4:30 p.m.	Thursday 15 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 162 (Haugen); Other Proposals from the Committee Testimony on HB 280 (Sumner) Analysis of Sumner Proposal	Tuesday 20 March 4:30 p.m.	Thursday 22 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 279 (Hohman) Analysis of Hohman Proposal	Tuesday 27 March 4:30 p.m.	Thursday 29 March 4:30 p.m.	Saturday (as needed)
Further Testimony as Required Committee Mark-up	Tuesday 3 April 4:30 p.m.	Thursday 5 April 4:30 p.m.	Saturday (as needed)
	Tuesday 10 April 4:30 p.m.	Thursday 12 April 4:30 p.m.	Saturday (as needed)

NOTE: This schedule is subject to change as the result of schedule conflicts by consultants, and by direction of the Committee. This schedule may also be altered by additional referrals.

GRUENING: Thank you, Chat. I didn't ask for that plug.

CHATTERTON: (inaudible) ...I really have two questions for the panel, that developed this morning, but I can't help feel a little bit facetious. There was a person who testified here a little earlier this afternoon and made a suggestion as to how to use some of the Permanent Fund funds. I felt I should provide you also with a corollary suggestion for their use. Instead of buying all of the federal lands that are put up for oil and gas leases or along with that, I suggest that we buy the national interest land and thereby immediately solving the D2 question.

Mr. Chairman, through you I would like to ask the panelists or anyone that would care to comment--we did hear earlier comments about: 1. loaning money; 2. investing money. It was even suggested earlier--there was some comment about investing in a pipeline or a petrochemical plant--state funds. My question to the panel and to the Economists--if they have any background on this, would they care to comment--does the potential for a conflict of interests develop when a taxing entity becomes a participant in the profitability of a taxable entity?

My next question is--is there a degree of parallelism, at least in some facets between what is before you, Mr. Chairman, with this Permanent Fund and what had to be before the U.S. Congress some years ago when they were faced with seeing that each and every native Alaskan got a fair share out of the Alaska Native Settlement Act? Is there a parallelism? That's my second question. Thank you, Mr. Chairman.

GRUENING: I'll leave that up to the panelists, the Economists, anyone who wants to speak up.

GORDON: I am really no expert on the problems of taxable entities. The notion that some of the investment proposals put forth recently here remind me very much of where I now live. I happen to have moved to Canada in the last few months. In Canada, there are truly an astounding number, they talk about free enterprise like everybody, there's just an astounding number of what they call their Crown Corporation, Federal Crown Corporations, and Provincial Corporations. Now when you say is there a conflict of interests, they attempt, at least, by this device called a Crown Corporation, to make the Crown Corporation totally operate like an individual enterprise, despite the fact that the state or the province or the nation owns all the shares--sometimes not all the shares, most of the shares. I think if you survey the record of those Crown Corporations, that it is dismal. They have a Crown Corporation selling what Westinghouse sells--atomic reactors. They got involved in a little bribery, but the most significant think is they managed to sell two of their atomic reactors to Argentine at a loss of $130 million. The Province of Alberta has something called Alberta Heritage Fund. They're visably in the business of setting up businesses that otherwise wouldn't be there--irrigation facilities, food packing plants, huge petrochemical operations. The other thing they're doing is providing more services than otherwise would be the case and lower taxes. They're the lowest tax province in Canada by some piece. The result is that an enormous number of people

are leaving the rest of the country and going there. The wages are lower there than they are where I happen to live in British Columbia, but people are moving there--that's where the jobs are. It is not benefitting, as far as I can see, the average Albertan at all. Rents are going up. Land is getting scarce. I see very little merit, what apart from the conflict of interest problem.

GRUENING: Is there any comment on the second half of the question, which was--was there any parallel between the Native Land Claims and what we might be trying to do with the Permanent Fund? Mr. Love.

LOVE: I don't have a comment on that but on Dr. Gordon's comment. Dr. Gordon, do you operate out of British Columbia right now?

GORDON: Right now, yes.

LOVE: Well, it is my understanding that in British Columbia, under the new democratic party, there's a lot of acquisitions in terms of the Crown Corporation. As a result, partially because of their policy for rapid acquisitions, there's a problem with the insurance industry that the new democratic party was defeated and replaced by the conservative government of Mr. Bennett. It's also my understanding that Mr. Bennett's conservative government has not devested themselves of any of the acquisitions made by the NDP and that most of them, in fact, are now on the whole profitable. Is that in an accurate summation? Just as a parallel to the experience the Federal Crown Corporation as looking to British Columbia where you teach.

GORDON: No, not entirely. You see, to describe the present government as conservative is, I think, quite incorrect. We have two kinds of parties in British Columbia. One is socialist and the other is more socialist. It is not true that those have become profitable. It's not true--they've all been losers. In fact, if you investigate in the theories of finance they teach in business schools, it is extremely difficult to lose money consistently by investing. The NDP did not succeed in doing so. But more serious, some of their acquisitions, a distressing number of their acquisitions, have lost money. They perhaps could have been defended on the grounds that they had some social purpose. There's a great dispute about what the social purpose was and whether it helped anybody significantly. I'd say in Canada, there's all kinds of conservative government of another province in far east. New Brunswick. They bought all kinds of things, setting up another conservative government. They got into an endless stream of business--nearly all of which went bankrupt. The one advantage, incidentally, of the Crown Corporation is it isn't like many of the Corporations into which the British government bails people out. When they set up a Corporation, it is like a private corporation. When it goes bankrupt, it's bankrupt. So it doesn't continue forever. It's just draining off the public purse. That is a legal device which, I think, is of some usefulness. I think there's a great parallel; it's a little hard to classify political opinion. It seems to be so simple

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 23, 1979

Agenda: SB 122

Members Cotten, Freeman and Hayes were absent.

Tape #2, Side 2
800 Sen. Sumner addressing concepts behind SB 122, why he supports it philosophically, questions concerning gains/losses on an individual's share.

943 Discussion of leveraging.

1059 Questions concerning management, eligibility.

1099 Sumner testimony ends.

1103 Ken Vassar, Legis. Affrs. Attorney, addressing legality of residency requirements for qualifying for shares of P.F. Committee concerned about creating two classes of people - one who are qualifying residents and other non-qualifying residents. Questions about implications if there is not a second distribution.

Tape #3, Side 1
0150 Vassar testimony ends.

0166 Pete Bushre, Deputy Comm. of Treasury, raising questions about language of bill and mechanics of administering it. Discussion re. how earnings and losses accrue to individuals and to Fund, losses generated by re-direction and mechanics of re-direction, panic selling, and advisability of direct involvement of body politic in P.F. investment.

0595 Bushre testimony ends.

0610 Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 27, 1979

Agenda: Sam Plaia on SB 122 and SS SB 1

Members Freeman and Schaeffer were absent.

Tape 3, Side 1 0611	Call to order.
0645	Sam Plaia, Financial Consultant, making general comments concerning intent of SB 122 and comments paragraph by paragraph: re. distribution of income, transfer of shares, directed investments (burden on shareholder and "prudent person" rule), eligibility requirements.
0947	Discussion re. capital gains/losses.
0997	Discussion re. leveraging, including borrowing at tax exempt rates. Also questions concerning minor's rights, residency requirements, implications from banker's point of view of shareholder's freedom to re-direct investments.
1140	End of Plaia's comments and discussion on SB 122.
1144	Sam Plaia making general comments on Hohman bill SS SB 1.
1186 and onto Side 2	Analysis of specific elements of Hohman bill. Discussion re. loan purposes, with focus on concerns about loans for commercial purposes. Analogy of SBA and SBIC.
Tape 3, Side 2 0310	Discussion re. loans for public purposes, municipal bonding, fluctuations in yield curve.
0574	More discussion on commercial loans, concerning tax exempt bonds.
0612	Concern re. student loans.
0630	Plaia testimony ends.
0637	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 29, 1979

Agenda: Hohman bill w/ testimony from George Wolf and Walter Filkin

Member Schaeffer absent; members Chatterton, Haugen and Hayes left early to attend another meeting.

Tape #3, Side 2

0639	Call to order.
0680	George Wolf, Attorney, discussing Industrial Development Bonds, non-commercial loans.
0722	Exceptions.
0749	Tracing.
0805	Tax exemptions, arbitrage aspects.
0918	Discussion of consequences of not getting advance ruling from IRS.
1005	Future trends.
1083	Summary by Malone and Wolf.
1114	Wolf testimony ends.
1117	Walter Filkin introduced.
1127	Filkin testimony begins, re. marketing aspects of bonds, and impact of loan programs on State borrowing program.

Tape #4, Side 1

0212	Concern about permitted investments of P.F. being too all-inclusive.
0284	Reaction to Plaia's assessment of need for guarantee of earnings from P.F.
0304	Filkin testimony ends.
0306	Chairman introduces new documents.
0361	Other comments - Martin Moore.
0406	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 30, 1979

Agenda: General policy considerations, w/ testimony from Clark Gruening.

Member Hayes absent.

Tape #5, Side 1

0000-0035	Technical difficulty, not recording.
0036	Clark Gruening testimony in progress.
0100	Critical elements not now in law.
0179	Re. accountability.
0255	Re. trust concept and development banking.
0330	Goals P.F. can accomplish.
0385	Summary.
0397	Formal Gruening testimony ends.
0398	Questions and discussion with members.
0717	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 8, 1979

Agenda: Mark-up

Members Cotten, Guy, and Schaeffer absent.

Tape #4, Side 1

0407	Call to order.
0410	Issues to consider in mark-up; Malone suggests handling ea. issue separately.
0837	Motion adopted with no objections to use HB 281 as mark-up vehicle re. management system.
0922	Bushre re. 4-7 memo from Revenue, with discussion from members.

Tape #4, Side 2

0000-0322	Discussion with Bushre continues.
0337	Tom Singer re. 4-7 memo from DPDP, with discussion from members.
0572	What next.
0664	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 11, 1979

Agenda: Mark-up, conference call with Clark Gruening.

Members Guy and Schaeffer absent.

Tape # 7, Side 1

000	Call to order. Introduce memo from DPDP and list prepared by staff of issues for consideration in HB 281.
212	Pete Bushre with summary of comments in his letter re. gains/losses, and questions from members.
367	Conference call with Clark Gruening, re. Investment Oversight Committee (IOC).
616	Gruening call ends.
621	Bushre continues.
633	Questions and discussion with members re. IOC.

Tape # 7, Side 2

000	Discussion re. IOC continues.
510	Motion to assign purposes and duties of IOC to Budget & Audit Committee, and to include letter from the P.F. Committee requesting that B & A report to the legislature as to the workability of this and consideration of assigning responsibilities of IOC to a new or existing committee after one year. Also include Findings, p. 1, l. 18-27.
531	Motion adopted with no objections.
549	What next?
587	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 12, 1979

Agenda: Mark-up.

Members Cotten, Hayes and Schaeffer absent; member Haugen left early.

Tape # 7, Side 2	
589	Call to order. Review of motion adopted 4/11.
635	Sec. 2. No suggestions.
645	Sec. 3. Discussion of what percentage of mineral lease bonuses after deductions should go into P.F.
Tape # 8, Side 1	
000	Discussion of percentage of mineral lease bonuses continues.
361	Motion by Freeman to change 100% to 50%, p. 6, l. 5, and add word "remaining" after "bonuses." Discussion.
461	Motion adopted with no objections.
467	Motion by Rogers to change 30% to 50%, p. 6, l. 11. Discussion.
674	Vote on motion. Guy, Malone, Rogers in favor. Freeman, Chatterton opposed. Chair does not rule on motion. Not enough members present.
735	What next?
Tape # 8, Side 2	
000	Suggestion re. p. 6, l. 29. Chair wants full committee present.
120	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 18, 1979

Agenda: Mark-up.

Members Cotten and Schaeffer absent.

Tape #8, Side 2

122	Call to order. Review of motion adopted 4/12 and motion chair did not rule on on 4/12.
171	Brian Rogers presents information prepared by Milt Barker re. how different leasing scenarios would affect Permanent Fund contributions.
343	Motion by Rogers to renew motion of 4/12 to change 30% to 50%, p. 6, l. 11. Discussion.
542	Vote on motion. Guy, Haugen, Malone and Rogers in favor. Chatterton, Freeman, Hayes opposed. Rogers withdraws motion. Amends motion to read p.6, l. 5 40%. p. 6, l. 11 40%.
557	Vote on motion. Rogers in favor. Other members present opposed. Discussion of effect of not changing % in HB 281.
607	Malone introduces new topic, list of eligible investments.
650	Larry Eppenbach, of Legislative Affairs Research, comparing investments in House bill and in Administration bill.

Tape #9, Side 1

000	Larry Eppenbach continues, with questions from members.
350	Pete Bushre responds to question re. long-term investments of P.F. in Alaska banks.
369	Eppenbach continues, with some suggestions. Additional comments from Bushre.
496	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 21, 1979

Agenda: Mark-up

Member Schaeffer absent. Member Haugen arrived mid-way into meeting.

Tape #9, Side 1

498	Call to order. Review.
592	Discussion of contribution rates continues. Chair suggests committee take another look at motion passed on 4/12 now that more members are present and also because two questions (p. 6, l. 5, 11) are closely related.

Tape #9, Side 2

000	Discussion of contribution rates continues.
336	Motion by Freeman to change 100% to 50% and after "bonuses" add "remaining", p. 6, l. 5. Discussion. Amendment to motion by Rogers to change 30% to 50%, p. 6, l. 11. Discussion.
489	Vote on amendment to motion. Cotten, Guy, Rogers in favor. Chatterton, Freeman, Hayes, Malone opposed. Amendment to motion fails.
545	Vote on main motion. Freeman, Guy, Hayes, Malone in favor. Chatterton, Cotten, Rogers opposed. Main motion carries.
553	Motion by Rogers to change 30% to 25%, p. 6, l. 11, and add "as of effective date of this act, and 50% of all... received from leases issued after effective date..." p. 6, l. 13. Discussion.
590	Motion by Chatterton to divide question. Discussion.
627	Rogers withdraws motion. New motion by Rogers to add "50% of all... from leases issued after effective date of this act", p. 6, l. 13.
636	Vote on motion. Cotten, Guy, Malone, Rogers in favor. Chatterton, Freeman, Hayes opposed. Motion carries.

658	Motion by Freeman to change 30% to 25%, p. 6, l. 11.
678	Motion adopted with no objections.
684	Discussion of language p. 6, l. 29 and p. 7, l. 1.
Tape #10, Side 1 000	Discussion continues.
183	Motion by Rogers to change p. 6, l. 29 and p. 7, l.1 to read "The corporation's goal should be to maintain safety of principal while maximizing total return."
266	Motion adopted with no objections.
267	Motion by Rogers to change p. 6, l. 27-8 to read "...to benefit future generations of Alaskans."
370	Amendment to motion by Guy to delete "future." Vote on amendment to motion. Chatterton, Guy in favor. Other members opposed. Amendment to motion fails.
436	Amendment to motion by Freeman to substitute "all" for "future."
443	Amended motion adopted with no objections.
461	Sec. 030 Malone suggests deleting "a mechanism", p. 7, l. 6. Sec. 040 Discussion, no changes. Sec. 050 and 060 Discussion.
642	Motion by Guy to have Board of Trustees consist of five members, for better geographic representation. Discussion.
684	Vote on motion. Cotten, Guy, Haugen, Malone, Rogers in favor. Chatterton, Freeman, Hayes opposed. Motion carries.
691	Motion by Rogers that Board members be appointed for five-year terms. Discussion.

Tape #10, Side 2

000	Vote on motion. Hayes, Rogers in favor. Other members opposed. Motion fails.
012	Motion by Cotten to change 4 to 3, and after "reappointed" add "and must be reconfirmed", p. 7, l. 23. Also, change terms to read "two members for one year, two members for two years, one member for three years", p. 7, l. 24-26.
058	Vote on motion. Chatterton, Cotten, Freeman, Guy and Haugen in favor. Hayes, Malone, Rogers opposed. Motion carries.
081	Motion by Malone that members can't be appointed for more than two consecutive three-year terms. Discussion. Malone withdraws motion.
127	Sec. 070 Motion by Guy that if vacancy occurs, replacement must be from that geographic area. Discussion.
309	Vote on motion. Guy, Haugen in favor. Other members opposed. Motion fails.
319	Sec. 080 Motion by Cotten to delete p. 9, l. 2-4. Discussion.
392	Motion adopted with no objections.
401	Discussion of language p. 8, l. 29 and p. 9, l. 1-2.
514	Motion by Rogers to change p. 8, l. 29 to read "At least three members of the board...." Motion adopted with no objections.
542	Sec. 090 Suggestion by Freeman to change quorum from two to three members, p. 9, l. 5. Adopted with no objections.
552	Sec. 100 Discussion of language and fee. No changes adopted.

571	Sec. 110 Discussion of who determines salary. No changes adopted.
603	Sec. 120 Motion by Rogers to add after "board" the words "and Executive Director of the Board", p. 9, l. 18. Motion adopted with no objections.
636	Sec. 130 Discussion of language in (a) of this section.
708	Motion by Guy to change "means that" to "is when" p. 9, l. 29.
Tape #11, Side 1 000	Discussion of language continues.
093	Guy withdraws motion. Motion by Chatterton to change p. 9, l. 26-28 to read "The prudent-man rule shall be applied by the board in the management...." Motion adopted with no objections.
109	Sec. 130 (b) Discussion of language. Motion by Rogers to change "may" to "shall" p. 10, l. 7. Motion adopted with no objections.
148	Motion by Freeman to delete "seek to" p. 10, l. 9. Motion adopted with no objections.
195	Motion by Rogers to substitute "Budget and Audit Committee" for "Investment Oversight Committee" p. 10, l. 13. Motion adopted with no objections.
205	Discussion of language in (e) and (f), p. 10.
376	Discussion of desireability of prohibiting contracts with agencies or departments of the state. Motion by Rogers to add after "investments" the words "without approval of the legislature" p. 10, l. 19. Discussion continues.
549	Chair asks for adjournment with Rogers' motion pending, if no objection.
559	Adjournment, with Rogers' motion pending.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 10, 1979

Agenda: Mark-up, conference call with Greeley, testimony from Swick.

Member Cotten absent; member Schaeffer left early.

Tape #6, Side 1

000	Conference call with Robert Greeley, re. treatment of capital gains/losses.
155	Malone re. summary of basic theory on gains/losses. Questions and discussion with members.
263	Theodore Swick, discussing marketplace for state and local government securities.
369	Swick re. use of Permanent Fund income, with questions and discussion with members.
440	Malone with summary, and questions and discussion with members re. double barrel bonds.
490	Discussion of use of income from Permanent Fund to guarantee debt continues.
524	Swick on energy reserve account and leveraging.
554	Swick testimony ends.
555	Other business, what next.
572	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 23, 1979

Agenda: Mark-up

Members Cotten and Haugen absent. Members Chatterton and Hayes arrived mid-way into meeting.

Tape # 11, Side 1

560	Call to order. Review by Chair of previous actions taken related to mark-up. Motion by Rogers from 4/21 pending, re. contracts with state agencies.
621	Discussion by Rogers of pending motion. Withdraws motion.
641	Motion by Rogers to delete p. 10, l. 17-19 beginning with "except...." Discussion.
685	Motion adopted with no objections.
687	Sec. 130 (g), Eligible Investments. Discussion.

Tape # 11, Side 2

000	Discussion continues, comments from Doogan re. prior committee's rationale re. this section.
064	Discussion continues, with members, committee staff, and Sen. Rodey making comments.
403	Discussion continues, with comments from Bushre.

Tape # 12, Side 1

000	Discussion of investment possibilities continues.
015	Motion by Chatterton to delete p. 10, l. 23. Discussion.
253	Vote on motion. Chatterton, Freeman, Hayes, Malone, Rogers, Schaeffer in favor. Guy opposed. Motion passes. Discussion continues.
462	Motion by Rogers to add "investment grade" to beginning of p. 10, l. 24. Discussion.
532	Motion adopted with no objections.

536	Motion by Rogers to delete p. 11, l. 6-8 after "stock."
542	Motion adopted with no objections. Discussion continues.
595	Motion by Chatterton to insert "common" before "stock" p. 10, l. 29, and before "stock" p. 11, l. 6. Amendment to motion by Chatterton to include only p. 11, l. 6 in motion. Discussion.
675	Motion by Freeman that after the word "used", the words "in the purchase ...at the time of the purchase; nor" be deleted, p. 10, l. 28.
688	Chatterton's motion still pending. Motion to insert "common" before "stock" p. 11, l. 6. Motion adopted with no objections.
695	Freeman's motion considered. Motion adopted with no objections. Discussion continues.
Tape # 12, Side 2 000	Discussion continues, between members and Bushre.
104	Motion by Chatterton to delete amended p. 10, l. 24-25 to "marketable;". Discussion.
471	Chatterton withdraws motion, if no objection, so can start fresh at next meeting.
510	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 24, 1979

Agenda: Mark-up

Members Cotten, Guy, Haugen and Rogers absent.

Tape #12, Side 2

511	Call to order.
530	Introduction of list prepared by Dept. of Revenue and committee staff on suggested alternatives for investments for Sec. 130 (g). Chair outlines two possible approaches - list broad categories or list specific types of investments that are eligible.
628	Questions from members to Pete Bushre re. suggested alternatives and current investment practices for pension fund.

Tape #13, Side 1

000	Discussion with Bushre continues.
088	Motion by Chatterton that committee takes suggested alternatives approach. Adopted with no objections.
099	Discussion of rating of corporate debt securities; Bushre provides definition of a-rated and aa-rated securities.
205	Motion by Chatterton to change "rated A" to "rated AA" in (4) of suggested alternatives list. Motion adopted with no objections.
216	Motion by Chatterton to limit investment in corporate debt securities to 30% of Fund. Discussion.
448	Motion by Freeman to amend to 25%. Amendment to motion adopted with no objections. Motion adopted with no objections.
463	Discussion on other alternatives.
505	Motion by Freeman to accept (1), (2), (3), and (4) as amended, and (5), (6), (7) from suggested alternatives list. Motion adopted with no objections.

516	Motion by Hayes to adopt (11), (12), (13), and (14) from suggested alternatives list. Discussion with Bushre about whether (12) refers to only guaranteed portion of mortgages. Motion by Chatterton to amend motion to delete (12). Vote on amendment to motion. Freeman, Chatterton in favor. Hayes, Malone, Schaeffer opposed. Amendment fails. Vote on main motion, with (12) changed to make it clear that it refers only to guaranteed portion. Freeman, Hayes, Malone, Schaeffer in favor. Chatterton opposed. Main motion carries.
575	Motion by Hayes to adopt (8) from suggested alternatives list. Discussion.
644	Vote on motion. Hayes in favor. Chatterton, Freeman, Malone, Schaeffer opposed. Motion fails.
653	Discussion of remaining sections. Rep. Hayes leaves temporarily to attend another meeting. No quorum, for the moment no official action.
Tape #13, Side 2 000	Unofficial discussion continues.
458	Hayes returns, quorum present. Chair reviews prior discussion. Concensus is that committee is not inclined to add more investments to list.
469	Motion by Chatterton that aggregate summation of (11), (12), (13), and (14) not exceed 25% of Fund. Motion adopted with no objections.
492	Sec. 130 (h) Technical change "IOC" to "B&A", p. 11, l. 12.
528	Sec. 130 (i) Motion by Chatterton to keep as is. Motion adopted with no objections.

572	Sec. 140 and 150. Malone proposes to adopt both sections with conforming language needed re. list of investments and deletions needed re. stocks and dividends. No objections.
595	Sec. 155 Discussion re. how mortgage loss reserve account is no longer needed.
601	Motion by Freeman to delete Sec. 155. Motion adopted with no objections.
604	Sec. 160 Motion by Chatterton to retain as is. Motion adopted with no objections.
610	Sec. 170 Retained as is except for technical change of "B&A" instead of "IOC", p. 12, l. 16.
Tape #14, Side 1	
000	Sec. 180 Motion by Hayes to retain as is. Motion adopted with no objections.
010	Sec. 190 No changes.
071	Sec. 200 Motion by Malone to delete first sentence, p. 13, l. 14-16. Motion by Chatterton to add "or influence" after "finance", p. 13, l. 16. Discussion of definition of "partisan." Motion by Freeman to retain only second sentence and delete word "partisan." Combined motion adopted with no objections.
193	Discussion of disclosure.
254	Sec. 210 Motion by Hayes to retain as is. Motion adopted with no objections.
295	Sec. 220 No objections to language as written.
358	What # should be used on bill?
386	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 26, 1979

Agenda: Final draft review.

Members Freeman, Guy and Schaeffer absent.

Tape #5, Side 1

0718 Call to order.
Review final draft of HB 281.
Technical error - p. 9, l. 19. "5" should be "4".

Motion by Chatterton to add "in the aggregate" after "not to exceed", p. 9, l. 21.
Motion adopted with no objections.

Lorde raises question of whether "or influence" should be inserted after "finance", p. 12, l. 1.
Chair thinks this was included in motion adopted 4/24.
Discussion - Chatterton explains his intention.
That language to be incorporated if no objections.
No objection.

Hayes raises question of whether p. 8, l. 9 would read better as "prudent not to do so" or "prudent to not do so."
Discussion. Retained as is.

0809 Distribute draft letter of intent to accompany bill.
Concensus that it reflects intent of committee.
Discussion of fiscal note - will ask Leg. Fin. Div. to prepare it.

0837 Discussion of meeting with Governor and staff yesterday. Chair has asked that Governor consider only the issue of management of the principal of the Fund as the Governor determines whether or not to support bill.

0883 Discussion of what number to put on bill.
Motion by Chatterton to use 281.
Motion adopted with no objections.

0898 Motion by Cotten to report bill out of committee, with technical changes made.
Motion adopted with no objections.

Motion by Cotten to incorporate letter of intent with bill.
Motion adopted with no objections.

0909 Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE

March 8, 1979

All members were present except for Rep. Schaeffer.

The meeting's topic was "the capital gap," with Arlon Tussing as the guest speaker. In 1977 Tussing was asked by the House Permanent Fund Committee to do a study about the adequacy of capital, to determine if there was a gap and, if so, where it was. His report on that, "Economic Considerations in Establishment of Alaska's Permanent Fund," was handed out to committee members, and Tussing explained that, since he has not been working on the question recently, he doesn't have any new conclusions.

Some of the main points which Tussing made are summariazed here:

If we invest the permanent fund entirely in Alaska at market rates and terms, the effect is neutral. We merely displace what the banks normally do.

If we invest all of the permanent fund in Alaska, we put all our eggs in one basket and leave them vulmerable to the ups and downs of the Alaskan economy. It makes much better economic sense to diversify by investing outside of the state.

Tussing's "survey" found that the existing capital markets are adequate for large-scale projects. For medium-size projects, he saw no need to intervene unless it's decided that a particular

sector needed an advantage. For small projects, there are widely contrasting, polarized, perceptions concerning the adequacy of existing capital markets. Although the lending institutions and successful businesspeople feel that the supply of capital is adequate, many other Alaskans believe that money is unavailable.

There is a problem is rural Alaska, where banks are not anxious to lend. It is simply not good business to lend in the bush, for various reasons.

Normal financing might not be available for certain projects, such as fish enhancement projects. Others, like the barley project and the bottomfishery, can use subsidies to build infrastructures so that the critical mass can be reached.

If you give soft loans to everyone indiscriminately, you give a windfall to the person who doesn't need it as well as helping the one with the marginal operation. If you help only the one who really needs it, you support and favor the poor businessman at the expense of the good one.

There are two ways to subsidize through soft loans-- to loan at an interest rate lower than market rates or to relax the conditions of the loan. Since the interest rate is not the main factor in determining a project's viability, the latter method is preferable.

ECONOMIC CONSIDERATIONS IN FSTABLISHMENT OF ALASKA'S PERMANENT FUND

by
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for
Legislative Affairs Agency
State of Alaska

July 7, 1977

I. INTRODUCTION

The following report was prepared under a contract between the State of Alaska Legislative Affairs Agency and the University of Alaska Institute of Social and Economic Research. Its object was to explore some of the fundamental economic questions involved in establishing the structure and policies for the permanent fund authorized by a 1976 amendment to the Alaska Constitution. Research for this report was devoted mainly to an initial exploration of the question to what extent capital markets serving Alaska are reasonably efficient, and consisted largely of unstructured and unsystematic interviews with businessmen on both sides of those markets --- officers of financial institutions and other investors and lenders, and corporate officers and entrepreneurs in Alaska industries or with Alaska interests.

In line with the contract between the Legislative Affairs Agency and ISER, the study and report were to be "...in the nature of a general reconnaisance, and need not involve the collection or processing of original quantitative data." Among the tasks of the study, however, was to prescribe "the analytical and policy issues" which deserve further investigation in depth. A number of the issues raised in this report do warrant collection and processing of original data. In line with the report's terms of reference, I have not proposed final conclusions on any of the six interrelated questions set out in the contract, but have only attempted to explore and define them sufficiently to propose how the Legislature might proceed with such investi-

gations, particularly some quantitative testing of the hypotheses offered here.

Uses of the Permanent Fund

Public officials, "experts" of various kinds and voters generally have envisioned several different purposes for an Alaska permanent fund. The constitutional amendment which authorized the fund reflects a consensus that at least one-fourth of Alaska's non-recurring mineral leasing revenue should be excluded from the regular stream of state spending. A corollary of this consensus is that the fund should be profitably invested to give state government a permanent stream of revenue independent of current mineral leasing income and independent of economic conditions in the state generally. Because state government spending is a large part of Alaska's economic base (and will grow proportionately larger as tax and royalty income from North Slope oil begins to flow), the spending of income from permanent fund investments and their respending in Alaska's private economy could have a stabilizing effect on employment and income in the state.

There is little doubt that the operation of the fund would have the effect of reducing the immediate fiscal impact of oil and gas income and a stretching out and smoothing of its long-term impact, however the fund is organized and whatever its investment strategy. But the size of these impacts will depend on how much of the permanent fund's capital is invested or lent in Alaska and on what terms. Given certain assumptions about

the size and structure of the state's economy, the revenues committed to the fund, the yields of the fund's investments and the disposition of income from those investments, we can forecast its effect on the shape of long-term growth of state product, personal income, employment and per capita income. Some elementary projections of this sort have already been made by ISER under the Man in the Arctic Program.

Beyond this, there is little agreement on the proper purposes or the long-term effects of permanent fund investment strategies, and there has been little examination of the economic fundamentals which determine whether these purposes can actually be achieved by an instrument by the fund, or what its actual effects (intended and unintended) are likely to be. Apart from the purpose of delaying and smoothing the fiscal impact of non-recurring mineral leasing revenue, other goals that have been suggested for the permanent fund are to accelerate the growth of the state's non-oil economy and at the same time to expand state government's non-oil tax base.

In pursuit of this end it is usually assumed, and there seems to be a near-consensus in the unofficial statement of legislators, that permanent fund moneys invested or lent in Alaska be confined to creditworthy projects and enterprises, and at market rates and terms. If capital markets in Alaska (and in the United States) are workably efficient, however --- and my investigation so far suggests that they are --- investment of permanent fund moneys in Alaska will have exactly the same effect on the state's economy as investing them outside Alaska.

(The quality of the fund's investment portfolio may, however, be affected by the choice.) That is, permanent fund money would tend to replace the same amount of money that otherwise would have been provided from private financial sources.

Unless it provides capital subsidies, permanent fund activity will not accelerate growth of non-oil industry and thereby diversify the state's economy. If capital markets are generally efficient, moreover, non-subsidized permanent fund outlays would not tend to smooth out Alaska's business cycle or the growth rate of employment and population, even if there were no other fundamental difficulties (treated in part IV of this report) in using state investment policy as a counter-cyclical tool. In the absence of capital subsidies, any attempt to disperse economic activity or to foster rural industries will also tend to be futile if the absence of growth in rural Alaska or in particular small communities is a result of factors other than the failure of financial institutions to bring enterprise and investors together on mutually acceptable terms. If poverty or stagnation is caused by deficiencies in natural resources, the skills or attitudes of the labor force, transportation, communications and energy costs, or an unsatisfactory institutional environment, the permanent fund cannot cure these ills, nor even mitigate them unless it is treated as a source of capital available for investments which will not meet market tests.

II. CAPITAL MARKET EFFICIENCY

Every proposed strategy for Alaska's permanent fund depends

upon stated or unstated assumptions about the "efficiency" of national or international capital markets. The proposition that Alaska as a whole, certain regions of Alaska, or certain Alaska industries suffer a chronic capital shortage which can be remedied by permanent fund investment strategy amounts to saying that existing capital markets do not, in fact, function efficiently.

By "efficiency" in the capital market, we mean the ability of loanable or investible funds to move readily in and out of Alaska, among industries and among different kinds of capital instruments of different term and risk (common stocks, bonds, loans, etc.) in response to the differences in anticipated yields.

The most important elements of capital market efficiency are mobility, cost and information. Legal limitations on the flow of loanable funds can clearly reduce capital market efficiency as defined here (though there may be good social reasons for the restrictions). An example of a legal restriction on the mobility of capital for social reasons, the federal government limits the rate of interest payable by banks and thrift institutions on savings deposits, in order to channel funds to, and reduce interest costs for, the residential mortgage market (but it also restricts the funds available to savings institutions). The fees of brokers, underwriters, lenders, and "finders" of venture capital, and taxes such as capital gains and stock transfer taxes also increase the cost of moving funds from one investment to another. A lack of competition can both erect barriers to capital mobility and increase transactions costs.

The element of capital market efficiency most often held to be deficient in Alaska is information. If funds are to move easily and at competitive rates of return from areas or industries with cash flow surpluses to those with excess demand for capital, entrepreneurs must know where equity and debt money is available and on what terms, and potential investors or lenders must have the means to appraise the earning capacity and risk of the ventures they are asked to underwrite.

Capital mobility, transactions costs and the adequacy of information are all a function of market size and diversity (which is in turn a function of market size). A region with large and diversified capital demands will attract a large number of financial institutions of different kinds, who will serve as intermediaries between entrepreneurs and investors or lenders. They will compete among one another for business, thereby lowering capital transactions costs to ultimate borrowers and lenders. And most critically, they will make it their business to understand the industries and kinds of enterprises they serve and their local and regional economies, thereby increasing market information necessary to evaluate individual ventures.

This issue has important implications for the permanent fund's investment strategy. If capital markets serving Alaska business are workably efficient, permanent fund moneys dedicated to Alaska investment will have no impact on the aggregate level of investment (and thereby the rate of economic growth), the industrial structure, or on the profitability of investment in Alaska, unless

these moneys are offered on subsidized terms. Loans from the permanent fund at market rates would simply displace private capital that would otherwise be available at the same rates. The only material result might be a reduction in the diversity--and thereby safety--of the permanent fund's own investment portfolio because it would be imprudently concentrated on Alaska issues and unduly sensitive to business fluctuations special to the state.

If, on the other hand, institutional barriers to capital movements, excessive fees or taxes on capital transactions, or inadequate information result in a shortage of capital for Alaska ventures at normal market terms, then it will indeed make a significant difference to Alaska's economy how much of the permanent fund is allocated to investment within the state. The conclusion that investment strategy would, in fact, make a difference need not necessarily carry with it the implication, however, that the difference would be great, or cost-effective or even in the right direction. To the extent there are demonstrated inefficiencies--barriers, costs or ignorance--in Alaska's capital markets, it may well be cheaper and more effective to remedy those problems directly rather than to offset them with permanent fund investments.

The paridigm (pattern of concepts and theories) of capitalistic finance presented in business school textbooks is one of efficient capital markets. Within the terms of this paradigm, it is very unlikely that Alaska could suffer a chronic capital shortage. Outside investors and lenders, in their search for

the highest rates of return consistent with a given degree of security, would make an effort to discover investment opportunities in the state, while entrepreneurs with Alaska interests would shop the world's capital markets for venturers or lenders of funds on appropriate terms. Whatever lack of information existed about capital sources, the particular industry, Alaska's institutions or business conditions, or regarding the particular firm could be remedied at a price, and at least for large ventures, that price would be relatively small compared to the funds involved. A variety of financial intermediaries and investment services would compete with one another to bring together borrower and lender or entrepreneur and investor, and to furnish either side with needed information. This competition would increase capital mobility and lower both transactions costs (the spread between the yield to lenders and the cost to borrowers, for example) and the cost of information.

Capital market efficiency is obviously a relative matter. The mobility of funds is seldom totally unfettered; there are almost always fees and taxes or other transactions costs; and information itself comes only at a price and is never perfect. The relevant questions here are to what extent and for what regions and industries in Alaska are capital markets significantly less efficient than elsewhere in the national economy and to what extent, if at all, can the investment strategy of the permanent fund remedy or offset these inefficiencies.

Alaskan Capital Markets

In my conversations with businessmen inside and outside of Alaska, it appeared that bankers and officers of financial institutions generally, officers of large corporations, successful real estate developers and the most successful entrepreneurs in contracting, tourism and fishing tended to "believe in" the efficient markets paradigm and conduct their businesses as if it were an accurate view of the world. It is true that several of them spoke of a national "capital shortage"; the reference is to the aggregate effect of high taxes and inflation, and few of the businessmen in these categories seem to believe that there is a shortage of investment or debt capital peculiar to Alaska or to their own industries. The officers of banks, finance companies and other money market institutions believe that their companies actively seek out investment opportunities in Alaska and consistently denied that they insisted on higher rates of return or greater security for Alaska issues. Two West Coast bankers active in Alaska stated a belief that it was probably easier to place large issues generated by their Alaska correspondents than comparable issues from California or Washington State because of the widespread confidence in Alaska's wealth and continued industrial growth. Two corporate officials made a similar observation, one of them alluding to the "glamor" of Alaska investment.

Officers of national or multinational corporations in petroleum, mining and fish processing indicated that for them, the procedures, problems and costs involved in the financing of Alaska

ventures were for all practical purposes identical with those for financing comparable ventures in the Lower 48 or in other politically stable advanced capitalist states. Their own sources were national and international, and their ability to raise funds rested in part on the overall strength and reputation of the company, and in part on their ability to communicate to potential investors and lenders the reasons (resource base, engineering cost estimates, market factors, etc.) why they themselves believed that the proposed Alaska investment was sound. One successful developer scoffed at the notion of an Alaska information gap: "Information, salesmanship--that's what business leadership, what you call entrepreneurship is all about. It's your job as a developer to get all the information your banker needs into his hands. Make him as confident about your project as you are yourself."

Many small businessmen including, it appears, most prospectors, inventors, independent merchants, and operators of hotel, restaurant and other tourist-related businesses outside of Anchorage, and some contractors do not, however, believe in the efficient markets paradigm. I heard many complaints about treatment by banks and finance companies and a feeling that "the system" is biased against small businessmen and against Alaskan enterprise. I heard anecdotes purporting to show that even Alaska banks favor outside-owned businesses. Many persons in this group expressed a hope that the permanent fund could correct this bias and make more funds available for ventures like their own. It was especially noteworthy to me

that most state and federal civil servants in the economic development or business assistance field expressed views more consistent with the capital shortage paradigm than with that of efficient markets and believed that government should provide more financial assistance to private industrial development in Alaska. Whether or not these sentiments express an accurate view of the way in which the economy and financial markets operate, it seems likely that it is a more representative view than the more sophisticated textbook, "big business" view of capital markets, and constitutes a substantial political constituency for an activist policy by the permanent fund's managers.

In preparing this report, I encountered several instances where entrepreneurs or corporate managers were working on financing a fisheries, mining or tourist venture, a shopping center or a residential subdivision. Those in this group who seem to accept the efficient markets paradigm regarded it as the essence of their own job as a developer or manager to assemble and integrate the necessary information on resources, markets, costs, economic and environmental regulation and to draft credible profit and loss projections and pro forma financial statements acceptable to their corporate boards or to outside investors or lenders.

A common situation among small and medium Alaska business enterprises seems to be a rate of growth (with sales increasing at 20 to 100 percent per year) that leads to a need for additional fixed and working capital far outstripping internally generated

cash flow. It is "obvious" to the owners and operators of these businesses that money borrowed to sustain this growth would earn a very good rate of return, but that there is never enough credit available. Businessmen in this situation seem to express two strikingly different attitudes toward their own "capital shortages." Those who operate by the efficient markets paradigm (and these seemed generally to be the most successful) expressed their problems objectively in terms of necessary cash flow and debt-equity ratios acceptable to lenders, while there were others who attributed their cash crunch to the institutional incapacity of financial institutions to serve their kind or business, or to the laziness, ignorance or malice of particular lenders.

It is clear that there are widely contrasting perceptions among Alaska businessmen and others about the adequacy of financial institutions and the supply of capital to Alaska ventures. Curiously, the distribution of these perceptions seems to be bimodal; that is, they cluster at one extreme or the other with only a scattering of individuals in the middle. Perceptions also seem to be highly correlated by industry and by size of enterprise. In general the bigger the firm, or the faster it is growing, the more satisfied its spokesmen are with existing capital markets. Without exception, representatives of large financial enterprises doing business in Alaska and of large national and multinational corporations spoke as if they believed in efficient markets and, without exception, they rejected the notion that lack of informa-

tion, high transactions costs or institutional barriers created a capital shortage in Alaska or in the industries with which they are connected or whose financial needs they serve.

On the other hand, hardly any local merchants, service industry operators or tourist business operators outside of Anchorage and Fairbanks, and hardly any entrepreneur or developer who was still trying to put together his first "big deal" (capitalized at $1 million or more), believed that financial institutions operated efficiently or fairly, and most of them felt that Alaskan enterprise was at a substantial disadvantage compared with firms in the same business elsewhere. As I mentioned before, almost every public official interviewed believed that there was an Alaska capital shortage that could, and should, be treated by application of government money. Anchorage and Fairbanks merchants, contractors and real estate developers seem to fall into both groups, as do operators of independent businesses connected with forestry, fisheries and mining.

The time and resources available for preparing this report did not make it possible to separate perceptions and ideology from reality. Each group's perceptions were supported with convincing anecdotes. Nevertheless, most of the correlations between attitude and situation were predictable, and the perceptions surely contain a measure of self-interest and self-justification. Officers of financial institutions who have the job of searching out and appraising investment opportunities are likely to believe

that their jobs are useful and effective, and they are unlikely to emphasize the problems of those kinds of enterprise that they do not serve (and which may not, in fact, be served well by any sector of the capital market). And it is not surprising that public officials feel that government financial and technical assistance (like economic regulation) is essential to a healthy business economy. But among businessmen, are the first group satisfied with the status quo because it served them well, or are those who accept, understand, and work easily within the status quo the people who are for that reason most likely to succeed as corporate managers and entrepreneurs?

My own provisional conclusions on the issue of capital market efficiency are as follows, but they are subject to modification on the basis of a quantitative study of attitudes and actual workings of the financial system in Alaska:

1. Investors and entrepreneurs, would-be lenders and would-be borrowers alike believe that the existing capital market institutions are adequate to finance large industrial or commercial developments in oil and gas, mining, petrochemicals, fisheries, timber, trade, and tourism anywhere in Alaska. I have found utterly no reason to doubt this consensus, and see no way in which the permanent fund could improve on the mobility of capital, transactions costs, or the information made available to investors by the sponsors themselves and through existing financial institutions.

It follows, therefore, that the permanent fund's investment activity in these areas will not significantly influence the profitability or growth of basic industry in Alaska unless loans are made at less than current market rates or under less secured terms (e.g., more highly leveraged, lower coverage rates, less collateral) than is customary. If the permanent fund invests in Alaska industrial ventures at market rates and terms, therefore, it will divert private capital elsewhere that would otherwise be attracted to the venture. In short, there is no need and no useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless there are grounds to subsidize that enterprise.

2. Despite the disagreement of those who do not believe in the efficient markets paradigm, the working and fixed capital requirments of residential and commercial real estate developers, contractors, retail and wholesale merchants and purveyors of services in Fairbanks and Anchorage are being served by existing banks, thrift institutions, finance companies, mortgage brokers and the like, in exactly the same way and at approximately the same rates and under the same conditions as in other communities throughout the nation.

Some businessmen will always have grievances against their bankers (and many Alaskan businessmen have some gruesome yet convincing tales to tell) or against the financial system gen-

erally. But Anchorage and Fairbanks banks do compete aggressively for business customers, and some of the "atrocity" stories can be attributed to understandable disagreements over the creditworthiness of a particular borrower or venture rather than a systematic failing of the system. Again, apart from any argument that a particular line of business or kind of investment ought to be subsidized, there seems to be no case for the permanent fund or one of its subsidiaries to enter the commercial capital markets in these communities. I am not certain at this point how well these needs are being served in other urban places in Alaska.

3. Several alternatives exist for financing the purchase or lease of standardized machinery used in business, including motor vehicles, construction equipment, aircraft, boats, electrical generators, compressors, machine tools and the like. Commercial banks, finance companies, credit unions, manufacturers and vendors all offer some kind of financing for this kind of chattel, and one or more of these forms of financing seems to be available to creditworthy borrowers in any Alaska industry or location. Higher servicing and collection costs do tend to limit borrowers in the more remote areas of Alaska to higher interest rate alternatives, but on balance this reflects not a failure of the market to reflect true costs but the opposite, it does not constitute a case for permenent fund involvement in the install-

ment credit business, unless there is also a case for a capital subsidy to rural enterprise generally.

4. The general feeling of local businessmen in small communities and rural areas of Alaska is that they face a genuine capital shortage and that they are at the mercy of one or two financial institutions that are indifferent to their aspirations or the facts of their business situation. There seems to be some merit to these complaints. Lending in small towns or the bush is exceptionally expensive, however; the cost of investigating and servicing small commercial, real estate and installment loans and lease purchase contracts and the like, and the costs of collection, foreclosure, repossession and resale can easily exceed the potential earnings from loan fees and interest. These excess cost burdens, together with unfamiliarity with local conditions, understandably make the statewide (Anchorage and Fairbanks) banks and other financial institutions reluctant to provide capital even for the larger locally-owned development, such as resorts, hotels, apartment houses, fish processing plants, etc., and where they do make loans they are willing to finance a smaller portion of total investment. In these cases, governmental participation or guarantees (EDA, SBA, Farmer's Home, Alaska Veterans loans, etc.) have often been essential to obtaining conventional private financing. This portion of the demand for capital in Alaska may then be a legitimate area for permanent fund activity.

In sumamry, it appears that most attempts of the permanent fund to serve as a development bank for Alaska would duplicate

functions that private financial institutions (backed up in many cases by other governmental assistance programs, e.g., FHA, Farmer's Home, VA, etc.) perform or are capable of performing adequately. At this stage in my investigation, I have been able to identify only one function in which a new public financing source might function better than the current machinery of the private capital market, and that is in provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas.

III. SUBSIDIES AND SOFT LOANS

Diversification of Alaska's economy is widely regarded as a desirable goal for state policy and as a proper purpose of permanent fund strategy. The benefits argued for such a policy are reduction of economic fluctuations and creation of a permanent employment, income and revenue base not dependent upon oil and gas or other exhaustible resources. The line of reasoning in the previous section of this report suggests that the existing concentration of Alaska economic activity by region tends to reflect real resource location and cost factors (such as transportation expense and small market scale) rather than capital market failures. It appears that a reduction of existing barriers to capital mobility and improving information flows would not necessarily accelerate the rate of development in Alaska fisheries, agriculture or tourist industries, for example, or in rural Alaska generally.

Making capital more readily available at lower rates to Alaska enterprise generally could be expected to increase investment in all sectors of the state's economy, but there is no reason to believe that it would influence the concentration of investment in the desired direction, that is, in favor of economic diversification or geographical dispersion (if the latter is indeed a desirable objective). Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event. If investment activity is already concentrated in oil and gas-related activity, fish processing and in Anchorage residential and commercial real estate development, that is probably where more abundant, cheaper capital would go. There is a strong confirmation of this proposition in the investment behavior of the rural-based regional and village corporations.

Making capital cheaper and easier to obtain will undoubtedly have one effect which may be regarded as counterproductive; business will be given an added incentive to substitute capital for labor and the state's economy will tend to become more capital intensive than it otherwise would be. If investment policy is to be in any way directed toward "job creation," it must be highly selective and not simply a matter of lowering capital costs across the board.

If the legislature deems it desirable to influence private investment in Alaska in the direction of greater economic diversification by means of permanent fund investments, it will have to authorize the fund's managers to make loans to the favored

types of venture on terms other than those of the private market. There is a serious question, however, how many new ventures will be made feasible simply by a reduction of interest rates on borrowed capital below customary rates. There is in fact good reason to believe that investment demand in new speculative industrial, agricultural or tourist-related development are relatively insensitive to interest cost. This is becuase private investors are not likely to commit their own equity to such ventures unless they have a prospect of recovering their total investment in five years or less. Such an outcome requires an annual cash flow equal to 30 to 50 percent on total investment, a situation in which two or three percentage points interest expense is seldom crucial. More important parameters are the standards for the creditworthiness of the venture and requirements for equity and collateral. In other words, it is likely to be more critical for a new venture in fish processing or tourism whether it can borrow three-fourths rather than two-thirds of its total requirements, than it is whether the interest rate on that loan is 9 or 12 percent.

In this situation, subsidized loans by the permanent fund can without question have an influence on the shape and direction of economic growth in Alaska, and that influence will be greater the greater the proportion of permanent fund moneys devoted to the favored types of enterprise. The form the subsidy is likely to take to make it effective, however, will not be (and should not be) lower interest rates, but rather a

relaxation of lending standards to enhance the availability of funds. One danger here, even if the legislature deliberately authorizes the fund's managers to make such loans, is that the nature and the degree of actual subsidy may not begin to appear for many years, until it begins to show up as defaults on principal and interest payments. This danger will be aggravated if, as is often the case with governmental loan programs, there is not a rigorous policy of classifying problem loans and of promptly writing off those which are uncollectable. Banks and thrift institutions are required by law and regulation to do this, but even there the requirement is only very loosely implemented or enforced, because lending officers are reluctant to expose their own imprudence in making bad loans or to write down the capital position of their institutions.

In any event, there is sure to be some opportunity for the permanent fund to influence the sectoral and geographic direction of economic development in Alaska by manipulation of credit terms. The most aggressive (and in conventional terms, imprudent) lending policy cannot, however, create an industry where resources, markets, skilled labor and other requisites are missing, and the fund's managers should never become so "soft" as to finance enterprises whose promoters are not taking a substantial risk themselves, or which do not have convincing prospects of long-term viability.

The most relevant model of a development bank for Alaska is not the IBRD (the World Bank) or the regional development banks, but the International Development Agency, the World Bank's "soft

loan" subsidiary. If the permanent fund is to direct the shape of economic growth in Alaska, it will not be through normal commercial investments on normal commercial terms, but through a postponed or hidden subsidy in the form of higher loss rates in future years. This is not the appropriate place to judge the desirability or assess the ultimate beneficiaries of capital subsidies directed at changing the structure of Alaska's economy, but the Legislature may well wish to assure that those implicit subsidies are not totally hidden, by setting out (or requiring the fund's managers to set out) explicit and rigorous standards for the granting, servicing, classification and writeoff of soft loans, and by requiring a rigorous annual audit of the fund's loan quality.

There is another dimension to the capital subsidy issue which the Legislature should keep in mind as it authorizes any soft or subsidized loan program under the permanent fund. Granting credit at terms more liberal than the market will almost certainly make some enterprises viable that would not otherwise be so, but it is difficult to draw lending standards in such a way that other ventures which would be viable anyway do not recieve a windfall that serves no social purpose. This consideration suggests a policy that might be adopted toward the soft loan program --- that loans under this program be made at rates perceptibly <u>above</u> market rates (as is appropriate to the greater risk). If my earlier observation is correct that speculative investment in Alaska is more sensitive to the degree of leveraging permitted than to interest rates as such, higher interest rates would

screen out some of those enterprises which did not need assistance from the fund and would at the same time help build up a reserve for loan losses to offset the subsidy aspect of the program.

IV. COUNTER-CYCLICAL INVESTMENT

There are several possible concepts of the permanent fund as an economic stabilization device for Alaska. The one basic concept of the fund on which there is a near-consensus is that it is to be regarded as a savings account for a "rainy day." That is, Alaska's government is about to experience an extraordinary surge of income from oil and gas royalties that is not likely to be sustained. Since petroleum revenues will not only be the main source of general government income but will for some time be a principal support for the private economy and the main engine of economic growth, the permanent fund would be used to reduce the injection of income into the state's economy during the boom phase, and then the income from investing these revenues would be used to sustain state expenditures and their fiscal impacts after the boom has ended.

It has also been suggested that the permanent fund could help even out short-term business fluctuations in Alaska, or maintain long-term economic growth (as measured by the growth of state product, real personal income or employment) at some optimum rate. Such stabilization policies could in principle operate through varying appropriations to the permanent fund, working through the fiscal impacts of general fund expenditures;

through varying the permanent fund's rate of new lending in Alaska, working through the fiscal impact of investments supported by these loans; or with both appropriation and investment policy. The basic principle is simple: when the state'e economy was booming, larger appropriations would be made to the permanent fund (thereby reducing revenue available to the Legislature for general fund outlays) and/or a smaller proportion of permanent fund assets would be invested within Alaska. When the state was in a recession, the flows would be reversed: less revenue would be appropriated to the permanent fund and more to the regular capital and operating expenses of state government, and/or the permenent fund would inject more investment money into the Alaska economy (presumably by selling off non-Alaska investments in its portfolio).

There are, however, both conceptual and practical problems with using the permanent fund as a stabilizing device on any more sophisticated basis than is implied by the "savings account" notion. One of them has been identified previously --- to the extent that existing financial institutions make up a reasonably efficient capital market, the volume of unsubsidized loans or investment the fund makes in Alaska may not have a significant effect on economic activity in the state.

Even if there were significant capital market deficiencies which gave permanent fund outlays a real effect on aggregate investment in Alaska, or even if the fund had a policy of subsidizing Alaska business (thereby expanding the level of investment

beyond what it otherwise would be), it is still not obvious whether a policy of varying state expenditures or permanent fund investment in response to economic conditions would in fact reduce business fluctuations in the state, increase them or be on balance neutral. The crucial question here is the relationship between our ability to forecast economic conditions or recognize cyclical turning points, and the time it takes for a change in appropriations or in lending policy to show up in unemployment rates or rates of economic growth.

Some very gross economic changes, such as the buildup and decline of pipeline construction activity, obviously could be anticipated and their fiscal effects projected with some degree of confidence. But the Alyeska pipeline is likely to be historically unique in size and specific gravity in the state's economy. Future ups and downs are more likely to be the resultant of a number of smaller influences, many of which (general business confidence, for example) cannot be mapped out in advance and are difficult to quantify even retrospectively. If booms and recessions often cannot be recognized clearly until after they have been with us awhile, and their turning points recognized only after they have passed, it is also true that significant delays are inevitable between the recognition of a new trend, the fiscal action that is appropriate and the actual movement of new dollars into (or out of) the private economy. Depending upon the relative lengths of the various lags, attempts to stabilize Alaska's economy or smooth its growth rate might be successful, but it seems equally likely that state fiscal policy would zig when it

should be zagging, that the amplitude of the business cycle would thereby be increased, or even that the permanent fund's intervention could create oscillations in the state's economy where otherwise there would be none.

It is not obvious which of these outcomes would in fact result from an attempt to use the permanent fund as a stabilizing influence. The effect would depend in part on whether it was appropriations, lending or both which were being varied, and what economic indicators were being used to trigger policy changes. A business cycle model could be developed which would simulate the behavior of Alaska's economy under the influence of various decision rules.

Intuitively, I expect that such a model would show that the various lags in recognizing trends and implementing policy, and in the actual economic impact of that policy, would preclude using the permanent fund to offset economic fluctuations with a term of less than about three years. If the fund is to be useful as a stabilizing device, it will probably be only as an instrument to regulate growth rates in very gross terms and only in the very long run. If, for example, the social impacts of a continuing growth rate in employment below 2 percent per year or above 8 percent were determined to be unacceptable, the legislature might conceivably key permanent fund appropriations or investment policy to the average growth of employment in Alaska over the previous five years, with the understanding that no individual year's growth is ever likely to be on track because of the fund's policies, and that excessive growth in one year might be offset by

stagnation in another, or vice versa. It is likely, in other words, that long-term stability in growth rates might be achieved at the expense of greater instatiliby in the short run.

The practical problems in establishing a stabilization policy for the permanent fund are political and administrative. If permanent fund appropriations (and their complement, operating expenditures from the general fund) are to be varied, it is the Legislature which would have to vary them. While there would be little difficulty persuading the executive branch to propose and the Legislature to authorize increases in capital and operating expenses during a recession if money is readily available to be committed, it may be too much to expect a sharp reduction in outlays to offset an economic boom in the state, particularly when revenues and "needs" have both been increasing at exceptional rates precisely because of the boom. The fate of the state government's announced interest to "stockpile" public works projects until the end of the Alyeska construction boom should be instructive on this point. It is not clear, moreover, that the managers of the permanent fund would be immune from similar pressure with respect to their lending and investment policies, if they were granted the discretion to alter those policies according to economic conditions in the state.

V. PUBLIC ENTERPRISE

Another suggested use for permanent fund moneys is to finance public works projects. The works most often proposed are hydroelectric plants and fisheries improvements such as hatcheries and

habitat enhancement. These two examples are of course quite different; electrical generating facilities can be and usually are self-supporting from the sale of power. The principal reason for governmental investment in such facilities, ideology aside, is the exemption from federal taxes of the income of a public utility and of the interest it pays on its debt. This very consideration suggests that revenue bonds of the Alaska Power Authority or other governmentally owned utilities would not be an appropriate permanent fund investment, because the permanent fund (whose own income is tax exempt) could be expected to earn a higher rate of return from investments in taxable federal or corporate bonds than the Power Authority would have to pay in interest or its own tax-exempt bonds, assuming that the securities were equally rated. This consideration does not, however, necessarily foreclose the permanent fund from providing all or a part of the equity component of Power Authority capital (and in earning a rate of return appropriate to the risk taken by an equity investor), or from providing a guarnatee of Power Authority bonds, or from subsidizing electric power development.

The crucial characteristics of some public works, such as hatcheries and habitat improvement, is that they cannot be financed conventionally. Benefit-cost analysis may well show that the new benefits to society exceed the capital and operating outlays, but the burdens and the benefits may not fall on the same people, and it may be impractical (or impolitic) to collect a user charge from the beneficiaries. In the case of these fishery-related investments, however, costs could be allocated at

least roughly among the beneficiaries through a surcharge on fishing licenses, entry permits or raw fish taxes. If such capital improvements are not to be funded this way, however, they seem more appropriate subjects for general fund appropriations than as "investments" by the permanent fund.

VI. ISSUES FOR FURTHER INVESTIGATIONS

This report has identified a number of questions whose answers are crucial if the Legislature is to develop appropriate policies for operation of the permanent fund. At most, however, the author has been able to give only tentative answers to these questions. The following is a list of issues that warrant further investigation, together with some discussion of methods and sources.

1. Capital market structure, costs and efficiency. A survey is necessary of the number, size and aggregate Alaska activity (e.g., loans made, loans outstanding, loans being serviced) for various institutions in the financial market, with offices both inside and outside of Alaska. Questionnaires and interviews would be used to determine the relative weight of each of these institutions in financing different industries in Alaska and their policies regarding various types of Alaska business.

A survey is necessary to determine just what is the price of money in Alaska and how does this price (together with other credit conditions) differ from those elsewhere in the United States. A large body of aggregate data comparing Alaska conditions with those in other states is available in the commercial bank call reports; some information is available by major loan

categories (real estate, commercial and installment). The absolute level of these rates is less indicative than their relation to rates in other Western states and particularly the trend of any Alaska rate differential. Any differences in other loan terms (for example, requirements for compensating balances) would have to be based upon questionnaires or systematic interviews with lending officers.

Similar questions can appropriately be asked about differences in the rates and conditions for various categories of credit as between the urban centers of Alaska, and small communities and rural areas. The quickest approximation to an estimate of geographic differentials could be obtained by comparing loan statistics for the outlying branches of statewide banks with those of their urban offices. A hypothesis that deserves investigation is the proposition that retail credit markets are more competitive and more efficient than "wholesale" markets in Alaska. If this is the case, channelling the permanent fund's Alaska lending through existing financial institutions could result in large, unearned windfalls to the banking system without significantly benefitting Alaska borrowers. It would be instructive to see what happened to the "spread" between the interest cost of public deposits to Alaska banks and their interest earnings on real estate loans, for example, as a result of the Alaska preference provision in management of the state's North Slope bonus money. A similar question can be asked about the actual effect of the state's purchases of residential mortgages, after loan fees are taken into account.

2. Demand for investment and for loanable funds. A sample survey and detailed case studies should be undertaken of the financial structure and the procedure of financing fish processing plants, hotels and other relevant investment projects in Alaska. The contrasts, if any, in structure, procedures, costs of capital for individual components of financing (interim construction, working capital, etc.) should be noted and the appropriate implications drawn. The importance of capital financing costs to overall project costs is an important element in judging the potential sensitivity of investment demand to interest rates.

The investment demand schedule for individual industries ought to be investigated. The question here is to what extent will a reduction in the interest rate to a particular group or for a particular purpose result in an increase in the level of investment. The question is difficult to answer generally because the shape of the curve relating investment outlays to interest rates will differ for each subcategory of investment and will be affected by a large number of other factors. Builders of national econometric models have spent much time trying to specify investment demand functions with only limited success, however. The data base modeling Alaska investment demand is very limited because there are almost no satisfactory statistics that can be used as indicators of investment activity, with the partial exception of residential construction. The more productive approach would be to model individual projects--even fictional projects--in the way the Delta barley project was analyzed.

3. Aggregate impacts of different policies toward permanent fund appropriations and investments. The percentage of eligible funds that should be channelled into the permanent fund is of central importance. Not only will the future growth of the state's economy be determined to some ex by the choice of eligible permanent fund investments, but perhaps more importantly, it will be determined by the amount of money remaining in the general fund for unrestricted use. Specifically, Department of Revenue analysis of state revenues presented in February, 1977, projected a permanent fund balance of $1.8 billion in 1985 based upon a 25 percent contribution rate. The same source projected a general fund balance in excess of $6 billion in the same year. Increases in spending above the historical pattern of state government expenditures would have a downward effect on the total remaining in the general fund, but the balance can be expected to remain substantial.

The possibility of such a large general fund balance requires that the choice of the percentage of oil revenue dedicated to the permanent fund reflect the expected impacts of the uses of the general fund balance as compared with the impacts of administration of that money through the permanent fund.

For example, one way to make use of the general fund balance would be to reduce the personal income tax. The ISER MAP analysis shows that this would indeed cause a significant reduction in the general fund balance. At the same time, it would have a highly stimulative effect on the private sector as the increase in

disposable income stimulated private sector demands. Employment and population would increase. Additional revenues would be generated, but these would not be sufficient to maintain constant per capita government expenditures. Either the level of services would have to decline or the general fund balance would be depleted more rapidly than initial calculations indicated, or both. If the permanent fund is to be a buffer against the depletion of the general fund, or is interpreted as a fund to benefit Alaskans, the expansion generated by the income tax could be the worst possible use of general fund money.

The growth implications of any constant percentage permanent fund contribution needs examination. Lumpy additions into the general fund caused by lease sales on state lands may be accompanied by bursts in general fund spending activity by the state. This erratic behavior could result in uneven growth and its problems. A formula for permanent fund contributions, which minimizes fluctuations in the general fund, might be a more appropriate rule than a fixed percentage.

Projections of the state fiscal position are important in the formulation of permanent fund policy in another way. Knowledge of what is happening to the general fund can determine permanent fund objectives. A large general fund balance, for example, tends to reduce the force of the argument that certain industry should be stimulated because of the tax base it provides.

The MAP model can be of assistance in the formulation of permanent fund policy in this regard because it can be used to project "futures" under varying assumptions of general fund policy given a "neutral" permanent fund. The state model can be used for this purpose.

A related issue is what policy should be established with regard to disposition of interest from the permanent fund. It is important not only what uses should be made of permanent fund interest but to a certain extent, what should be the target interest rate considering the uses of the interest. That is, if the interest is not put to good use, there should be relatively little concern with a high interest rate.

The basic issue, however, is whether the interest should be returned to the general fund without strings, should remain in the permanent fund for some period, or should be distributed to Alaska individuals who, in a sense, become the owners of the permanent fund.

The implications of each alternative on the growth of the economy and its fiscal condition will be considerably different. Reinvestment in the fund would have minimum impact in the short run. Transfer to the general fund would result in increased expenditures on state and local government which would have a stimulating effect on the economy with the impetus on increase in public sector activity. A transfer payment directly to individuals under some form of Alaska, Inc., project would provide an economic increase with a private sector impetus.

All of these kinds of expenditure programs can be analyzed with the MAP model framework. For this kind of analysis, which attempts to provide a picture of the relative impact of alternatives, specific program details are not necessary. The qualitative impacts would be the same regardless of whether a specific dividend amount were paid out as Alaska, Inc., payments or the available interest on the fund were distributed in that fashion. Here also, the state economic model can be used.

On the assumption that permanent fund investment will somehow be directed to the growth of certain industries, there is also a need for econometric simulations of the effects of expanding various Alaska industries on the state's economy as a whole, particularly on its employment and tax base.

4. Performance of soft loan programs. There are a number of existing state loan programs directed to social and economic development objectives. In general, they have loaned money at lower than prevailing commercial interest rates (but not necessarily at less than the state's "opportunity cost" of money). The actual quality of these funds' portfolios is unknown, however, and the actual rate of subsidy taking into account prospective future loan losses cannot, therefore, be determined. A systematic study should be made of this issue and its implications explored for administration of any soft loan program under the permanent fund.

Similar studies would be useful with respect to federal loan programs such as EDA and SBA, particularly concerning their Alaska activities. The experience and performance of International Development Agency programs and subsidized loan programs of other nations and states would also suggest problems which might be expected from any Alaska soft loan program established under the permanent fund.

MINUTES OF HOUSE SPECIAL PERMANENT FUND COMMITTEE MEETING

March 17, 1979

Agenda: HB 277 and HJR 23

Fran Ulmer and Pete Bushre presented the administration position and the rationale behind HB 277, HJR 23, and HB 99. (HB 99 has not been referred to the committee but is part of the administration's permanent fund package.)

Ulmer explained that increasing the permanent fund's contributions to 75% would still allow a moderate increase in state spending. HB 277, she said, is a conservative bill which treats the permanent fund basically as a trust.

Bushre defined the common law meaning of a trust and showed how HB 277 fits the classic definition. He explained that the first 25% of the fund would be in a clear trust and the additional 50% would be placed in a corporation with the same list of investments as the first, excppt for the addition of Alaskan mortgages. An additional provision states that other investments "not freely traded on a recognized market" may be expressly authorized by law. This allows a development bank to be set up by the legislature but makes it clear that it is different from the trust elements. Under the governor's proposal, power debt could be guaranteed by the income to the corporation's fund, and the income from both funds (all 75%) would go half to people in the form of tax credits and half to the general fund. Bushre argued that the Department of Revenue

should manage all of the permanent fund because it is already managing other trusts and that arrangement would be the most economical and responsible.

Ulmer explained that the state had sponsored two studies regarding the "capital gap;" these reached no solid conclusions but indicated that the problem was not one of there simply being a lack of money and that it would be unwise to just dump money on the market. The "development bank" aspect of HB 277 requires that any gaps be clearly identified and then the law amended. If no gaps are identified, the money stays in a trust.

Ulmer concluded by mentioning the public expectations, which are very high, and the fact that the permanent fund cannot be all things to all people.

Rogers asked why the governor was recommending tax credits rather than Alaska, Inc., and Ulmer explained that it was the governor's alternative since Alaska, Inc. was not warmly received before. Other questions from the committee concerned possible investment in a gasline, the executive oversight committee, guarantee of indebtedness, and other dedicated/reserved funds.

Bob Greeley, the committee's financial advisor from White, Weld, and Co., commented on the administration's proposal,

He listed what the permanent fund can and cannot do, and stressed that it should be a trust and not confused with a development or enterprise fund. He recommended keeping things simple and keeping the trust and any development bank completely separate. He also recommended that the permanent fund not be managed by the Department of Revenue but should have its own identity and management.

Ulmer explained the reason for the executive oversight committee. Combined with the legislative involvement (amending the list of investments yearly and giving directives), it puts elected officials of both branches in positions of responsibility. The reason that some people are on both the policy board and the oversight committee is simply to provide an information link.

MINUTES OF HOUSE SPECIAL PERMANENT FUND COMMITTEE MEETING

March 20, 1979

Agenda: HB 400, HB 414, and HB 162

Rep. Haugen, sponsor of HB 162, stated that he was not happy with the bill and did not want it heard at this time. He wants to redraft it so that the fund principal is not spent.

Malone and Rogers, co-sponsors of HB 400, explained the bill. It lays out the various dedicated and reserved funds which we now have on the books and which, with the permanent fund and native claim payments, add up to 78.5% of oil and gas royalties. The sums in the bill are based on FY80 royalty receipts of $360 million. Some of thes funds are not being reserved but are being spent as part of the operating budget.

Ron Lind, Director of Budget and Management, was present to answer questions. He stated that the governor had requested no money in his budget for either the capital outlay or energy facilities development accounts.

Rogers said that he didn't think we should be spending royalties in the operating budget, and a brief philosophical discussion followed.

Malone said that the fact remains that the legislature has established these different accounts. He recommended that the bill be moved to Finance for closer consideration.

Rogers proposed a technical amendment.

Page 1, line 19-- Delete "$9,000,000" and insert in its place "$18,000,000"
Page 1, line 21-- After "AS 37.12.080" add "and for deposit in the Alaska renewable resources investment fund in accordance with AS 37.12.020(b)"

The amendment passed and the bill passed from committee as a CS.

Discussion of HB 414 was held until a later date.

Perm. Fund Comm. 3/27/79

Present: Hayes, Challerton, Haueger, Cotten, Malone, Rhode, Guy, Rogers

0611 - Called to order.

Hohman can't come.

Sam ~~Plia~~ Plaia - Con. ~~to~~ PF Comm in House.

0645 - Sam Plaia ~~(illegible)~~

1. Re. SB 122 - general understanding
2. Comments ~~PP~~ by PP

1. Proposes ea. cit. rec. 1 share in prin. + entitlement to income frm. share. Returned shares revert to State which rec. income thereafter. Choose from at least 100 options. Appears intent is to pass income directly to cit.
2. Pg. 1 no comment
   Pg. 2 Art. 5 ; Dist. of Income to Residents
   Concerned w/ baby boom by certain date.
   Share owned by infants constitutes a sort of trust, but no provision for admin. trust. In essence, income from infant used by parents however they want. Raises ques. Abt. whether shareholders interest best served.

ord 708 * Pg. 3 Item E - doesn't permit transfer . . .

Pg. 3 Directed Investments - list of at least 100

This puts burden of frm. dec. on shareholder. Lack of ability to let. What's most approp. investment. Also wld encourage investmt. grps. to solicit shareholders. Also, difficult to think we cld come up w/ list of 100 that'd follow prudent person rule.

Also, bill difficult administratively to provide quick re-direction of investmts. Also, once shareholder has made selection, can then re-direct by instructing Comm. Selling initial investmt. cld. cause erosion in principal. This violates desire to protect the principal. This ability to choose from week to week to change investmts. creates timing prob. in purchasing + sale that cld. cause considerable erosion of principal. Doesn't provide for sophis. investmt. program.

Eligibility requirements – difficult to administer fairly. Will documentation be readily avail for Bush residents to est. unquestioned proof of eligibility. Also sets stage for creating false "proof."

c. 760 ?
Chatterton: Does loss for indv. share mean loss for everyone.
↳ to 807

Pg 7
Sect. on Eligible Directed Investmts.
Comm. shall est. list of at least 100 spec. investmts.
It will be diff. to come up w/ 100 spec. investmt. categories in accord w/ "p.m." rule. W/ broad categories, hard to get 100.

Cotten: to p.m. rule figure of speech.
: No, legal definition exists. Do in Gov's bill.

Q-Guy: Re. baby boom poss. What abt. older kids, not yet 18, concern also applies to them. - Yes
Re. diminishing principal - would gains from good investmts. counteract losses from others.

c. 860 → 890
Sam: Response re. diminishing principal.

Guy: Doesn't want State to inherit my share. Wants to pass on to wife, children.

900
Brushre: Re. "p.m." rule.

913
Sam: Pg. 8, Item 6. line 23. Def. of "resident."
Such a def. may create constitutional ques. & may encourage litigation to challenge residency requirement.
935 End of prepared comments on bill.

Guy: Comment re. def. of resident. Persons home is where claims it is, regardless of where living.

Cotten: Here talking only abt. whether live in or out of State.

947
Malone: Re. directed investmts. No provisions in bill for acctng. for cap. gains/losses . . .
Presently IF earning close to 8%. Tax free.
1. What wld. be treatmt of earnings from directed investmt. program.
2. Also, tax treatmt of gains & losses on buying & selling.

Sam: Any income recd by shareholder wld. be subject to appropriate tax. Re. cap. gains/losses, don't know if there's much here where person cld. segregate it on tax form & get in lower tax bracket. Might need spec. ruling from IRS. But ~~States~~ income on State's shares totally non-taxable.

~~Malone~~.

Rhode: Hse. proposal provided for 5 yr. averaging and. c. 987 of cap. gains/losses ...

997 Malone: Re. leveraging - ~~use~~ borrow agnst future contrib to fund to offset non-recurring income. If prin. or earnings pledged, what would that likely do to payout of fund to shareholders.

Sam: If $4 bill. is put into sound revenue prod. projects, then $ will be there for debt interest. If projects ~~were~~ don't produce income & revenue quickly, then income from PF will have to pay interest on debt & ∴ less income for distribution.

Malone: What if undv. investmts. leveraged.

1040 - 1056

*Sam: In effect, create secondary lein on income of fund. Primary lein is ~~debtor~~ debt holder.

Hayes: Re. preventing shareholder to transfer income?

Chatt: Pg. 2 Line 17-18
Wouldn't this be impetus to come in + est. residency quickly.

Guy: Ques. re. minors rights.

Sam: Ques. cld. be raised - how have you treated this minor. Have you protected theer share.

Cotten: . . .

Jim: Re. leveraging. I think Sumner thinks borrowing can be done at tax exempt rates. If can't, + borrow at 10%, + get ret. at 12%, does citizen investor get 2%.

Sam: Yes. Raises ques. abt. whether can borrow at tax exempt rate.

Jim: Freedom to re-direct also seemed to appeal to Sumner. How far will bank go in expanding loan portfolio if $ can be locked by investor.

Sam: Not very far. Banker wld want to keep investmt. of investors share in most liquid thing possible. Ques. whether bankers would even take it. E

know # coned be pulled out in a week.

1130
Bushre: Expand on comments. What AK. banks do w/ 12-mo. deposits. Banks will view this # as demand deposit & invest accord. & will not be used to expand mortgages & loans in Alaska.

Sam Pkia's
1144 - Comments on Hohman's bill.
Not time here to make detailed analysis.
Make gen. comments on intent & possible problems.

Use of income of PF to support debt to get capital more quickly to expand local economy — this is essence of Hohman bill. Theory is income from PF coned be used as security for sale of Revenue
? Bonds. ...
1174 End of Intro.
1186 loan purposes — starting p. 25 — Residential hsing, commercial, public, educ,
Re. residential → no general probs.
Prime concern w/ commercial purposes. Intent somewhat similar to SBA. Record of SBA not very good.
Outstanding # of defaults. Scenario. Enormous temptation for everyone who's wanted to go into business to come up w/ idea, form corp., get big $,
1222 (?) end of tape

Tape 3 Side 2

0000 - Continue scenario. What if fail. State can go to indiv. + ask for $. Indiv. can be relieved of obligation via bankruptcy. Fund lost this prin. + PF income will have to be used to make up this deficit. I.e. corp. can easily bleed off assets of Fund intentionally or unintentionally.

0049 Malone: Could safeguards be built into law so if default loan fund could capture collateral.

Sam: Yes, but value of collateral questionable. Expended $ means collateral not existent.

Malone: To what extent wld. legislation in concept encourg defaults to happen.

Sam 0089 ?: ...

SBIC (Small Business Investment Corporations) analogy.

Malone: What was main stumbling block SBIC's ran into?

Sam: Primary prob. is pressure for investment. Of have funds sitting around, want to put them to work. You're more willing to look for (accept) invest. oppor. when your job is to make investments.

Malone:

0200 ~~Sam~~: Continue SBIC analogy

Rob: Re value limitation, aren't we as protected as bank wld. be.

Sam: If banks are doing that, they aren't for commercial loans. Maybe for housing. Doubts bank wld. go along w/ these standards for commercial loans.

0260 Haugen: Relating to starting fishing business.

0276 Bushee: Re. what state requires for pension fund, which is trust fund —
75% comm. property -
90% residential property.

? Jim:

0310 Malone: Re. public purposes section -

0335 Sam: Explains serial loan vs. term loan.
Serial maturities sell at increasing rates of yield. Have yield curve. Shorter at lower price, longer at higher price. Explains fluctuations in yield curve. Formula fixes rate at which State must buy securities, w/out acctg. for fluctuations in yield curve.

Malone: I.e. formula set out in bill means loan o/r.
Will have to buy bonds for more than can sell them.

Sam: Not that formula is defective. Any formula would be defective.

Bushre & Haugen re. State loan programs.

0457
Malone: Re. subsidizing interest rates.

0477 Sam: Re. municipal bonding.
This formula will simply not work. Will encourage bidding under cert. conditions & make bidding impossible at other times.

0504 Rob: Re. guarantee.
Sam: Don't think so. Re. different yields curves.
Rob: Could mixing bonds lower it.
Sam: No, market is the market. Makes its own curve.

0560 Malone: Another ques. on municipal bonds.
Sam: . .
0574 Malone: Re commercial loans.
Any prob. issuing tax exempt bonds for this?
Sam: Yes. Ex. of pollution control facilities being exception. Serious ques. here as to whether bonds you sold wld. be tax exempt.
Rob: Was examined by E.F. Hutton. Felt wld. be tax exempt.
(Hutton not tax counsel however).

0612:
Sam: Concerned mainly w/ loan programs. Stud. loans as drafted here wld. be encumbrance. To default on loans.
0630 End Sam's testimony. 0637 Adjournment

Re. overall policy considerations

3/30 Clark Gruening

Present: Haugen, Chatt, Cotten, Schaeffer, Freeman, Malone, Grey, Rogers

Tape 5

0000 - Call to order

0035 - Not recording

0036 - Clark Gruening

Pressure will grow in proportion to size of fund. ~~Need to look at long-term policy.~~

Has heard legis. doesn't need to make more definite statutory requirements until Fund gets bigger. Brd need to act before pressure from interest grps. grow.

0100 Critical elements not now in law,

Important Principles, but not written in law

1. Should serve as safe repository.
2. Prin. shld. not be dissipated.
3. Shld make snd. investments in AK
4. Use of income earnings for pres & future Alaskans
6. accountability, & insulate & isolate Fund from day-to-day politics.

Problem

0127 ↑ Re. types of investments in interim bill. Problem also that in interim bill - it's admin. by Dept. of Revenue

Wise. management sys. - separate investment functions from others.

0179 Re. Accountability

[redacted]

0250 HB 281 provisions will provide an accountability.
0255 Re. trust concept + development banking

[redacted]

0330 Goals P.F. can accomplish

0377 Re. use of income

0385 Summary
1. Need liquidity of investmt
2. Public accountability – i.e. mgt. out of Dept of Revenue; reporting procedure; Legis. oversight
3. Legis. has info to make decision this session – don't delay.

0398 Chatt: Re. 5 basic prin. at beginning – Earnings from fund should benefit people now + in future. Ques – should we put entire income back into P.F, rather than in general fund.
Ans. to 0427

[redacted] 0434
Malone: Re. trust concept, + eligible investmt. idea.
Criticism of eligible investmt. idea.
~~How can~~ Do investmts. have to be specified.
How can 2 be combined.
Ans. to 0487

0488 – 0510 Reference to Gov's bill re. in-State investments – doesn't say what it "should" say

Malone - 0521 - comments on any other proposals offered by gov. or legislators.
This comm. doesn't have HB 99 - proposes split of earnings.
any comments?

Ans. to 0550

0553 - Hugh's feelings on ↑.

0560 Jim: ....
Ans. to 0521

0585 - Comment on transition.

to 0662
% stuff - Gov's bill. Legal opinion on %

0662 to 0671
Doogan re. statutory limits re. 25%

To 0684
Malone re. HJR 23 not rec.

0688 Jim: Re. admin. bill
Re. admin. explanation of how 75% of [redacted] royalties can be placed in P.F.

0717 - adjournment

Agenda: Hohman

3/29/79 Present - Hayes, Chatt, Haugen, Rogers, Cotten
Tape 3 Side 2 Freeman, Guy, Malone
0639 - Call to order Chatt + Hayes, Haugen - leave for min. mtg.

0680 George Wolf
Indus. dev. bonds - IDB proceeds of bond issue used entirely or mgr. in trades or businesses for non-exempt persons + paymt. by revenues made on loan proceeds.

0706
Types of loans that can be made - very few non-comm. type loans.
Can you have a large enough vol. of non-comm. loans to support comm. activity.

0722 Exceptions - Exempt facilities (res., sport, pub util., convention, H_2O, sewage, poll. control)
90% test { If issue rev. bonds to finance these, will be tax-exempt given 90% restriction.
- Small issue exemption - up to $1,000,000 to priv. bus.

0749 - Summarize pt. re. ~~whether type of loan prog.~~ tracing - not clear in bill.

0805 Ans. to whether bonds issued under Fund could be tax exempt

0808 Arbitrage aspects

0838 - Next sig. ques. under arbitrage rules is question of bond security.

Under arbitrage rules—

0890 - Re. potential application of replacement clause.

0918

Rogers: What if don't get advance ruling from IRS.

They'd go after holders of bonds & tax interest... Even if could sell them w/out a ruling.

0923: Re Revenue Act of '78, can petition tax court if disagree w/ IRS ruling.

Need info alt. rulings.

0971: Municipal + non-profit corp. loans

Elig. req. of bill don't ~~co~~ completely reflect story for priv. non-profit corp.

0991 Re. loan elig. + loan limits

0996 Re. bank partcips. in loan servicing.

1005 assessmt. of what law might be 5 yrs. from now & how might affect program.

1017 Housing bonds - trend for future restrictions.

1037 Totally new prog. in Hob. bill may create its own trend, doing what Congress tried to prevent w/ IDB.

1050 Restrictions seem to be loosening up rather than tightening.

1055 Re. declaratory judgmt. procedure. New stream of judicial decisions in tax-exempt area will be relatively unsettling Novel program could suffer.

1073 Guy: Re. trader business + security interest test.

1083: Summary by Malone.
And Wolf.

1114: End of Wolf testimony

1117 Walter Philkin
Introduces himself
Financial Advisors to State since Statehood for all but 3 yrs. on long-term borrowing prog.
Comments re. marketing aspect of bonds that might result from this bill.

1127 Testimony begins.
Re. 2 sources of security for bonds.

AGSOC



Ques. of can the issue re-pay its debt & interest on timely basis is critical ques. re. what additional will be needed for marketability.

1150 ~~[illegible]~~ P.F. pledge not necessary ?

1159 Malone — re. major divisions bill falls into.

1165 Re make up of PF. Boundaries need to be put on investment uses.

1196 Impact of loan progs. on State borrowing prog.

Tape 4 Side 1

~~[illegible]~~

0128 — Jim:
Re. revenue bond projects

Jim: Re NYC & municipals

0212: Re. other points in legislation → concerned that it appears to be so all-inclusive. E.g. permitted investments have long list → oppor. to invest in such broad range could lose impact hoped for from P.F. security.

0244: Re. municipal loan prog., section dealing w/ Fund's purchase of mun. bonds on set formula. Experience w/ Formulas like this in past.

0275: ~~End of Walter's testimony~~. Thanks to Walt

0284: Re. what Plaia said abt. revenue bonds not initially being marketable.

Walter's reaction.

0300 0304: End of Walter's testimony.

0306: New documents.
From Ulmer, Mar. 29.

Feb. 21 Memo on SB 1

Mar. 23 Memo from Wohlforth & Flint

Other comments:

0361 Martha Moore: If P.F. is going to have perpetual life, must put $ in Seaire A Bonds or Triple A bonds.

0406 Adjournment



Rep track of Sen. Sumner's remarks on leveraging borrowing $ or future oil revenues

Permanent Fund Committee
March 23, 1979

780 Present: Chatterton, Gray, Malone, Rhode, Sen. Sumner, ?, Rogers, Haugen,

call to order HB 240

790 SB 240

800 approx Sen. Sumner: described concept behind SB
If p.f. is really peoples $, people ought to have some option or selection in way $ is invested: directed trust or investment concept.
Commissioner would est. types of investments.
S. thought legis. would est. investments. + Thought we'd have 100 or more investments. GSOPs could be incorporated into this concept. Become line item investment under this plan. Scope of accomodating many concepts, all w/in body of one bill.

825

826 Rogers: So ea. indv. could choose bet. ~~several~~ several plans.
S: Yes, if approved way to invest.
Non-invested $ wld. stay in mutual fund.
Rogers: Fiscal note on this?
S: Not yet.

S: Ea. of approved invest. sectors would have part. restrictions in terms ~~of bad investments~~ of terms of invest. ~~But once these criteria met, it's then a matter of~~

R: What if on my share, that invest. loses $
S: Fund would share loss. On some % of earnings

could come back to fund agnst. any losses. Doesn't think investor should share 100% of loss.

877

878 Malone: concept is that indiv. would have abil. to det. where their share of fund is invested & earnings would come right back to them.

S: Yes

In the bill itself, what is legal def. of "residents"

S: As of date of bill, & if don't close it off, it's legal. i.e. don't restrict when next one would occur, it's legal.

901

902 Chat: Typ question...

Chat: E.g. 400,000 shareholders. Ea. will be able to direct how want their portion invested.

What if many investors are persuaded to invest in a scam & is very costly to fund.

S: Trying to make avenues for everyone - e.g. older citizens who don't want to wait for return need other options to invest in.

Is permanent fund really the peoples $ & if it is do people have access to it & if they don't then I doubt it's really peoples $ & gov't will find someday to use it w/out benefits accruing to all people.

Summary of concept of this bill

942

anything

~~943~~

943 Malone: how is leverage of net income addressed in bill.

S: It isn't. Didn't want to write tight bill. Trying to address concept & to extent that I can get you to bend w/ me, that's my goal.

If we take our collective assets & and invest can offset our collective liabilities.

Malone: how do you see this & p.t. together.

S: We have presently 75% of non-renewable income & going into p.t.

Plus renewable tax base whose taxes go into gen. fund.

Would like to re-structure leverage to broaden ~~tax~~ economic base.

Off set non-renewable tax $ now feeding gov't.

If don't start taking out resource $ in direct ratio as tax $, then just expanding gov't.

(996) ? $4 billion additional investment needed

? to offset inflation.

Need to embrace concept of backing more non renewable tax $ into perm. fund & then have that invested to broaden econ. base.

1011

Chat: in other wds. want perm fund that's generating enough income to

1024 meet needs of State gov't.

↓

1025 Jim: ~~If point~~
Earnings of perm. fund are sufficient to replace oill revenues?
No stim. of econ., leverage can replace sig. portion of oil tax $.
Jim: I.e. taxes thrown off by business & personal growth.

$4 bill into econ. could stim. growth to support present level of gov't.

Want most of directed invest. to stim. Alaskan economy.
1050 J: Wants to build priv. econ. w/ this $4 bill.

1051 Rogers: Similar to plan laid out by Milton Freidman to Jim & me few yrs. ago.
S: I'm trying to put together skeleton
1058 that brains & wisdom can build on

1059 ~~Chatt~~ Haugen: What would mgt. of this whole thing cost? Seems like gov't will be involved in some ways.

1079

1080 Malone: To elaborate –
ques. eligibility

1085 Guy: death of shareholder – lapses to state. why not pass on to relative or someone born after elig. deadline
S: If come ~~aft~~ here after effective date then elig. for next go-round w/ fund I don't care abt. this pt. – however comm. wants to go.
Either way, not fatal to concept.
1099 S testimony ends

1025 Jim: ~~If about~~
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S: I'm trying to put together skeleton
1058 that brains & wisdom can build on.

1059 Hansen: ~~Death~~ What would mgt. of this whole thing cost? Seems like gov't will be involved in some way.

1079

1080 Malone: To elaborate —
gross eligibility

1085 Guy: death of shareholder - lapses to state. why not pass on to relative or someone born after elig. deadline
S: If come ~~aft~~ here after effective date then elig. for next go-round w/ fund. I don't care abt. this pt. — however comm. wants to go. Either way, not fatal to concept.

1099 S testimony ends

1103

Kenz re: elig. ques. re. residency requirement
Vassar, attny w/ legis Aff.

Person has to have been res. continuously since July 1 1980 & apply by Feb 1981. Diff. than other res. req — prospective residency requirement.

Is that constitutional → not sure.
Thinks it sustainable but not sure.
↳ Bec. is one-time shot, dealing w/ fixed asset. Need to det. who is & isn't resident at that X.
In summary I think it's sustainable.

Rogers: How close did. push time frame bet. effective date & beginning of residency. Could we make it July 2, 1978.

Cut off date is for purpose of det. how many residents there are & then x to det. how distribute ~~resident~~ shares. (Resident defined as 30 days).

Malone: end up w/ 2 classes of people — one who are qualifying residents, & other residents. Prob. when dealing w/ State funds. What if there isn't a 2nd distribution? Argument that gist can't dist. public funds that way. or benefits of pub. funds that way.

Vassar: I.e. in essence only 1 group of people might be able to share in this. I don't know any case prohibiting this. I don't think it's unconstitutional. Cause fixed asset at time of distribution.

Rhode: Thinking by analogy to Bevine initiative. What if fund is growing & growing aft 1980. You've created special class of pers. fund investors.

Vassar: You can make classes. Are you dis. agnst. class that violates const'l. right, Are you creating suspect class. I think you could argue here that need to make cut off in order to rationally distribute shares.

S: We can pledge everything we've got to whoever we want, & still distribute again in future.

Rhode: If I leave state my share reverts to state & income goes to gen. fund.

M: Is residency a valid basis for discrimination?

new tape 0000

V: There is case law where State can show preference to residents in terms of distribution of States resources.

M: But we're talking abt. 2 classes of residents, not residents & non-residents.

Sumner: key is that if you're resident today & ÷, then for next distribution must do it for all residents here then.

Chatt: - - - -

0070 Guy: pg 2 & 3 line 26 - p.1
line 1 - p. 3
ques abt. language

0113 Sumner: assuming people move & shares turned back in, there's nothing to stop reinvestment of those w/ future fund.

0123 Chatt: What happens when all those shareholders move out of State & die - then everything would revert back to State, Would self destruct w/ time.
Ken - right.

0150: End of Ken's testimony

0153: Pete ? Busho ?
Started
0166 – Bill embraces 2 general concepts →
Dist. of earnings of pf to people
of AK sim. to Gov AK Inc.
proposal of last yr.
Other concept is to enable people of AK
to have voice in use of p.f.
Some ques. for committee to consider – areas that
need specific lang. regardless of intent.
Need to define "net income"

Does public have knowledge + expertise to
choose bet. the invest. alternatives?
Perhaps better to ~~Dispose~~ invest. areas to public
rather than spec. investmts.
Distinction bet. trust investments – steady income stream
+ in-State investments
(development capital for in-State dev.).

Mechanics of administrating direct investmts.
As bill is presently drafted, appears investmts can
be re-directed, unless made choice for time
deposit. My ques – would re-direction of
investmts generate losses for perm. fund
which would be borne by everyone.

Another ques – if my invest went well + another
citizen went broke, would I have to share
their loss + them my gain.
Needs to be addressed w/ more specific language +
hopefully something simpler to administer.

Malone: If someone invests + goes down they'll get out.
What do you do abt. capital gains + losses w/
this scheme.

Pete: Should be some provision to prevent panic selling.
As written, shareholder can re-direct by calling Commissioner.

P: some safeguard by statute is needed to prevent panic selling.

Malone: regardless of how $ is invested, does everyone share = in div. at end of yr.?

Sum – No, earning comes directly to investor from where investing.

If stop investmt, $ goes back to perm. fund. Week later e.g. if want to re-direct, send in form to computer.

Jim:

0515 Chatt: ques abt. mutual funds

Pete: could have simply administered perm. fund or administrative nightmare.

Sumner wants somewhere between State doing it all + poor dumb people blowing it all.

Chatt: If any investmt. becomes crummy, by definition erodes principle. Right.

Jim: Constituency for perm fund will be shrinking over X yrs as fund is getting bigger & bigger. Fear who's left will want to break open the fund.

Chatt: If p.f. could be divorced from politics, would you say Sumners bill goes counter to this, cause body politic so involved.

Sum – don't know. But politics of nine member investmt panel & appointmt of those members is real scary to me.

0595

0610 Adjourned

Meeting of the House Special Permanent Fund Committee

March 23, 1976

? agenda: HB 280 + SB 122

Members Cotten, Freeman and Hayes were absent.

Tape #2
800

Sen. Sumner described the concept behind SB ~~280~~ 122. If the Permanent Fund is really the peoples' money, then the people ought to be able to ~~directly~~ invest ~~this~~ it ~~money~~ as they wish, given certain ~~restrictions~~ investments ~~options~~ sectors to choose from (with each ~~particular investment~~ one having its ~~own~~ individual ~~restrictions~~ criteria). This is known as the directed trust or investment concept. The Commissioner of Revenue (~~or the legislature~~ S. prefers legis) would establish approved investment options, ~~options~~ sectors, perhaps 100 or more possibilities to choose from. GSOP's could be one of these ~~possibilities~~ options. Idea is to accommodate many investment possibilities and to allow the people to choose among them.

~~A fiscal note has not yet been~~

SB ~~122~~ does not yet have a fiscal note, ~~administrative costs~~ ~~cost of administering this not yet determined.~~ administrative costs ~~unknown~~ undetermined.

Questions were raised concerning gains or losses on an individual's ~~particular~~ investment(s), and the effect on other individuals' earnings and on the Fund in general.

? Senator Sumner said earnings would come directly to the individual from their particular investment(s), ~~be he does not thinks an investor should not~~ with the Fund sharing some % of the earnings. ~~Likewise, he thinks an individual ought not~~ to offset any losses, ~~He thinks an individual~~ likewise,

or perhaps a Reserve Fund cld. be est. for the purpose of covering losses.

~~ought not suffer 100% of their losses. The Fund would share this burden.~~

~~[illegible]~~ Committee expressed concern abt how integ. of Regarding losses, question was also raised ~~[illegible]~~ about costliness to Fund if many ~~maintained~~ investors were persuaded to invest in a "scam." ~~Sen. Sumner said Commissioner's~~

?

Sen. Sumner was also asked how leverage of P.F. principal is addressed in SB122. ~~Questions were also asked about eligibility~~ ~~Questions were also raised about leverage.~~ ~~Sen. Sumner~~ He said it isn't, but ~~the~~ the idea is ~~that~~ ~~One part of Sen. Sumner's concept, which is not incorp. in the bill, is leveraging PF.~~ ~~I.e.~~ P.F. ~~$ would be used~~ wld. be used to borrow on, w/ goal to borrow ~~so eventually there'd be $4 bill. in working capital.~~ ~~The~~ If this could be ~~were~~ invested in Alaskan businesses, this would broaden economic base, ~~and~~ offset inflation, and displace the non-recurring ~~renewable~~ $ now going into the P.F. ~~He suggested that we need to embrace the concept of backing more~~ more ~~[illegible]~~ renewable $ into P.F. ~~to that~~ By leveraging P.F. ~~enough~~ increased ~~investment capital~~ would stimulate private economy. enough income could eventually be generated to meet needs of State gov't. this would eliminate ~~w/out~~ depending on non-recurring ~~renewable~~ $. for increasing principal of Fund.

to borrow against the future contrib. to the PF,

How do you pay borrowing was not addressed.

Tape #2
1103

Ken Vassar, ~~[illegible]~~ Legislative Affairs attorney, addressed the ~~[illegible]~~ legality of the residency requirements for qualifying for shares of the P.F. ~~He said that since in this case the State is concerned with a fixed asset and needs to determine who is eligible to receive a share at a certain fixed time is eligible to receive a share, that the residency requirement is sustainable. He's not sure if it's constitutional~~

He said he's not sure if the residency requirement is constitutional but he thinks in this case it is sustainable. ~~Because~~ The State is dealing with a fixed asset that will be distributed to individuals at a particular time, and it seems justifiable to use residency ~~as the criteria to determine~~ at that time as the criteria for eligibility to receive a share.

The Committee expressed concern that this would create two classes of ~~residents - those~~ people ~~eligible at a particular time and those not elig~~ who become residents later ~~therefore are not eligible.~~ one who are qualifying residents & the other non-qualifying residents. What if there is not a second distribution? Mr. Vassar said he thinks this would not ~~be creating~~ create a suspect class, because it could be argued that some cut off is needed in order to rationally distribute shares.

~~Question was asked about~~ What would happen when all shareholders from first distribution either move out of State or die. ~~Everything~~ all shares would eventually revert back to the State. Mr. Vassar confirmed that this means the "class" of qualifying residents would eventually "self-destruct" with time.

Tape #3
0153

Pete Brushre, Deputy Commissioner of Treasury, raised ~~some~~ questions for the Committee's consideration, & suggested these some areas need to be addressed with more specific language in the legislation.

Does the public have the knowledge + expertise to choose between investment alternatives?

Would it be better to pose investment areas to the public rather than specific investments?

Should distinctions between trust investments (steady income stream & producing) + in-State investments (development capital) ~~(be)~~ be ~~clarified~~? examined + clarified?

What are the mechanics of administering direct investments? As presently drafted, bill allows for re-directing investments (unless investor has chose time deposit e.g.). Would re-direction generate losses for P.F. Would those be borne by everyone.

If my investment went well + another citizen went bust, would I have to share their loss + them my gain?

Should some provision to prevent panic selling, some safeguard by statute, be written into the bill. As is, shareholder + can re-direct by calling the Comm.

Discussion among Committee members also raised these concerns:

If any investment goes down, then by definition the principal is eroded.

Constituency for the Fund will shrink over time, just as the fund is getting bigger + bigger. Fear that those left will want to break open the Fund.

~~Is the body politic too involved in use~~ Some suggest P.F. should be divorced from politics. Is body politic too involved under SB122.

0610 Adjourned

April 10 Present: Haugen, Hayes, Freeman, Chatterton, Rogers, Guy, Malone, Rhode, Schaeffer
> came late left early

000 Call w/ Bob Greeley
How imp. is it to treat cap. gains as corpus of fund.

134 Ques. from Malone re. way gains + losses are treated in private trusts

155 End of conversation w/ Bob Greeley
Malone summarizing basic theory re. gains + losses w/ ques. from Haugen re taking conservative approach. People expect fund to be protected. Wants to restrict investmt. of fund to Treasury Bills - not playing the market.

Malone - treatmt of gains + losses is sep. from types of investments you want to allow.

Freeman - no ques as to how wants capital gains to be treated - ought to stay in principal.

Hayes - Prob. w/ having cap. gains as part of principal.

Freeman - More imp. to protect integrity of trust than to produce income. If going to win, have to gamble big. If gamble big, then can lose big. Wants strict limits on allowable investments.

223 Chatt. - Sect 140 + 150 ans. ques that have been raised.

Malone - in 140 says if you take a loss on a sale of a security, then have to offset by netting out in same yr. or by averaging out over time period. But have to pay back. Other hand, if take gain, that's added to principal, so protection is there.

Re. income Constitutional amend. provides that trust has to earn income.
p. 10 lines 5-6 —

Malone thinks cap. gains need to be treated as addition to principal.
Refers to Blixt's comments.

~~Re. Sect on treatment of in~~

263 Mr. Swick introduced.
For comments on SB 1 + possible uses of income for energy dev. in State.

274 Ted Swick - deals w/ marketplace for State + local gov't securities.
Re. SB 1 - (HB 279) ✠ formula won't work. Based on Bond Buyer average. Set by market price for 20 yr. A rated + AA rated bonds. In market place, all A bonds e.g. don't trade at same rate. Formula will not come up w/ competitive price. Re. yield curve.

Artificial arrangement where change every 5 yrs, bears no reality to market place.
Price of part. bond on a part. day is very subjective.
If intent were to buy all bonds put up for public sale, then this would work like a charm.

352 Ques. from Guy re. ratings.

369 Malone's Re HB 414 - proposal for use of PF. income. Would guarantee certain types of debt. Comm. hasn't made any decision on allocation of income Need to examine. Refer to Ted's letter of Dec '77.

Ted 

440 Malone: Summarize main points

Freeman: Same as double-barrel bonds?

Swick: Yes.

Haragan's Re. double barrel bonds

Hayes's Re. concerns abt. power projects

Malone's Re. cost of benefits

Jones Re. use of earnings as guarantee being a double barrel - but there's a difference.

bc-01-h

490 Malone w/ other questions re. use of income from PF to guarantee debt. Explanation of difference here (compared to SB 1 eq?)

Swich: can get value out of this income flow, while putting it in mill jeopardy, if any.

Malone: What does it rest on? Re guarantee. If there's a difference in this case, I want to isolate it, so I can understand what diff. is.

507 Swich's response.

~~Malone - Can Ted warrant on energy~~

524 Ted on energy reserve acct.

Haugen: Re. leveraging for energy dev. projects.

Swich's resp - way it is generated & handled it will not support debt or leverage.

555 Other business

Let's list issues section by section, What are options.

572 Adjournment

House Special P.F. Committee
April 11, 1979
Agenda: 281 Mark-ups

Present: Malone, Freeman, Chatterton, Haugen, Hayes, Rogers, Cotter

Tape 7 (cassette), side 1

000 Call to order.
Intro memo from DP.DP + ~~info~~ list of issues in HB 281 prepared by staff.

110 First issue deals w/ investmt. advisory comm, IOC.
Clark Gruening wants to comment on that.
Has provided written + oral testimony.
Wants to make additional comments.

212 Summary by Bruche of comments [redacted] in his letter re. gains/losses.
W/ questions from members.

367 Call w/ Clark Gruening.
What are reasons Hse. Comm. wanted separate permanent committee of legislature for review of investments, rather than use other alternatives.
W/ questions from members. (Rogers, Chatt

616 End of Gruening ~~testimony~~ call.

621 Continue remarks by Bushre.

633 Haugen - concerned abt. expense of legislative oversight. Could Bd. of Trustees provide annual report to Legislature.

661 Rogers re. IOC. Should be B+A Comm, w/ 2 Statutory subcomm. One for Investmt. Oversight.

679 Hayes re. IOC.

695 Chatt. re. IOC.

714 Cotten re. IOC operative functions.
Malone response. Refer to p. 4 thru l. 17 p. 5.
#4+5 would place biggest burden on IOC in terms of work load.

(Tape change)

Side 2

000 Cotten continues.

021 Haugen re. IOC + Chatt's response to him.

086 Hayes re. IOC oversight for more than Pf. How many?
Malone responds. Pete - 25 separate funds.

116 Chatt. re. Hayes point. Monthly reports don't tell you how loan prog. are being administered + what loans are going for.

144 Rogers - agrees w/ Chatt. re. workload. But fair amt. is being done by Budget + Audit Committee.

161 Malone → don't have definition of what workload will be. Suggests assigning respon. to B+A + ask them in 1st yr. if that needs improvement.
Take duties from + put in statute under B+A + put transitional section there, or in letter of intent - for B+A to make recommendations after a yr.

On - don't delegate to interim comm. Relegate to standing comm i.e. Finance.

251 Hayes response to ↑.

268 Jem ? - Question abt. powers of IOC Would not perform audit.

284 Chatt. Why assign. those to B+A cause in effect it's their duties now?
Malone response to ↑. Reasons for putting into statute.

3:13 Freeman response to 1.

3:42 Cotten moves that spirit of Malone's suggestion be put into new draft.
Malone – take duties section + add it to functions of current B+A Comm.
Also, PF Comm include letter requesting B+A Comm report to legis. re. how assigning those functions to B+A Comm. could be improved.

3:70 Rogers - changes in
24.20.201
24.20.271
24.20.231

Malone - refers to statement of functions at top of p. 2 that should be incorporated into motion.
Rogers – also legis. findings on p. 1. – let's incorporate that into motion.

4:00 Hayes – re. p. 5 l. 12 does B+H presently have that capability?
Malone - new concept, new staff function.
4:34 Rhodes: low fiscal note of last yr., adding one more individual could probably handle additional work load.

450 Haugen – how do you get recommendation from all these committees.

481 Malone – let's leave it ~~for~~ Finance Comm. to decide.

502 Hayes – amend motion to strike "in conjunction w/ Fin. Comm. of the House"

510 Restate motion:
Assign purposes + duties of IOC to B+A Comm.
Include in a Comm. letter discussion of ques. of sep. comm + ask B+A to report to legis. consideration of assigning respon. to a new or some other committee.

525 Chatt, Include findings, too.
Yes, (Malone).

531 Motion adopted w/ no objections.

549 Chatt. – could people who won't be here tomorrow, tell us how they ~~feel~~ abt L.5, p. 6.

Hayes – aren't we going to deal only w/ 25%.

Malone – not going to limit debate in comm. But comm. needs to decide on contribution.

Meet Thursday at noon. Finance Comm. Room.

587 Adjournment

4-12
(1)

House Special P.F. Committee
April 12, 1979
Agenda: Mark-up

Present: Malone, Freeman, Chatterton, Guy, Rogers, Haugen

589 Call to order
Review of motion adopted yesterday that dealt w/ oversight.

635 Now at Sec. 2
No suggestions.

645 Sec. 3
010 p. 6
Item 1 - increase lease bonus from 25 to 100%

682 Freeman: Question about ↑. Maybe better off if don't have leases for awhile. Best to stick w/ 25%.

698 Rogers: Concurs that setting other % could affect other policies.

726 Chatt: Damned if you do, damned if you don't.

Tape Change Tape #8 Side 1

000 Malone: Any lease bonus $ should go into Fund. Alternative re. review of G.F. balance. E.g. item 3.

056 Rogers:

me at bathroom

109 Freeman: Problems re. putting everything into PF Rather than make 100%, make 50%.

137 Chatt

173 Rogers: What putting 100% in ~~dep~~ will do depends on objectives of admin. at the time.

195 Chatt: Re. liquidity of mineral leases.

214 Guy: PF would be short changed

254 Rogers: Re. native Claims payments.
Another alternative - elim. Sec 1 L. 5-10 ...

302 Chatt question re % of bonus $ going to Native fund + Renewable Resources.

316 Barker + Eppenbach respond.
336 Freeman: clarification re. present % re. bonuses.
345 Malone:
L.5 Motion to include dft. word "bonuses" the word "remaining" to make clear talking about net dft. these other deductions required by State law.

361 Freeman
P.6 L.5. Motion to change 100% to 50%.

Rogers objects for purposes of discussion.

~~[illegible]~~

390 Chatt. + Barker + Rogers + Malone re. %.
Would actually be 46 1/2 %.

461 Motion adopted w/ no objections.

467 Rogers: Motion to Strike word 30, replace w/ 50, p. 6 L. 11.

472 Chatt: Concerned abt. "single source of revenue" in Alk.

492 Freeman: Re. bread + butter.

521 Haugen: Need some $ for G.F. to spend. If raise this to 50%, hasten x when other taxes will have to be generated to pick up G.F. budget.

536 Rogers: Doesn't see royalty income as bread + butter, sees taxes as bready + butter.

559 Chatt. How can you legislate more than 100% of what's coming in.
571 Malone's response.
592 Rogers - willing to amend -
add "remaining after any deductions allowable to..."
Malone - object cse. would violate Constitution. Can't deduct any more than what's already netted out in Constitution. Can put more in but can't take more out.
Rogers: clarify, no.
631 Chatt: Concern also abt. saving some for future, also abt. getting benefits immediately.
630 Freeman: Great difference bet. one-shot bonus deal + royalties (bread + butter).
651 Rogers: Regardless of bidding method used by dept., only half goes into P.F.
674 Guy, Rogers, Malone in favor. } Signify by
Freeman, Chatterton opposed. } raising hands.
Chair didn't rule on motion. Not enough members present.
What next.

735 Chatt - suggests changing p.6 L.29

Tape 8
Side 2 Suggests changing p6 L. 29 to:
000 Rogers. Corp. goal should be to maintain safety of pin while maximizing total return.
50 or so on... Why chair wants full committee present.
What next.
120 Adjournment

House Spec Permanent Fund Committee
April 18, 1979
Agenda: mark-up
Present: Malone, Hayes, Haugen, Freeman, Gray, Rogers, Chatterton
Tape #8 Side 2

122 Call to order.
Left off on debate re. contributions level of income into fund.
Review of motion adopted on 4-12 + motion chair did not rule on on 4-12

171 Rogers: refers to memo from ~~Mitt~~ Barker, abt. where P.F. would be under different leasing programs. Why bonus + lease figures need to be consistent.
Discussion w/ members.

343 Rogers renews motion changing 30% to 50% ~~line 6~~ p. 6, l. 11.
Haugen objects. Wants to know where dairings of PF will go, before decides how much $ to put into it.
Malone guesses some kind of compromise will be the answer eventually.
Need to decide based on info now.
Hayes: Thought we were looking at management structure of fund that has already been est. by law, 1st. Seems like we're going astray. Dealing now w/ how much more going to put into fund.
Freeman: Question regarding effect - more you put in PF less you'll have to spend on day-to-day operation of gov't. Not willing to increase contrib. to PF, esp. if have to raise taxes to keep gov't operating.
Chatt: State gets abt $800,000/day from

royalties. Would be $60 million going into PF that is now going into GF if increase to 50%.
Malone: Bill as written is additional 5% over current contribution level.
496 Freeman: could we treat state land sales same as oil leases & bonuses.
Malone: OK in terms of increasing contrib. to fund.
Rogers: % you put in would depend on whether someone paid in cash or installments.
Rhode: can you do that legally?
Malone responds. Philosophically fits in, but don't know abt. legalities. Present amend. that defines income of Fund is fairly limited.

536 Ques. pending is what should we set ongoing contrib. rate at.
Call for ques.
542 Malone, Guy, Haugen, Rogers in favor.
Freeman, Challerton, Hayes opposed.
Haugen misunderstood.
Rogers withdrew motion bec. of misunderstanding.
p. 6, L. 5 40%
p. 6 L. 11 40% ← {Amends motion to read

Call for ques.
557 Rogers in favor.
Other members present opposed.

Rogers recommends coming back to this when have full committee.
Chatt - so what will % be.
Malone - would have to leave at 25%

ber. that's what law is, if don't get committee consensus on it
Hayes: if leave it at 25%, then don't need next #?
Malone: personally in favor of Rogers' motion but not in favor of jamming it down members' throats.

600 Malone: jump to new topic. Need to discuss list of eligible investments. Didn't discuss much last time.
Refers to comparison of different proposals (Nancy's handout). Also Larry Eppenbach will discuss w/ committee.

650 Larry Eppenbach

Tape 9 Side 1

me at bathroom { 000 Eppenbach
99 Questions from members.
153 Freeman: Which order do these fall in in terms of safety.

~~34~~
350 Bushre on long-term investments of PF $ in ak. banks, bec 2 yrs. ago agreed not to do so w/ chair of PF Comm., even tho legally perenne can do it now.

369 Eppenbach w/ some suggestions.

419 Arutt: Where are these 4 things in HB 381.
Pg 10 L 20

437 Rogers: of 8 in 277, which are currently being invested in.
Bushre: 1, 2, 3, 4, 5, sometimes 6.

461 Rhode: re list of investmts for 277, no ak mortgages tho do under #2 of 281.
Bushre responds.

496 Adjournment.

4-18-79

House Special Permanent Fund Committee
April 21, 1979
Agenda: Mark-up
Present: Malone, Freeman, Cotten, Rogers, Chatterton, Guy, Hayes, Haugen arrived at 4 pm.

Tape #9, Side 1

498 Call to order.
Review.
592 Discussion of rates continues.
Malone: Could go as low as 25% or as high as members think people could afford or would buy.
602 Summary by Malone.
Two questions (p. 6, l. 5 + 11) closely related, so looking at previous action (motion on l. 5 passed 4/12) + therefore committee should look at it again.
Rogers: Why he thinks both should be the same.
Chatterton: More $ you put in PF, less you have for running the gov't.
723 Rogers: proposes compromise language. 30% of royalties from existing leases, 50% of bonuses + royalties issued a/t. effective date.
733 Freeman: why he supports 25%.

Tape #9, Side 2

000 Freeman continues.
115 Question by Cotten re. how $ is appropriated to PF w/ responses from Malone + Vassar. No appropriation is necessary. If additional amounts allocated by law, they'd also go into the Fund.
336 Motion by Freeman: p. 6, l. 5 change 100% to 50% + after "bonuses" add "remaining."
~~Guy objects.~~
Discussion.
Rogers: Amend motion so l. 11 also reads 50%.

Freeman objects.
Discussion.

489 Vote on amendment to motion.
Cotten, Guy, Rogers in favor.
Chatterton, Freeman, Hayes, Malone opposed.
Amendment to motion fails.
Discussion on effect of no motion passing - Chair o Chatterton (who moved to adopt HB 281 as mark up) concern that rate would be 25%.

545 Vote on main motion.
Freeman, Guy, Hayes, Malone in favor.
~~Cotton~~ Chatterton, Cotten, Rogers opposed.
Main motion passes.

553 Motion by Rogers: p.6 l. 11 25% of all mineral lease rentals etc. as of effective date of act and 50% of all... received from leases issued after effective date of act.

590 Chatterton: moves for division of question.
Guy objects.
Malone suggests voting on increased contribution of new leases separately.

627 Rogers: withdraws motion.
New motion: 50% of any leases issued after effective date of act.

636 Vote on motion.
Cotten, Guy, Malone, Rogers in favor.
Chatterton, Freeman, Hayes opposed.
Chair reviews that p6l. 13 shall now read - after "state", add "on or before effective date of this act," then "and 50% of all mineral lease rentals ... (etc) after effective date of this act."

658 Motion by Freeman: p.6 l. 11 change 30 to 25%.
Guy objects.
Guy removes objection.

678 Chair rules motion adopted with no objections.

684 Freeman suggests deleting word "primary" from p. 6, l. 29. Rogers suggests reversing 2 clauses about corporation's goals (p. 6, l. 29 + p. 7, l. 1). Discussion about this language.

Tape #10, Side 1

000 Discussion about p. 6 l. 29 language continues.

183 Motion by Rogers: p. 6, l. 29 + p. 7, l. 1 should read - "The corporation's goal should be to maintain safety of principal while maximizing total return."

266 Chair rules motion adopted with no objections.

267 Motion by Rogers: p. 6 l. 27-28 change to read "to benefit future generations of Alaskans."

370 Amendment to the motion by Guy: delete "future." l. 28
Vote on amendment to motion.
Chatterton, Guy in favor.
Other members opposed.
Amendment fails.
Question on main motion.
Guy objects - present generation not included in "future."

436 Freeman: amend motion to change language p. 6, l. 27-28 to read "to the benefit of all generations of Alaskans."

443 Chair rules amended motion adopted with no objections.

461 Sec. 030
Malone:
Suggestion to remove "a mechanism" p. 7, l. 6.

Sec. 040

Guy: p. 7, l. 12-13 means corp. can sue + be sued, right? Right.

Sec. 050

Discussion of appointment + confirmation issues. and # of people on Board of Trustees.
Court has ruled that appointing to Exec. agencies is exclusively an executive power.
Malone - should go w/ Sec. as written.

642 Motion by Guy: Board of Trustees will consist of 5 members, for better geographic representation.
Discussion.
684 Vote on motion.
Cotten, Guy, Haugen, Malone, Rogers in favor.
Chatterton, Freeman, Hayes opposed.
Motion passes.
691 Motion by Rogers: members of Board appointed for 5 years.
Malone objects - 5 yrs. too long.
Discussion.

Tape # 10, Side 2

000 Vote on motion.
Hayes, Rogers in favor.
Other members opposed.
Motion fails.
012 Motion by Cotten: p. 7, l. 23 change 4 to 3, after "reappointed" add "and must be reconfirmed." Change terms to "2 members for one year, 2 members for two years, 1 member for three years."
038 Vote on motion.
Chatterton, Cotten, Freeman, Guy & Haugen in favor.
Hayes, Malone & Rogers opposed.
Motion passes.
081 Motion by Malone: members can't be appointed for more than two consecutive 4-year terms.
Rogers & Freeman object. If someone's doing a great job, want to keep them on.
Malone withdraws motion.

127 Sec. 070
Motion by Guy: if vacancy occurs, replacement must be from that geographic area.
Cotton & Chatterton object.
Discussion. Five best people should be chosen, regardless of where they come from.
309 Vote on motion.
Guy, Haugen in favor.
Other members opposed.
Motion fails.
319 Sec. 080
Motion by Cotton: p. 9, l. 2-4 - delete.
Rogers objects.
Discussion.
Rogers withdraws objection.
392 Motion adopted with no objections.
401 Freeman suggests change Sec. 080 (c) to "all members..."
Discussion.
514 Motion by Rogers: p. 8, l. 29 change to "at least 3 members shall have..."
Motion adopted with no objections.
542 Sec. 090
Freeman suggests change quorum from 2 to 3, p. 9, l. 5.
Adopted with no objections.
552 Sec. 100
Discussion of difference between "honorarium" & per diem, & fee of $250. No changes.
571 Sec. 110
Discussion of who determines salary of Exec. Dir. No changes.
603 Sec. 120
Motion by Rogers: p. 9, l. 18 after "board" add "and Executive Director of the Board."

619 Motion adopted with no objections.
636 Sec. 130
Discussion of language p. 10, l. 1-6. - definition of prudent-man rule as applied to investments.
Doogan explains rationale from prior committee.
Vasar explains this is "boiler-plate" language re. prudent-man rule.
708 Motion by Guy: p. 9, l. 29 change "means that" to "is when."

Tape #11, Side 1
000 Discussion of language in Sec. 130 continues.
093 Chatterton suggests changing p. 9 l. 26-28 to read - "The prudent-man rule shall be applied by the Board in the management..."
Guy withdraws motion.
Chatterton so moves his suggestion.
108 Chatterton's motion adopted with no objections.
109 Sec. 130(b) is constitutional requirement.
Rogers suggests changing "may" to "shall" to be consistent with Constitution.
Discussion.
~~Rogers~~
Motion by Rogers: change "may" to "shall," p. 10, l. 7.
147 Motion adopted with no objections.
148 Motion by Freeman: p. 10, l. 9 delete "seek to."
189 Motion adopted with no objections.
195 Motion by Rogers: p. 10, l. 13 delete "IOC", insert "B+A."
198 Motion adopted with no objections.
205 Discussion of "may" vs. "shall" (e) + (f) p. 10.
Discussion of "guarantee from principal" p. 10, l. 14-15.
362 Malone: means Fund principal may not be used for leveraging.

376 Discussion of (f) p. 10. Administration asked that contracts w/ agencies or departments of the state be allowed.

Motion by Rogers: p. 10, l. 19 after "investments" add "without approval of the Legislature."

Cotten objects.

Discussion.

Bushee: Corp. ought to have option to contract w/ Dept. of Revenue to manage investmts of P.F.

Chatterton, Freeman: If allow that, no different than present situation.

Rogers: Doesn't want absolute prohibition.

Eppenbach: Transitional problems?

549 Chair rules to adjourn w/ Rogers' motion pending, if no objection.

No objection.

559 Adjournment, w/ Rogers' motion pending.

2 Guy
1 Cotter
1 Rogers
3 Harper

House Special Permanent Fund Committee
April 24, 1979
agenda: Mark-up Present: Malone, Freeman, Hayes, Schaeffer, Chatterton

Tape #12, Side 2

511 Call to order.

530 Dept. of Revenue + staff prepared list of possible investments. Malone outlines approaches committee can take. Committee seems to want to pursue list of specific investments. Policy ques. around it are, if specific, represents what's good investmt. today but may not be good a few yrs. from now. Also, have possibility of someone coming along w/ one line bill + including it in legislation, to add their favorite to the list.

573 Mr. Bushre on list from Dept. of Rev. + committee staff.

612 Malone on list.

628 Chatterton: asks Bushre if he'd feel comfortable thru #7. Bushre - yes. Gives manager good latitude.
Hayes: How about last 7?
Bushre: 14 items are ones currently used for pension fund + feels comfortable w/ them
Freeman: What if you were me.
Bushre: Might want to omit 8, 9, 10 + raise rating of corporate securities from a to aa in item (4).
Hayes: These are not listed by increasing risk order. Items 1-7, + 11-14 would be conservative.
Bushre: Very. 8-10 also conservative as can be in mortgage field.
Malone re #7, w/ explanation by Bushre.

Malone re risk factor of any investment.
Might want to consider limiting total real estate investment to certain %.
Bushre: in-house limit for pension fund is 40% for items 8-14.
Hayes: Does Bushre recommend we omit invstmts. that are on list of invstmts. prohibited by commission?

Tape #13, Side 1

000 Bushre ag ans. to Hayes. List of invstmts. prohibited by commission is just for Committee's info.
019 Malone re. 2 approaches - categories or list? Can we decide on that.
Chatt: Wants specific list.
Hayes: Supports suggested alternatives w/ limit of 25-40% on amount that can be put into real estate.
088 Motion by Chatterton that we take suggested alternatives approach.
Adopted w/ no objections.
099 Chatt: Re. #4, would like to change A to AA rating & wants % to & even $ ceiling on limit, perhaps.
Freeman: Dollar limit would be screwed up as fund grows.
Malone: What's relative degree of security of A compared to AA?
161 Bushre re definitions of A & AA securities.
Freeman: Of A is upper medium, then AA is lower upper.
205 Chatt: Move change A to AA on #4 of suggested alternatives list.
Adopted w/ no objections.
216 Chatt: Move to limit investmt in corporate securities to 30% of fund, #4 of suggested alternatives list.
Freeman objects.
Discussion.

Hayes: Doesn't appear to be any basis for 30%.
Rhode: Greeley said this was a typical, reasonable, defensible practice.
Hayes: Can't support 30%, maybe OK if 10%.
~~Bushee: Kept extremely low common~~
Doogan: In original bill, 30% limitation applied only to stocks. No limitation in original bill.
Chatl: Need limiter, but no firm feeling on #.
~~Freeman:~~
Bushee. Factors governing % limitation on stock shld. be different than factors governing % limitations on A & AA-rated corporate debt securities.
Freeman: If have 40 different types of investmts, could make, how would AA-rated corporate debt securities rate.
Bushee: In today's market, current breakdown of PF is probably representative of how managers would break it down. Thinks currently AA-rated amount to 15-20%.
Hayes: Amend motion from 30 to 10%.
Bushee: On current yield curve situation - inverse yield curve presently (better return on short-term) but that will change. Prudent fund mgr. wld. want more than 10% in AA-rated bonds in period of declining interest rates. 30 would give sufficient flexibility. 25 is probably what would be chosen. And depends on rest of list & conditions at the moment.
Hayes w/draws amendment.
Freeman: Moves to amend to 25.
Amendment adopted w/ no objections.

Main motion adopted w/ no objections.

463 Malone re proposed list.
list basically reflects a higher standard for investment than present pension trust of state part. in real estate area.
Doesn't want to turn P.F. into loan fund,
on other hand real estate things are unique. Backed up by tangible asset, rather than promise to pay.
list does seem more secure than pension trust.

505 Freeman: Motion to accept #1, 2, 3, 4 as amended, 5, 6, 7 from suggested alternatives list.
Motion adopted w/ no objection.

516 Hayes: Motion to adopt 11, 12, 13, 14 from suggested alternatives list.
Malone asks for comment from Bushre on #12.
As entire mortgage insured or a %.
Bushre: Not certain, but language could be adopted to ~~qua~~ make sure #12 OK.
Chatt: Motion to amend to delete #12.
Hayes: Objection.
Chatt: Because this is a Permanent Fund, + #12 selects out a certain group of people.
Vote on amendment to motion.
Freeman, Chatt in favor of amendment.
Malone, Schaeffer, Hayes opposed.
Vote on main motion, w/ lang in #12 to make clear that talking abt. guaranteed portion.
Hayes, Freeman, Malone, Schaeffer in favor.
Chatt. opposed.
Motion carries.

535 Hayes: Move #8.
Freeman: Objects.
Bushre - #8, 9, 10 higher risk than 11-14.
~~Freeman:~~
Discussion.
Freeman withdraws objection.

Malone objects. Will vote against it.
cause 8-10 are most marketable
form of mortgages. No particular direct
benefit. Concerned abt. diversification, which
is solved now.

644 Vote on motion.
Hayes in favor.
Malone, Chatterton, Schaeffer, Freeman opposed.
Motion fails.
(Hayes left - no quorum).

653 Malone: ~~motion~~ was going more to limit % that may be
invested in real estate mortgages, but
not sure necessary now.
Chatt. - was going to propose aggregate of
11-14 not exceed 25%.
Malone - let's continue discussion w/out quorum.

685 Do we want to keep limitation of 5 yrs.
p. 11 l. 2-4.
Bushre - it does make a difference; keep in for
policy reasons.
Malone: Re (h), do members here have
objection to (h), p. 11.
What about (i), p. 11.
Chatt: Use lang. from 277 instead.

Tape #13, Side 2 000 Rhode: Greeley's analysis. Lang. in 281 ~~better~~
more conservative.
Rhode continues.
Chatt: Now comfortable w/ (i).
Bushre: Both saying same thing, is matter
of emphasis.

067 Sec. 140 + 150. Vassar - need conforming
changes w/ absence of investmts. in common
stocks.

098 Sec 155 -

Malone - do we need authorizing legis. for reserve acct.

Bushre: Yes.

Rhode: What purpose does that serve.

Bushre responds.

Rhode: Contradictory.

185 Freeman: Explain how reserve works. Bushre responds.

254 Freeman: Still doesn't see need for reserve acct.

268 Malone: Depends on your definition of income.

Summary of 140 + 150.

323 Chatt: Can't see need for Sec. 37.13.155 in view of 140 + 150.

Malone: agrees.

Bushre: Don't need 155 anymore bec. new investmts. list makes this loss reserve acct. unnecessary, since can invest only in guaranteed portion.

Schaffer: But why not leave it in anyway.

382 Sec. 160.

(Hayes returns).

Malone: Should operating budget be appropriated from income of P.F. on grounds that might keep it small. Maybe other issues involved.

Doogan: Argument for having it come from G.F. so Board couldn't set own budget.

Freeman: Inclined to leave as is. Better scrutiny.

Malone: Fear it coming from earnings is they may get used to having certain % of earnings.

Bushre: Other hand, if PF required to cover cost of own operations, becomes more apparent when mgt. getting less efficient. Can easily compare cost of running fund vs. earnings.

458 Now have quorum, review.
Do committee inclined to add more investmts to list adopted? No?

469 Chatt: Motion that aggregate summation of 11, 12, 13, + 14 not exceed 25% of fund.

485 Motion adopted w/ no objections.

492 (h) p. 11 needs technical change - ~~[illegible]~~ IOC to B + A.

(g) (2) Since even if miss paymt., don't change rating so good reason to keep in p. 11, l. 2-4.
No objection to making conforming change in (g)(2).

523 Back to (h). No other suggestions.

528 (i) Admin. bill says "preference will be given..."
Chatt: Move to keep as is. No objection.

Schaeffer - ques. abt. (h). After review + comment, then what.

572 Sec. 140
Conforming changes need to be made cause ~~of~~ list of investments has been changed, + lang. re. stocks needs to be deleted. And in 150, dividends are out.
Malone proposes adopt those 2 Sec. w/ conforming changes.
No objection.

595 Sec. 155
No longer need mortgage loss reserve accts.

601 Freeman: Motion to delete Sec. 155
Adopted w/ no objections.

604 ~~Board B~~ Sec. 160
Chatt: Move to retain as is.
Adopted w/ no objections.

610 Sec. 170
Requires annual audit Is that too much?
Freeman: Change IOC to B+A.
~~Harper~~ Discussion of "requiring" audit rather

than "providing." Who'd be responsible for doing it & for whom would it be done?

068 Chatt: Thinks annual audit is too frequent.

073 Chatt: Motion to delete "an annual" & replace w/ "a biannual," p.12 l.17. Does this refer to fin. audit or operational & performance evaluations?

Milt: General Fund & pension funds have annual financial audit.

Doogan & Rhode on what thinking was of prior committee.

Chatt: W/draws motion.

131 Sec. 180

Tape #14, S, 001

000 Hayes: Motion to keep 180 as is.

010 Sec. 190

No objections.

071 Sec. 200

Malone: ~~Move~~ Move that delete 1st sentence ~~p.~~ p. 13 l. 14-16.

Chatt: Move to add after "finance," the words "or influence", p. 13, l. 16.

Widow: "Members or employees of the corp. may not file for any partisan political office" suggested to replace p. 13, l. 14-16.

Malone: What's difference bet. filing for office as independent or partisan.

What does partisan mean; is there such a thing as "non-partisan" political activity.

Freeman: If keep only last sentence, & remove "partisan".

No objection to combined motion; adopted.

193 Another suggestion made to Malone that Board members need to disclose to other members their dealings re. P.F. investments. Problem is how to write to define what they'd have to disclose.

Vassar - thinks it's already in p. 14, l. 8.

Malone - Discloses only interest.

Not resolved.

254 Sec. 210
Hayes: Move to retain as is.
Adopted w/ no objection.
~~285 Chatt: ll.~~
295 Sec. 220
No objection to lang. as written
358 Another question that's come up - what # should be used on bill - 281 or 277?
Freeman: Do we have Senate title we can hang it on?
386 Adjourned.

House Special Permanent Fund Committee.
April 23, 1979
agenda: Mark-up Present: Malone, Freeman, Guy, Schaeffer, Rogers
Hayes arrived at 4:15.
Chatt. arrived 4:30

Tape #11 Side 1

560 Call to order.
Review by chair, re. B+A Comm. oversight; mineral lease bonuses: rates; royalty income rates; membership of Board of Trustees + length of term + experience, confirmation of appointmt. + re-appointment. Left w/ motion pending on whether or not P.F. Corp. should have authority to contract w/ State agencies. Motion pending would allow such contracts w/ approval of legislature.

621 Rogers on motion - to add at end of l. 19, p. 10 "w/out approval of the legislature."
Upon reconsideration this is covered in legis, + bec. corp. is subject to Executive Budget Act.
This was put into bill when thought Comm. of Revenue would be on board + this lang. would prevent self-dealing. But now Comm. of Rev. won't be on board, so
Withdraw previous motion.

641 New motion by Rogers: delete l. 17-19 p. 10 beginning w/ "except..."
Discussion.

685 Motion adopted w/ no objections.

687 Sec. 130 (g) Eligible investments
Guy: question about limitations of Securities Act of 1933. Why is that Act referenced in legislation?
Response from Jim, Bushee, Milt(?)

~~621 Rogers~~
~~649 Malone~~:

Tape 11, Side 2

000 Doogan: why previous committee wrote list in this way. ~~Allows wide degr~~ Present language sets risk limit + then w/in that limit allows for flexibility. Theory that if list were

more specific ("laundry list"), legislature would have to amend frequently.

064 Freeman: Re. risk factors of investmts in HB 281 vs. 287, + ratings Eppenbach gave as to how would compare for safety. Of the 4 types in 281, least desireable would be "loans secured by first liens". If #5 is good enough on 287 to rate as 3rd best, why not put in 281 also.

135 Malone responds. Jim responds.

Freeman: So weighing overall benefits of investing in real estate in alt, so even if seems less safe look at wider benefit.

171 Rodey: is purpose of investment to seek maximum return?

Malone: approach of this comm. is to treat principal as trust.

225 Rodey: so more innovative programs would be financed out of return, rather than any part of corpus?

Malone: Right, trying to manage w/ safety of principal 1st consideration, then earn market rates consistent w/ good returns not speculative but not low. But how returns will be used is different issue. But won't have returns if manage principal poorly.

255 Rogers w/ ques. on loans secured by 1st liens Malone responds.

289 Rogers on list. Advantage of laundry list - double rule. Blanket list - up to fund manager as to what is prudent. More careful to say you can choose what is prudent within this list.

317 Malone responds. Refers to Sec. 130 (h). If management is restricted to list of specific type of investments, they may not be the ones a prudent investor would invest in after a certain period of time.

374 Rogers: Then given prudent-man rule, maybe we should have them est. investmt guidelines by regulation. Legislature could annul reg's. Doogan responds. These arguments in prior committee led to present language. Perhaps key point is that prudent investor at time bill drafted would've had this kind of portfolio. So one is picture of another.

403 Freeman: What exactly does p. 10 l. 25 mean- "freely marketable."

Bushre responds.

Freeman: Nervous about State getting into stock market business. How wise is it to allow investment in corporate securities at all- even tho limited to 30% of assets of corp. That figure too high. Why should they be buying + selling stocks at all?

Bushre responds. Small level presently, for diversification purposes only. Less than 10%.

472 Rodey: Is it worthwhile to keep as diversifying tool, + how does that apply to PF.

Bushre: performance over past 10 yrs. has been abominable.

483 Rogers: Re. short term investments that meet (a) + (b) (p. 10, l. 25-27). Too broad- personal loans.

Malone + Bushre respond. Institutional investors don't invest in personal loans.

More discussion about what "short term investments" would include - certificates of deposit of less than 12 mos.

545 Freeman: Re. concern on corporate securities, cause more interested in safety of fund than rate of earnings. Want set up so can't lose $, even if don't make much. Would it be too inflexible to prohibit

investmt. in corporate securities. At least keep at very safe level so can't lose $ in stock market.

Malone responds. Thru incompetent mgt, fund can lose $ no matter what list is laid down. also possible to subvert fund w/out good mgt. W/ bad mgt, can't prevent either one.

~~598 Freeman:~~

602 Bushre re. corporate bonds vs. corporate stocks. Committee can limit risk by limiting ratings of allowable corporate bonds.

613 Malone: Freeman's point is 30% is too high, right? Right.

619 Malone on ~~list of~~ Suggested list of investments. If committee wishes to retain real estate investments, can provide some protection.

661 Go thru (g) bit by bit.

672 Freeman: down to line 23, p. 10 ending w/ "United States" is OK - hard to quarrel with. Malone - what about real estate loans?

683 Rogers: Could argue either side.
Chatt: This makes P.F. in part a loan fund. Adulterates "permanent" fund by making it loan fund. Two aren't compatible.

708 Malone: what abt. pension funds.
Bushre: approx. 40% in Alaska real estate. If funds to be placed in State, probably one of best ways to do so. Control over where, & what security is behind investment. Can pick & choose.

Tape 12, Side 1

000 Bushre continues.

015 Chatt: moves deletl l. 23, p. 10.
Discussion.
Freeman - inclined to go along with that. Too discretionary, as Peter said lots of discretion as to where can make loans. Possibility for political pressure.

076 Hayes: Hasn't heard that these loans are risky.
If combine options 1 + 2, will provide some security.

122 Chatt: If leave as is, asking board members to be loan officers as well as investment experts.
Loan funds already set up for specific needs.

157 Rogers: If we were to allow it, I'd want to combine option 1 + 2 + make it Alashan realty.
Also, does invest in loans mean buying directly or from fin. institution that already made loan.
Malone: Combine op. 1 + 2 would do, but could be problem if board doesn't know anything about real estate.

206 Malone: Way written now, strict interpretation could be they'll be in loan business.
But motion before us is to delete entirely.

218 Rogers: Lang. in existing pension fund on real estate might alleviate our concerns.
(Reads statute).

Vaughan:

253 Vote on motion.
Malone, Freeman, Hayes, Chatt, Rogers, Schaffer in favor.
Guy opposed.
Motion passes.

260 Rogers w/ substitute language.
Malone suggests changing "loans secured by..." + add

306 Chatt: What are we gaining by having P.F. dip into this line of business?
Hayes: There's not always a market for loan packages, + also we're paying a higher rate...
Purchasing real estate loans – haven't heard any testimony that those are not safe.

375 Chatt: What's point difference?
Bushre: 1 or 2% points higher.
Hayes: Re. suggested list. How would you rate #5 in comparison w/ others?
Bushre: Between (2) + (3).
431 Jim: This trust would be held to investment grade securities bec of case law & previous practices.
443 Chatt: Re. 1 or 2% yield. Would discounted rate still be 1 or 2% greater yield.
Bushre: no.
462 Motion by Rogers: add "investment grade" to beginning of l. 24, p. 10 as amendment, before decide whether or not to keep this in.
Jim: would common stocks be included?
Bushre: subject to interpretation. Possibility that it could include common stock.
Malone on amendment - would take care of questions raised by Freeman. Also, could end p. 11 l. 6 after "stock."
Bushre w/ alternative suggestion.
516 Malone on stocks. Reason lost on G.C. was cause sold at wrong time. With P.F., wouldn't have to be sold to generate cash.
532 Motion adopted w/ no objections.
536 Rogers: Motion to delete p. 11, l. 6-8 after "stock."
542: Motion adopted w/ no objections.
Makes (g)(1) unnecessary.
560 Chatt: does preferred stock meet test of investment grade corporate security?
Bushre: don't see why not.
Chatt: so should it be "common stock" (p 11 l. 6), rather than just "stock."
595 Chatt: Motion that insert "common" before "stock" ~~p.11~~ p. 10, l. 29, & before "stock" p. 11, l. 6.
Malone - might not want to change p. 10, l. 29.

Chatt: amend motion to include only p. 11 l. 6 in motion.

613 Freeman: how about deleting p. 10 l. 29 from "stock" to right b/fore "bonds."

Malone responds — there may be preferred stocks which would meet the test of investment grade securities so maybe should prohibit only purchase of common stocks.

Freeman: if adopt Chatt's motion, p. 11, l. 6, & eliminate reference to stocks p. 10, l. 29, wouldn't that do what we want, i.e. eliminate purchase of common stock. Don't need p. 10 l. 29 reference to stock. Investment grade would meet higher standard than that.

606 Chatt: Maybe just need to put "preferred" instead of "common," p. 11 l. 6.

675 Malone: Let's handle motions separately.

Freeman: Motion that p. 10, l. 28 after "used," delete "in the purchase ... at the time of the purchase; nor."

688 Motion pending.

Vote on motion p. 11, l. 6, insert "common" bef. "stock."

Adopted w/ no objections.

695 Vote on Freeman's motion.

Adopted w/ no objections.

Malone: standard on bonds would also be covered under investment grade securities. Does Bushre agree? Yes. Expands w/ more comments on ratings & interpretation of "investment grade." Is lang. necessary at all?

Tape #12 Side 2

000 Discussion bet. Malone & Bushre continues.

Bushre: this lang. trying to take "investment grade"

a little further.

Hayes: Does some argument apply to what we just deleted?

Freeman: Just because it's "investment grade" doesn't mean it's a good investment.

Discussion of Penn Central RR as example.

Malone: Again, if get incompetent mgt. can lose $ no matter how we write this.

104 Chatt: Motion to delete amended p. 10, l. 24-25 to "marketable;"

Discussion.

Chatt: These types of securities aren't appropriate place to put trust $.

Rogers: Do any $ invested in this now.

Bushie: Yes. Dept. won't go lower than single A in defining "investmt. grade."

Rogers: if we limit to investmt. grade of single A or better, secure?

Bushie: Yes, in my opinion?

178 Guy: question re. limitations, ratings of allowable investmts.

Malone refers to (h).

~~[illegible]~~

246 Malone re. Chatt's motion + list of investments. Main reliance ought to be placed on mgt. of fund + its accountability. Personally, detail on list of eligible investmts. is not necessary. Need some policy decisions - e.g. real estate or not. But places alot of reliance on active oversight + good mgt. W/out those, list of eligible investmts. won't safeguard fund. Wonder abt. diversification if keep deleting types of eligible investments. Unless investmts. are earning at close to market rates, then worth less than face value. If sink all $ into one type of investmt., $ may not be so secure. Wants adequate room for

diversification of fund. Doesn't want to cut list too short. Principal + income are related- one affects value of other. Ans. is diversification.

336 Rogers: What if we said what we absolutely don't want, + left it to board to set. rest by reg. + don't give them power to adopt emergency regs.

356 Freeman: What benefit would be served in having board adopt regs. Who'd attend hearings who'd know what they're talking about? Let's put prohibitions out in black + white + on others as much restriction as we think is reasonable.

430 Rogers: If we limit too far, it may be imprudent to put all our eggs in one basket. On other hand need to make sure all baskets are good ones. Don't know where do draw line.

Freeman: If can't depend on obligations of U.S. gov't, it's no good anyway.

What % now in obligations of U.S. – 50% approx.

471 Brehm: Re. diversification. One of primary requisites of trust fund.

Chatt: Withdraws motion, if no objection to can start fresh w/ new members.

510 Adjournment

House Special Committee on the Permanent Fund
April 8, 1979
Agenda: Mark-up

Present: Malone, Chatterton, Freeman, Haugen, Hayes, Rogers

Tape # 4, side ~~2~~ 1

0407 Call to order

0410 Malone: Main issues to consider in mark-up –
1. Management of PF
2. Level of contribution
3. Use of income of PF

Key ques. is how 25% to be managed.
Senate versions place main emphasis on use of income
Governor's is mix, also increases contribution rate.
Legislation for 25% focused on mgt. of fund itself.

0449 Malone: propose handling ea. issue separately.

0454 His recommendation – Mgt. of fund follow concept similar to House bill introduced last yr.

Need to make decision in ea. area; recommends making ea. decision one at a time

0489 Hayes: Is interest from 25% a separate issue?

0512 Try to reach conclusion on mgt. of principal of fund, based on existing fund.

0535 Investmt. statute for interim P.F. – comment by Bushre

0562 Comments by Malone, Bushre

0595 Hayes: Re. HB281, dev. by PF Comm. last yr. Good mark-up vehicle for looking at mgt. sys. Malone agrees

0620 Malone: Refers to Gruening's testimony p. 5-7 re. Why interim law not sufficient.

0637 Thinks it's timely that PF mgt. law be ~~s~~ up for 25% now; if can also do rest, ~~#~~ so much the better.

0660 Malone's recommendation for time line + strategy as to how to proceed today + Tues.

0672 Freeman

0712 Rogers

0747 Chatterton

0774 Hayes

0786 Chatterton

0793 Rogers: Re. trust vs. loan fund. Need to decide what they're managing before can decide what mgt. structure will be.

0801 Chatterton: people have already decided they want 25% as <u>trust fund</u>.

0808 Malone: Re. 25%.

0814 Freeman: first need to decide what type of organization will handle 25%.

0830 Malone

0837 Motion adopted to use HB 281 as mark-up vehicle, no objections.

0839 Review of HB 281 by Malone.

0865 Freeman: Re. separation of managers of fund from political pressure, concerned abt. pressure from legislative oversight committee.

0885 Rogers: Re. safeguards. If don't have legislative oversight, left w/ governor oversight.

0897 Malone: Re. oversight options, presuming you believe oversight is necessary.

0905 Chatterton: start top of p. 6.

0917 Proposed changes by admin. in 281, memos from Ulmer, Bushre 4-7.

0922 Bushre: Re. 281.

0953 Rogers: Re. auditors.

0962 Bushre: Re. ↑

0976 Bushre continues.

1016 Tom Singer

1022 Bushre

1028 Freeman: Re. losses.

1039 Bushre

1071 Jim: Re. protection agnst. losses, capital gains.

1085 Rogers: Re. ↑

1087 Freeman: Re. ↑

1099 Chatterton: Re. trust principle

vs. Freeman: re. paper appreciation.

1118 Malone: How you offset difference if investment loses. This section designed to net capital gains + losses; what happens if there are losses.
1148 Rogers: Re. issue of defining what is income of fund.
1167 Freeman: Response to ↑
1171 Hayes: "
1184 Rogers: "
1189 Malone: Re. testimony of Bob Blicks - about protecting principal
1194 Jim's recounting of Blicks points.

Tape Change
Side 2
0000 Bushre
0079 Malone
0083 Freeman: Re. losses. Doesn't want any. Attaches more importance to integrity of trust than size of earnings. Doesn't want any gambling w/ principal of fund.
0134 Malone's response to ↑.
0166 Malone: Bushre put suggestions in writing + committee staff recover dialogue from last yr. on this question.
0175 Chatterton: Should we get consensus from committee re. what we think would be mark of excellence for fund mgr. - fund protector or good income raiser.
0189 Malone's response to ↑.
0223 Bushre's response to ↑. Way to truly avoid a realized loss.

(5)

0234 Malone's response to ↑.

0243 Rogers: Votes for protection. More important than income produced. If this is corcerned, will affect what we'll do w/ income.

0260 Malone: How do we want to treat capital gains + losses — wants written explanation from Bushre.

0280 Rhode: Mr. Greeley handled this before. Malone wants to know how he expects this would work.

0322 Chatterton

0338 ~~Bogdasi~~ Tom Singer: Re: memo from DPDP

0354 Malone response to ↑

0394 Singer: 3rd pt.

0411 Singer: 4th + 5th pts.

0441 Singer: Re. safety of principal

0448 Singer: next pt.

0456 Rogers: Re. ↑

0468 Singer: Last pt, re. operating budget of PF corporation. Take out of PF income.

0492 Rogers: Response to ↑

0505 Rhode: Re. ↑

0510 Bushre: Re. ↑

0522 Hayes: Re. ↑

0544 Rogers: Re. "partisan politics" section. Staff should define this. ↑

0553. Malone: Response to ↑

0572 Freeman: What's next step.

0577 Malone: Need more info on capital gains/losses, oversight. Make decisions on pts. raised re HB281 at next mtg.

0602 Haugen: Wants fiscal note. How much to run corp. Bushre will do.

Next mtg - Tuesday 4-10 4 pm.

0664 Adjournment

4/8/79

House Special Permanent Fund Committee
April 26, 1979
Agenda: Final draft review
Present: Chatterton, Cotten, Haugen, Hayes, Malone, Rogers.

Tape #5, Side 1
0718 Call to order.
Review final draft of HB 281.
Technical error, p. 9, l. 19 - "5" should read "4."
Chatterton: Motion to add "in the aggregate" after "not to exceed," p. 9, l. 21.
Motion adopted with no objections.
Nancy Lorde: on p. 12, l. 2, should "or influence" be inserted after "finance."?
Chair thinks this was included in motion adopted 4/24.
Discussion. Chatterton explains his intention.
That language will be incorporated if no objection.
No objection.
Hayes: p. 8, l. 9 - should it read "prudent not to do so" or "prudent to not do so."
Discussion.
No change made.

0809 Distributed draft letter of intent to accompany bill.
Consensus that it reflects intent of committee.
Rogers: Has fiscal note been requested?
Malone: No, because no draft to work on.
Propose that responsibility for development of fiscal note be placed w/ J. Hagan, head of Legis. Fin. Div.
Also, maybe should make formal request to Finance Committee to develop fiscal note so won't be overlooked.

bc/pe/lh (2)

0837 Malone: Update on politics surrounding activities of Fund. Met yesterday w/ Governor, Ulmer, Brushe, Lt. Governor, Tillion. Malone asked Governor + staff to review bill and decide if bill as proposed for management of principal of Fund could be supported by Governor. Should decide in 1-2 days. Concern expressed by Miller was that list of eligible investments too conservative, + value of principal would decline due to inflation.
Re. confirmation issue, not critical to bill. Can be resolved in court if necessary. Thinks main issue now in this bill is management of principal; does not preclude or foreclose opportunities to dispose of income.
In terms of management of principal, this bill is consistent with bills in Senate (except for Sumner's).
Hammond still interested in distributing income directly to residents, but discussion yesterday just dealt with mgt. of principal.

0883 Malone: What # should be put on bill? Might be good reason for using Governor's #, because there will be some unanimity between committee + Governor on issue of mgt. Discussion - Governor will support regardless of #.
Chatterton: Motion to use # 281.
Adopted with no objections.

0898 Cotten: Motion to report bill out of committee, with technical changes made.
Adopted with no objections.
Cotten: Motion to incorporate letter of intent with bill.
adopted with no objections.

0909 Adjournment.

get copies Clark's stmt.

3/30 Rum. Fund

Clark Gruening - last yr. chairman

2 important sources - constitution + public input.

Q - Do we need a bill at all? We could set as is and let fund build. BUT with passage of time, pressure will grow as size of fund grows. Special int. groups lobbying for their use. Firmly believe we need better guidelines than present.

Critical elements -

1. safe depository
2. principal not dissipated
3. Ak. sound investments w/o duplicating
4. income for current + future Aks.
5. accountability.
   a. need def. statement of management goal
   b. administration - should not be by Rev.

3 Provisions

1. liquidity
2. accountability
3. this session - don't delay

adm bill - all things being equal prefer investments in state - but as drafted would have opposite effect. could discourage on-state investment.

drafting problem - ID.

P.F. 3/20

agenda: HB400, 414, 162

Ernie asks to put HB162 over, wants REA act, not take principal from fund.

Malone explain HB400 + reason basically FY 80 royalty receipts
Brian $77 M unallocated balance, according to fiscal projections, wants it to go elsewhere than gen. fund. $360 M oil + gas royalties.
25% capital
5% energy fac
2½ RCDF dev.
1½ mental health
½ school

25% PF
16% native claim
2½% PRIF [illegible]

99
1.00
21.5
78.5

leaves 21½% royalties not designated for any purpose

Ron Lund - gov. requested no $ for capital [illegible] or energy facilities be needed the $ for operating. Even though leg. says these shall be reserved.

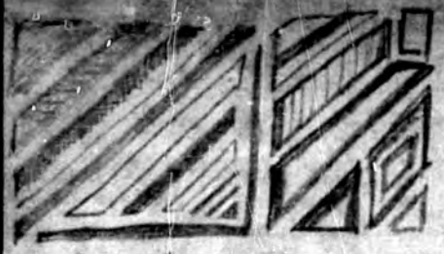
Ma[illegible] [illegible] before FC
4.5 need legal advice [illegible]

Jones - don't think [illegible] royalties in [illegible] adopt.

[illegible] discussion of philosophy regarding

PF 3/17

Fran Ulmer - explain rational for increasing contributions to 75%. Will allow moderate increase in spending but not allow excessive state spending.
management provisions HB 277 - should be trust conservative bee.
Pete Bushre - defines trust common law. 277 has list of investments. preservation of corpus. may not engage in trade or bus - i.e. could not econ controlling interest in any business. ARISA - pension fund trust. prudent. diversify. infrequent trading.
277 - how fits classic def. of trust responsibility
Challiton - Where does it say in const. amdmt pf is trust
trust + corp. trust - initial 25%. income available for distribution - 50% tax credits, 50% g.f. inviolate, not available for state operation or investment beyond narrow list. corp - 50%. investments same as trust except Ak. mortgages in addition + power, debt guarantee. income then available same as trust. Rev. today managing 3 trusts - p.f., employee retirement, teacher retirement. prudent annual audits, p.f. management costing less than $50,000/yr. 277 leaves this with Rev - economical + responsible.
Fran - Dev. Bank - 2 state-sponsored studies re: capital gap. Tussing - rural. AD Little - "Ec. Dev. in Ak." - concluded can stimulate ec. dev. However adm. believes better to hold for study, not dump $ on market. Neither study



O-890 - administration
Fran + Pete

conclusion. So gov's d.b. requires clear identification & amendment. Corp must report each yr., if no c.g. identified, $ stays in trust. As with AHF, any subsidies must be appropriated by leg. Distributes pacist.
Public expectations - Public Forum conclusion - many more ways to use $ wisely than $. Cannot be all things to all people.
Rogers - Why tax credits instead of Al. Inc.
Fran - A Inc. not warmly rec'd by leg - so there is alternative.
Cotton - could list include gasline? Pete - no.
Rogers - concerned about investment outside com. (executive).
guarantees of undebtedness -
130% - what does gov. intend to do at other dedicated funds

(attached to min)
Bob Greeley - Merrill, Lynch, Whitney, Weld. investment manager
financial advisor to com. for last 3 yrs.
summary's what pf can do + can't.
don't confuse pf with div. or enterprise funds
national trend - once trust funds invaded, they seem to disappear forever.
make it simple. keep trust + bank separate.
should have own identity, own management.
Malone - what about Rev. managing?
G. 2 function 1. investment process 2. trustee function

Fran explains reason for policy ex. oversight - leg. ex. control, elected officials being responsible. duplication

Stop 1216

of policy Ltd. an info link.

next mtg. Tues. HB 162 (Haugen) + HB 400 (M/R)

P.F. Mtg March 6

Discussion of schedule
Rogers wants GSCC considered by com
Hayes - Alberta Fund material wanted
Mark up? Will we adopt one of these or draft new?
Malone - up to committee.
Rhode - HB99 needs to come to the com.
Malone wants adm. to attend mtgs

Milt Barker - review of revenue estimates.
Malone - points out that Fund is growing at only half rate earlier projected.
Barker - long range picture we're in trouble.
Malone how good are the projections beyond '80? Are the assumptions safe?
Dept of Rev. guy says $8 alliquid investments won't exceed $500 M. They currently are more than that.
Anticipates balance to increase to more than $600 M this yr.
Chest - How does that affect PF balance? It doesn't directly.
Malone - Bus. Tax of $ doesn't amount too much maybe this committee shouldn't do anything
Busbey - Think we've factored anything in Conservative estimates.
Pt now growing at $6 M/yr.
Malone - Any factors that could result in dramatic increase?

Barker - exports, price increases, Iran all could affect.
Speculative.
Rhode - What if state wins field carry lawsuit? B - $40.50 M more.
cash bonus lease sale? yes, would add to.
Malone - possibility of increasing 25-75%. would
affect both P+G funds, so imp. to look at whole
fiscal picture.
Malone asks Rev. to provide info to com. on C/D's
Barker goes over projected revs. have out
1960-78 - annual budget increase = 19% (10% adjusted for inflation)
Since pipeline 16.5% in current dollars (5% real)
So - growth rate has decreased in real grs.
Malone asks Milt to figure PF bal. if earnings are
added to it.
Lauer asks about HB222 - capital outlay acct.
Chat - we should look at how much of royalties is
now dedicated - add up pk - 78% dedicated in some way.
PF now has about $100M.
Chat - some assumptions are suspect. Revenue doesn't
have the knowledge to run meaningful simulations.
Such as amount of oil in Sadlerochit.

Alberta Heritage Fund - Jim Rhode
Dec. '76 - Gruening, Rep. Rhode, + Gallagher.
party swept to victory on this platform. 30% oil
1. capital projects division (not to exceed 20%)
2. investment division (not to exceed 50%)

stop 1016

3. Alberta investments - ~~for projects to provide people benefits but not~~ must be return to fund. (#1 doesn't require return, just social benefits).
2 of these ideas are in adm. proposal -
division 3% last yr, not this.
any loans made are to be openly subsidized.
identifies subsidies as such.
Where is AHF taking Alberta - R reads from transcript - Dr. Gordon.
Started with $1.5 billion, now has 3.
Pt. - Alberta's effective taxes higher than Ak
Malone asks for fund balances, oil production, etc. for comparison.
Malone - 1 difference is they started with a lot more $.
Chat - would like to see enabling act. + also like to keep track of how it's doing.
Malone - explains his change of mind on capital gap - topic for Thursday.

Tom Singer WW memo 914
DPEP
0164

pf money would be "hot money"; that is, since the investors can be [illegible] moved around, the short term investors will not make as much money as the long [illegible]. In addition, because the banks will not be able to count on the money [illegible] with [illegible] they will not be able to make [illegible] for loans and the money market [illegible] [illegible]

[illegible] H, [illegible]

[illegible]

3/29 Relief Fund - Hohman bill

George Wolf - tax lawyer
Valuation - on bonds.
Exempt at 5% on Assessment

Schon
IB
IRS
ORE

Fund could wind up purchaser of bonds, especially the ones not credit-worthy.

Martin Moore - mouth of Yukon ? native
wants PF $ very secure for future. AAA.
income, apart from what needed for loans, etc.,
should also be saved.
wants to be able to borrow from fund - fishing, etc.
village corps should borrow.

3/27 Rem. Fund - Sumner + Hohman bills.



Sam [redacted] Plaia - financial advisor to committee

Sumner bill -

concerned about possible dislocation of people - more babies & in-migrants.

intrest of minors

non-transferability - giving w/1 hand, taking away w/other.

directed investmts - lack of ability of citizens to choose. not 100 prudent ones.

difficult to administer - quick changes.

principal can be eroded.

eligibility regs. - hard to administer. bush.

Chatterton - concerned about fund erosion.

eligible directed - 100 prudent.

Cotten - prudent-man rule - standard def or figure of speech.

P - requires principal protected more than income increased.

Guy - wants to be able to pass down to children, not go to state.

P - residency def. - constitutional problem, encourage lawsuits.

Malone - leverage.

Jm - hot $. Bushre - short-term $ not loaned in AK. but sent outside for investmt.

Hohman bill -

theory - income of PF used for security for sale of revenue bonds to fund loan machine

Cob - dif. in SS - fund principal managed by rev. instead of independent.

P - concerned about commercial loans. similar to SBA. record of SBA poor. gives scenario corp can bleed off assets intentionally or not, use up pf income.

SBIC program a failure - similar example.

pressure for investmt - if funds sitting around, you seek investmt. opportunities and take greater risks.

Bob - p. 43 - value of limitation. Aren't we as protected as a normal bank?

P - No bank would make a commercial loan on these standards. Housing probably.

Bushee - pension fnd investmt mortgages - don't accept any personal prop. as security, 75% com. real estate, 90% residential.

p. 32-33. formulas for maturities - municipal bonds. The formula fixes the rate, does not take into acct. the fluctuations. So state would have to buy bonds at more than it could sell them at. Not possible to set such a formula to work. Can't be fixed.

Malone - Any problem selling tax-exempt bonds?

P - very possible. must be "public purpose". Very serious question here whether these would qualify.

Bob - E.F. Hutton last yr. said they would qualify.

P - They are investmt bankers like myself, not tax lawyers.

P - student loans as drafted encourage default.

P.F. 3/23 HB280 Sumner bill
SB 122

Freeman, 2 others

If $ is really people's + govt. in past has not done such a good job of investing in past, let people invest.

Not com. of rev., but leg. should establish types of investments under "directed." Could start w/ less than 100, then increase. Ultimately could become vehicle for GSOCs. General concept - flexible on details. Allows people who don't want to direct other possibilities - Ak. Inc, Hohman, etc. Loan programs could be 1 investment. Approved investments - each will carry own set of restrictions.

Rogers - What if losses? S - Fund can share loss. Or have some % of earnings return to fund as guarantee

Thinks legal if you don't say that will be the only division of shares. 10 yrs. good, then maybe again.

Chat - worried about public relations blitz - everyone invests in a scam + destroys fund.

S - don't forsee any plan being approved that is a scam

ex - people in Bethel want building - make that 1 investment for them to choose.

S - Is it the people's money or not? Then let them decide.

Malone - Where do you mention leverage?

S - It's not. Didn't want tight bill - just address concept. Plenty of room for input

Talked to Kelso about it.

Mal - How wk in relation to PF

S - Vol A working on model.

Would like to take 25%, leverage it

Talked to guy in Wa. When Boeing closed down, said S only one he knows talking about this. Back nonrr $ to PF + use that to broaden economy

Jim - PF ~~have enuf~~ generate enuf inc. to fuel state's economy.

~~Jim~~ leverage can replace tax $ coming from oil industry now.

When we get model, we can talk in real terms.

Most investmts. would be in Ak.

Rogers - similar to something Milton Friedman has laid out.

S - Seed that other brainscan build on.

$ leveraged, used to fuel ec. instead of oil $, so oil $ can go to PF. full circle.

Haugen - compliments S on imagination.

Guy - lapsed shares. S - need to protect integrity of principal. New residents become vested at next distribution of fund.

Ken Vassar LAA

eligibility requirements. July 1, 1980. effect '79 issuance Feb durational residency requirement. not sure about constitutionality. Think sustainable. bec. 1 time shot. The closer you bring qualifying date to effective date, more questionable. This very unique not tried in court.

Malone - What if there isn't 2nd distribution.

Doogan - If perso. leaves state before 1994, another duration res. req. interferes w/ right to travel.

Jim - dif btw. Ind + $.

Bushre - discussed w/ Summer previously.

2 gen. concepts - distribution of income similar to Ak Inc. supported by gov.

2 enable people to have voice in p.f. investmt.

Wants to raise Qs + touch on specific lang.

Operating expenses of fnd?
100 investments need definition.
Does public have knowledge to choose?
Mechanics of administrating investments.
Administration cost - brokerage operation.
S doesn't see as complicated - like moving $ from savings to checkg acct.
S treasury not involved in transactions.
Special forms - certificates -
PB safeguard by statute needed to prevent panic selling.
S Adm. does no work. Computer does all start + termination orders - can control how often.
Didn't envision such wide-ranging investments as discussed here.
Can show that there are sizable returns to be made.
S - enthusiastic to work w/ U + experts.

Cotter, Scatter, Gay absent

4/8 Permanent Fund

beginning of mark-up.

High recs to separate dec - how to manage 25%, increase?, how to manage it separately
+ interest separate issue.
1. management of principal of existing fund.
2.

Hayes - 281 as mark-up for first component.

Malone - Clark's testimony about only interim mgmt not sufficient.

Freeman - agrees trust. separate "board" answerable to leg. staggered term - not too long. but insulated from poli. wind. 1st cons. - integrity + safety of fund more weight than level of earnings. Add. $ + interest could have other use - not hung up on it

Rogers - 281 good m-v vehicle. 25% very strict trust. over 25% - Another 40% already reserved. Would like 100% of capital assets kept out of operating budget. interest real open should be separate bill - benefit all people.

Challison - Already have fund management structure 1st order is get management structure regardless of all other issues. Wants to take 281 issue as [illegible] for the one issue, try to incorporate other management ideas [illegible].

Hayes [illegible] to agree [illegible]

Chat - Let's not muddy our minds until we settle management Q.

Rogers - Little trouble w/ that. Trust or loan fund. Have to decide what managing as well as how.

Chat - People decided for us - trust fund for 25%

Malone - To clarify, it's don't have to add up to 100%

Freeman - Agree w/ Chat. Let's get on w/ it.

Malone - Gen. agreement on com. - motion adopted.

Freeman - Investmt. Oversgt Com - nervous about com being vulnerable to pressure

Rogers - not a big worry. Need some check - other choice is gov.

Malone - Can address late.

Chat - oversgt com. might be desirable regardless of p.f. Let's start with p. 6.

Discussion - to change Budget + Audit Com. to Audit Division

Bushre - (see Ulmer memo) -
p. 10 line 18 - prevents contracting w/ Revenue. Suggest it be left as option. Eliminate "except" thru "investmts."

Rogers - Think still needs check - Suggests add at end "w/o approval of inv. oversgt com."

B p. 10 20-27 investments which qualify.
lang too broad + vague. Prefer lang. similar to interim man. bill - specific list.
Under this lang. could invest in gasline
~~[illegible]~~ with short term notes + very little security.
p. 11 line 21 losses ~~taken fro~~ made up forces from income. His staff confused how this goes with sec. .150 · Income.

Hayes - Seems to be conflict.

Malone - Don't think so. Interpretation.

Rhode · Capital gains not to be pd. to public - go to principal fund. Dividends only go out as income.

Freeman Whatever the earnings are they should go out to the people.

Chat Gives ex. capital gain as appreciation. Do you want to spend it?

Malone This section designed to 1) net capital gains + losses 2) For stocks, accumulate 5 yrs. or remaining life - offset loss from other income.

Brian Need to define what is income. Think capital gains should be treated dif. from int. + dividends. capital gain reflects inflation - not income. Should remain in corpus.

Freeman Misconstruing my point. We don't disagree.

Malone Bob Blixt (Minn.) spoke last yr. about this.

Rhode Numerous dedicated funds in Minn. Blixt was emphatic that fund managers should not pour cap. gains into income stream.
In standard trusts - capital gains go to trust.

~~Bushre~~ Tends to "bleed" best investments so manager looks good.

Bushre 5-year thing helps manager take loss rather than trying to hide it.
Fund earning 9% today - inflation 14%

Malone The 2 sections work together.

Freeman Doesn't want fnd invested anywhere that there could be losses. No stock market Integrity much more imp. Than size of earnings.

Malone Prior com agreed w/you.
Suggest - Ask Bushre to put in writing suggestions for wrdg changes here + staff recover last com's dialogue re: this.

Chat Let's reach concensus to direct Bushre.

Bushre You can lose $ in anything - even treasury bills. Rt to keep in mind - way to avoid losses is never sell - hold to maturity. But - sometimes better to realize loss to move $ to greater gain.

Rogers My vote for safety first.

Rhode - Greely can help.

Malone - Need narrative how would work. Then com. can make stricter or less.

~~Brian Q p. 12 line 14~~

Singer DPDP recs.
p. 6 line 29 - spell out goals. trade-offs involved. other drafts have primary + sub goals.
give dir. about safety - maximum income trade-off.
2 members or 5 - prefer 5.

Chat Can leg. appoint bd. members, constitutionaly.
Adm says leg. has no right to confirm.

Singer p. 10 line 14 agree
p. 11 l 13 - word comparable may be a problem.
Should tighten to 'no higher than'.

Brian Dif. betw. active + passive - Either give preference or don't preclude.

Singer p. 12 l 13 budget - could come out of pf income + receive more scrutiny, hence efficiency.

Brian could have technical problem. Rather specify it is up to Finance Committee.
- Using PF earnings rec'd favorably by com.

Brian p. 8 l 16-17 "partisan pol. activities".
Suggest staff draw up def.

Malone - agree
Brian - could make disclosure rather than prohibition.

Freeman - What is our schedule?
Malone - get add. info. from Qs raised today.
(capital gains).
want to continue w/ SB1 ~~(Monday?)~~

Haugen want fiscal note - cost of rung corp.
Boshee - will do it ↑.

Malone next mtg. 4:00 Tuesday.
(Swick)
Think about how should oversight function be carried out?
1. responsibility should be fixed by law
2. scope defined — minimum requirements.

4/10 Reem. Fund

1. Blixt transcript
2. call to Greeley
3. Swick

Greeley - review for com. cap. gains + losses.
mc. designed to keep income flows as steady as possible
gains + losses designed for flexibility + to prevent losses fr
m J yr.
need to clearly state what income is.
→ tables: show over 10 yrs. using this method.

Chat - should allow 30% stock? Too much latitude?
Q - should at least allow consideration. If omitted could
be serious handicap. Most corp. pension funds are
50%, school funds etc. similar. State pension funds
lower. Do structuring guidelines for long-term,
should not exclude. Nothing magic about 30%.
Chat - No limit on bonds?
Q - This gives manager great flex.
140 just an accty mechanism.
150 how income distributed.
Gains + losses almost always treated as principal.
1960's started in pension funds giving same
gain as mc. but corrected now + almost
universal. Dividend + income construed as income

Hagen - like to restrict fund. investment in treasury
bills etc. - very conservative. Avoid bldg
big management structure.

Malone - That's a dif Q how best to handle
gains + losses. We could go back + tighten up
most of investments.

Freeman - No trouble w/ lang. Want to hear from anyone who does.

Hayes Need to prevent management from just building up fund & not have income.

Freeman - Wants lang. that primary goal is protect integrity of fund. Strict limits on elig. investments.

Chat - 140 + 150 - I feel very comfortable w/ language. We should move on unless com. wants common stock deleted.

Malone - We could be more explicit about inc., but can't ask management to take risks or get blood out of stone. Comments that Blixt made - says it all.

Swick SB1 + PF inc for energy development + reserve for energy acct.
expert in marketplace for state + local securities.
SB1 - municipal bonds - bid from state itself
Bottomline - This method will not work, unless intention is for state to buy all bonds put up by all cities. All out of shape. Can't be restructured to work. Formula does not fit market realities.
→ Will not get any interest from Wall St.
11B414 - (595) power debt guarantee.
will drive down cost of bonds for revenue-producing projects.
AA rating.
very close to g.o. bonds in cost of bonds.
expectation is $ will never be used - project will be self-supporting. If go. goes by + project covers its debt obligations, then income freed for 2nd use.
A valuable thing to do - not tying up $ long-term.
Needs trust to be secure, inviolate principal.

Drives down your cost of borrowing $.

~~Matters~~
Energy reserve acct. - Don't believe that fund as set up now serves any basis for borrowing against. Good for grant program - direct approps. Used for front end costs - studies, etc. (May generate $20M/yr) Source of money for subsidies. Small hydro. Not ingredient for security (bec. subject to approp.)
Hangen - I understood it would be used for leverage.
Sewel - Will not support debt.

Next mtg - Go down thru bill listing issues - mark up + send off for CS.

4/11 Rem. Fund

brief outline of issues raised

Clark Gruening - teleconference

last best shots

Bushey - rec. rather than amortization of gains + losses reserve accts. Charge against reserve rather than income. Same end result - fits better w/what is generally accepted by industry today. 281 involves a new def. of income. Industry use of this income def. is pretty much in-house now. Gains would be counted as income. Whether or not you distribute it is another Q.

Discussion of .150 income available for distribution the lessor of 2.

Hugh - Why is IOC superior to alternatives.
Clark - 2 alternatives - LB+A com. or establish new com. Swayed to IOC for 2 reasons. 1) afraid oversgt wouldn't get done because of press of business LB+A has. 2) greater contact with leg for separate com. - leg. w/ specific interest in IO would be involved. Some sharing of staff. Important enuf to warrant sep. com. If LB+A, afraid 2 person would become the "expert" + either have all control or do nothing.
Bruce - How about subcommittees of LB+A + leg. Council, the 2 interim bodies. Afraid of proliferation of committees.
Chat - What about broadening over-sight functions so could oversee land managemt etc.
Clark - Then you are overlapping reg. + special standg

coms. That's prob w/ B+A.

Back to Bushre-

Haugen - Thinks IOC too expansive. Rather simply have Corp submit report to leg. ea. yr

Rogers - My thinks changed a little too. Think it should be B+A, w/ 2 Statutory sub-committees - 1 budget, 1 investmt. oversight.

Hayes - Lot of merit in Ernie's position. Gets into too many coms - full-time leg.

Chat - IOC addresses itself to all budg+ investmt. functions - need more than annual report - So support IOC.

Cotton - Which duties most important + biggest workload? [#4 p 5.) Support concept as drafted

Haugen - Why not have them report to B+A monthly?

Hayes p. 1 l 19 - "all agencies" - how many?
gen fund surplus, 2 pension funds, p.f.
Bushre - 25 separate funds.
Hayes - seems to duplicate some of B+A

Chat - We get reports now but can't get at the details. Only adm. knows. Leg. should do the spadework to get the info.

Rogers - B+A appropriate place, but would require amendmts to their duties.

Malone - Substantial workload there. If up to me,

assign duties to B+A, then ask them after 1 yr. how it goes. Argument for setting up mother com, but not compelling. Next referral Finance. That's another option.

Hayes - like that.

Malone like Brian's suggestion, but want B+A to have chance to have input.

Chat - What does B+A do now?

Freeman - Mechanics?

Cotton -
Malone - take "duty" section + have added to B+A. + letter of intent - asking com. how that duty might be improved by assigning to mother com.

21.20. Brian - affects statutes (B+A, Asst Dir, + Leg F. Incorporate findings in motion.

Hayes p 5 l 12. Does B+A have that responsibility?
Haugen - trouble w/ that lang too "conjunction with F"
Malone - prefer to leave in for F.

restating Cottin's motion - Malone - 1 assign in bill purposes + duties of EDC to B+A 2 include in com. letter discussion - ask B+A to report back about creation of new com. + include findings.
MOTION ADOPTED.

Chat - Can we discuss 100% bonus now?

Malone - Meet tomorrow at noon.

4/12 Rem. Fund

Sec. 2 approved

Sec. 3 -

Freeman - considering lack of facilities w. Coast, transport problems, leg + adm. spend all $ they can get - wonder whether we should have any leases for a while. Inclined to stick with 25% because future too unknown. Open mind, but people voted 25%.

Rogers - In general, concur. Setting another % could affect policy. High impetus to spend $. Holding off leasing would be prudent. But if leases - don't want it dumped in gen. fund. 2 dedicated funds, really - P.F + gen. Go w/25%, auto increase to 100% bonuses + perhaps hier royalties, say 1982

Chat - Very mixed emotions. 1 time windfall should go in FF. What worries is if 100% bonuses, we discourage ex. branch from leasing. Damned if we do, damned if we don't. Should go in PF but if, remove incentive for ex. to continue evaluating our lnds + leasing procedures.

Malone - Think bonus should go in FF. Money in one FY - "pouring fuel on fire" - Level'g effect on ec. is worth it. Alternative might be - at end of ea. yr. review g.f. balance + decide how much to give to PF. - But not sure you can.

Rogers - Same dilemma as Chat. Not convinced bonus is best for Beaufort. Adm. might want to build PF + so elect for that. Rather

delay sale.

Freeman - want some now, some later. Maybe make 50% instead of 100.

Chat - Rationale for 100% - would remove incentive for leasing by bonus. Could come a time down rd. when leg. wants instant $. There's a time delay to get $ from leasing, while bonus is instant. When in doubt, split down the middle.

Rogers - Int. that members have dif. perspectives of how adm. would react. Support 50/50.

Chat - May be advantage for state to have liquidity re. cash bonus -

Guy - P.F. ~~[illegible]~~ cap. would be short changed. if 50% went to gen. fund. PF would get less than 50 because of payments to natives etc.

Malone - Solve by changing lang -

Brian - Eliminate L 1-10

Malone - Handle Secs 1 by 1

Chat - 2%

Freeman - ~~Line~~ 5

Malone motion to add "remaining" after "bonuses". (p. 6 line 5)

Freeman - change 100 to 50.

Rogers - Want 50 in L 11 also.

Malone - Handle Q 1 at a time

Rogers - 100 - 7 = 93 ÷ 2 = 46.5

Chuck on 37.11.020

Motion - adopt 50% - unanimous.

Rogers - line 11 - 30-50. Any other allocation could affect Mag methods.

Chad - Not convinced we can go lower than 30% + still have $ for gov't. Already 78%.

Freeman - Dif. betw. the 2. Bonus I shut deal. Royalties - bread + butter $. So included to be more thrifty w/ bonus. Nothing wrong w/ mag royalties now.

Haugen - Agree Brad. Need some $ for g.f. + if raise, then we'll need other taxes. Could go either way.

Rogers - Royalty, not b+b Taxes are. Materially no dif. betw. bonus + royalty - both sale of capital assets. Only dif. how fast they come in. Should treat them the same & the one a windfall.

Chad - This would mean 15% dedicated or reserved. Although you can do it, who do you fool?

Malone - explains

Rogers would agree to 39.5% (50% after native claims etc.)

Chat - Doesn't satisfy me.

Freeman - Philosophical dif of opinion. Nothg wrong at spendg oil $. Great dif. betw. bonus + royalty.

Rogers - ex. of hypothetical oil field. Dependg on bidg method - varying amts go to FF.

Vote 3Y (Rogers, Guy, Malone) to 2N (Chat, Freeman)
Malone - Bare quorum - don't want to decide on that

Chat - integrity of fund. p. 6 l 29

Rogers "maintain safety of principal" first.

Malone - want to defer decision on % until full committee.

Rogers - then ask that hold off on first % too.

Malone - what Senate is doing. This com. must be cohesive etc. if we want to win in Conf.
Have to carry over to Monday
Adjourn.

Malone - Rather have no bill than I loused up
next mtg. Mon.

Cohen, Schaffer absent.

4/18 Rem. Fund.

Contributions level—

Rogers - Barker memo - hypothetical examples
agrees for equal amounts.
renews motion - 30 - 50 line 11

Haugen - depends on where $ will go.

Hays - we should deal w/ just structuring
management of original fund.

Freeman - wants the money now.

Chat - can we afford it?

Freeman - land. Why not treat same as oil &
add that to PF.

Rhodes That's in SOR 23 (in this com.)

Brian - Withdraw motion + set both at 40%

Vote - No.

Brian - Since missing 2 members, rather leave
this & come back when have all 9.

Malone - Go on to list of eligible investments.

Eppenbach -
decisions to make
CD's - long or short?
Corp securities - investment grade or 1933?
2B1(4) - short-term long.

loan question - have it or not?
constrain it or not?
could limit it to %.

Bushre currently mucking in 1-5, sometimes 6,
not 7 or 8.

Hauger
Hayes } absent
Shaeffer

4/21 Rem. Fund

discussion of percentages again
review for Cotten. still no full committee.
same old song + dance.
question of whether % in excess of 25 would be subject to annual approps - Vassar says no.
Guy dreamt about gains + losses lang
Freeman moves p.6 line 5 100-50, insert remaining.
Y3 N4 - Brian's amendment to make 5 + 11 same.
Y4 N3 - main motion.
line 11 - Brian moves - 25% existing, 50% all leases after effective date.
withdrawn. new motion - 50% from all leases after ED. Y4 N3
motion adopted w/o objection - 25% existg leases.

adopted
- line 5 - 50+ remaining
- line 11 - 25 existing leases
- line 13 - new section 50 new leases.

next question - line 29 - primary goal.
which is main goal - safety of prin. or max return?
discussion of all 3 findings.
Brian move delete "primary", "maximize", "total r ... should read "goal should be to maintain safety of principal while maximizing the total return."
Chat - Language throughout concerns a trust, so don't need to worry about this lang - redundant.
Chat - how bout - primary goal is to operate as a trust.
Doogan - same Q last yr. wouldn't hurt to be redundant. Brian's motion adopted.
Brian motion p.6 line 27 - delete "ultimate"

Guy - amd to amd -
Chat - to the benefit of Alaskans.
withdraw.
"resources to benefit all generations of Alaskans."
2-5 fail
main motion - read "to benefit fut. generations of Alaskans." (delete "the ultimate... of")
Freeman - "to the benefit of all generations of Alaskans." unanimous.

050 - comp. of E.T. - 2 Qs. - how many members? confirmation?

Brian add lang. That if conf. not allowed, whole section is void.
Malone - think we should stay w/ bill lang

Guy wants 5 members. Motion (3 means Anc, Fbks, Jun - no rural members.)
Freeman - All will be banker types, hence city. Fewer we have, more # for us rural types
5-3 motion adopted.

060 Brian motion - 5-yr. terms staggered 1-2-3-4-5
2-6 motion fails.
Cotten - 3 yr. terms - 2 2 yr. 2 2 yr. 1 3 yr.
5-3 Motion adopted

~~Malone - not more than 2 3-yr. terms~~

070 Guy wants appt. by geographic area.
2-6 motion fails.

080 Collier delete p 9 line 24. Adopted



Brian - motion - 3 shall have competence etc.

090 change quorum to 3.

100 honorarium

110 personnel -

120 Brian - add ex. dir. to conflict of int. AS 39.50.
Unanimous

130 powers + duties
Guy motion - delete "means that" (line 29, p. 9)
fail.

motion pending p. 10 line 19 (Rogers).

Cotter, Hanger, ~~Chat~~ absent

4/23 Perm. Fund.

start w/ p. 10 (f)
missed this decision

"laundry list" vs. "blanket list"
real estate loans
Chat moves to delete lines 23-24 (p. 10)
The com doesn't like the loan language
motion carries 6-1.
Rogers motion to insert "investment grade" l 24
carried
Rogers motion to delete p 11 l 6-8 "if immed. corp.
Chat - delete p 10 l 24-25 (investment grade ... marketable)

Rev - Cotten
greenhead - Guy
Fee - Rogers
Fee - Haugen
} absent

4/24 Perm. Fund

~~[illegible] Hayes, Rogers,~~

Buskie presents new laundry list.

Policy decision - short list or long.
Chat - long
Hayes - likes all 14 w/ limit on real estate
no objection to taking long approach.
Chat - would like to raise to AA + limit to %.
Freeman - Investment grade.
Buskie read defs. of AA + A categories.
Freeman - go along w/ Chat.
Chat - move to change A to AA. No objection
Chat - move to limit to 30%. (Limit in original bill
because stock was included in category.)
Hayes - amend to 10%. withdraws amendmt.
Freeman - amend to 25% no objection
Freeman - move adopt 1-7. no objection
Hayes - move adopt 11-14
Malone - technical Q #12
Chat - move to delete #12 Reason: selecting out
veterans to receive benefits. 2-3. Fail.
Main motion 4-1
Hayes - Adopt #8. (the most secure of 8-10)
~~[illegible]~~ want direct benefits to Alaskans.
Malone - 8-10 are most marketable, so we wouldn't
be helping anything. Concern is diversification
but that taken care of.
~~[illegible]~~ Motion fails 1-4.
Malone - limit % in mortgages.
Chat - move 11-14 limited to 25%. ~~Not a quorum~~
no objection - adopted.
Finished (g)

(4) p. 11 - change IOC to B+A.

(1) p. 11 - active or passive.
Chat - motion to keep as is. adopted.

155 - Freeman move delet. No obj.

160 - Chat move retain as is. No obj.

170 - ~~Chat delete annual, insert bi-annual~~
as is

180 as is

190 - as is

200 - poli. activity.
Malone - delete 1st sentence.
Chat - add "or influence" after "France."

Malone - how to require bd. members to disclose conversations w/others re pf.

210 - public access - as is

Nau need clean draft.

What # to use? 281 or 277

Freeman - Senate bill?

SCOMM

#18:2

18102

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

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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 in principal 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 circumstances (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 re' itively 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 Alaskan 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 measure-ment 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, European 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.

SCOMM

#18.3

Public Control of Public *Money*

Should States and Cities Have Their Own Banks?

Derek Shearer

CONFERENCE/ State and Local Public Policies
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LITTLE BANK ON TH[illegible]RIE

A modern five-story building sits prominently on a corner of Main Street in downtown Bismarck, North Dakota. A wagon wheel gracing one side of the building accents the logo, "Bank of North Dakota." In all respects save one the bank is quite ordinary. The exception is that the bank is owned by the state of North Dakota. Controlled by a three-person commission, it is the only bank in the United States completely owned by a state government.

The Bank of North Dakota is an historical anomaly, born of the uprisings of Great Plains populism in the early years of this century. It is also a useful model for the future. The bank's assets amount to nearly $400 million, making it the biggest bank in the northern plains states. Some 75 percent of its deposits come from the state government, but it also holds 4,000 business and individual accounts. The Bank of North Dakota employs 83 people. In 1975, it returned $9.2 million ("hugh profits," said a New York Times report).

Last year, Forbes magazine, in a report titled "Living with Sin and Liking It: North Dakota, a Conservative State is Deep into Socialism," noted that the bank was popular even with many Republicans, and though they are ideologically opposed to the state being in the banking business,

they appreciate what the bank contributes to the state's economy.

The bank was the product of a hardfought political battle. In 1915, an unsuccessful farmer named Arthur C. Townley--in what one historian described as a "curious blend of socialism and high-pressure salesmanship"--organized North Dakota's Non-Partisan League. The very next year, the League nominated a full slate of candidates and won every statewide elective office but one. League supporters gained an 85 percent majority in the house but failed to control the senate.

Three years later, the North Dakota legislature finally passed the League's "industrial program" in its entirety. Among the program's main provisions was the creation of the Bank of North Dakota, which opened for business on July 28, 1919.

In setting up the bank, the state had issued $2 million worth of bonds to provide its capital. Business interests promptly organized a nationwide boycott of the bonds--the bank had been denounced as "socialistic"--and thereby delayed its operation for several months. Finally, the Chicago Federation of Labor and the Minneapolis Trades and Council Assembly voted to deposit their funds with the Bank of North Dakota. Other union organizations and sympathetic individuals bought the bonds, and the bank got rolling.

Deposits (including mandatory deposits by school districts and other governmental units) amounted to $13 million by January, 1920 and $25 million by the following March. By May 15, 1920 the bank had issued more than $2 million in loans at an interest rate of 6 percent--two-and-a-half

percentage points less than its customers had been paying commercial banks. It also had financed a home building association and a new state grain mill and elevator. And it had lent money to counties for seeds and feed for farmers suffering from drought losses.

In 1921, in the midst of bitter internal strife among the Non-Partisan League's top leadership, opponents of the League presented voters with an initiative calling for the bank's dissolution. But the voters defeated the resolution, and their support paid off--in the 1920's and 1930's the bank (according to the New York Times) "rescued thousands of farmers from financial ruin."

Today, the bank does a good business in GI, FHA, Farmers Housing Administration, and Small Business Administration loans, and in federally insured student loans. It also lends money to government agencies and municipalities. Though it is now prohibited from making direct private or commercial loans, it does accept savings and checking accounts (currently numbering about 4,000) from individuals and corporations. Since its founding in 1919, it has returned some $83 million in profit to the state treasury. "That's not bad," says bank president H. L. Thorndal, "on a $2 million investment made 56 years ago."

The other 49 state governments don't own banks, but they do have a good deal to do with banking.[1] State commissions are responsible for regulating banks and savings and loans that do not have federal charters

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[1]The state of Delaware does own stock in a private bank, Farmers Bank of Delaware, but not a majority and exercises little control over the bank's policies. The bank is currently in financial difficulties and requesting bailout funds from the state.

(about two-thirds of the total). State treasuries depend on banks both to handle state funds and to broker state bonds. Bank loan and investment policies at times become political issues and generate political responses. The Illinois state treasury, for example, pursues a "linked deposit" plan, in which state deposits are placed in one or another bank depending on how well the banks live up to various social criteria (such as making mortgage money available without "redlining"). The new Treasurer of Colorado, Sam Brown, has initiated a similar plan in his state.

However, the economic downturn of recent years has led some states and cities to consider more direct involvement in banking. The Massachusetts legislature early this year created a "development bank," the Massachusetts Community Development Finance Corporation, to invest in fledgling enterprises in low-income areas. State-owned commercial banks like North Dakota's are being discussed by legislators in Washington, Oregon, Colorado, New Jersey, Massachusetts, New York, California, and Florida. The cities of Austin and the District of Columbia are studying the feasibility of creating city-owned banking institutions.

OBJECTIVES OF A PUBLIC BANK

The notion of public banks is a step beyond traditional welfare state programs. The basic thrust is to substitute public for private criteria in the investment of money--to broaden the considerations in the placement of funds to include social costs and benefits.

There are at least three general objectives that a publicly owned commercial bank can fruitfully pursue. One is profit. Part of a public

bank's portfolio could include commercial and personal loans of the sort any bank might issue. If the state bank is the sole repository of government funds, it is guaranteed a large base of deposits from which to make these loans (and for which it does not have to advertise). Its average return on conventional, "safe" loans may therefore be slightly higher than that of private banks.

Second, public banks can lend money to "high risk" people or enterprises that commercial banks currently won't touch, provided the loans can be justified on other grounds such as reducing unemployment or promoting long term economic development. Applicants in this category might include cooperatives--both consumer and producer--; businesses in high unemployment areas; community-development corporations; and homeowners in low-income neighborhoods. Inevitably, loans in these categories would sometimes entail considerably higher risk than most loans accepted by commerical banks and savings and loans. Rates of return might often be lower than commercial banks would find acceptable, and in some cases the public bank might lose money.

If the public bank did lose money, the risky borrowers in effect would be getting a subsidy, either from the other borrowers (who had to pay higher rates) or from the state or city treasury (which would get lower "profits"). Such an arrangement is not far from standard banking practice. Private banks too have to absorb losses from defaulted loans and bad investments, and they set their rates high enough to cover these losses. The difference is that a public bank could take its losses gambling on a

dozen community development corporations with not all succeeding, rather than, say on financing highrise office buildings or luxury condominiums that might be more than the market will bear. If the public bank did this part of its job well, its overall profit might be a few percentage points lower than a private bank's--but other social objectives such as stimulating employment, would be well served.

Finally, a public bank could watch out for consumers' interests by serving as a "yardstick" for bank behavior. Consumer complaints against commercial banks are numerous. Interest rates on loans are frequently hard to ascertain, despite the various truth-in-lending laws. Banks discriminate by race, sex, and marital status in ways that are hard to prove. They "redline" not only certain neighborhoods, but also certain classes of people (the young and the elderly, for example). They engage in accounting practices--the 360 day year, for example, and various ways of calculating interest--that end up costing their customers more than is apparent.

Presumably all these practices increase bank profits, and doing away with all of them might be costly. But a public bank, because people will perceive it as a public institution will be under strong pressure to abolish such practices. And it may well be that helping customers rather than trying to fool them or fleece them will make up the difference in increased business. A "pro-consumer" approach should make private banks spruce up their own practices, if only to "meet the competition."

A public bank should not pursue any one of these objectives--profit, socially useful loan policies, and consumer-mindedness--to the exclusion

of the others. Neither can it pursue all at once with equal fervor: compromises and trade-offs will be necessary. But setting up an institution capable of implementing all three gives the state government an immense advantage over conventional approaches to banking regulation. Each specific objective could be pursued alone through the traditional means like taxes and regulations. But regulations by themselves are usually coopted, taxes meet with resistance, and private banking interests too often control the agencies who ought to be overseeing them. A public bank would be a working example that banks do not have to operate as they do and it would go far toward making government the equal rather than the handmaiden of the private sector. Above all, the creation of public banks in cities and states around the country would signify that matters of credit and investment should be open to public debate and decision.

MAKING A CASE FOR A PUBLIC BANK

As evidenced by the circumstances that produced the Bank of North Dakota, actual passage of public bank legislation in a state legislature or a city council will involve a political fight. It is not enough to cite the Bank of North Dakota or the general case for a public bank outlined above. Opponents of public banks will argue that North Dakota was a special case--a rural state cut off from normal credit sources--and that, in any event, the private banking system works fine: it provides the most sensible allocation of credit according to the worthiness of respective borrowers. Any other system is a boondoggle and a government giveaway.

Advocates of public banking have to compile detailed information on the functioning of the existing private system, particularly specific examples of economic behavior that may be profitable to private banks but is socially harmful to the state or city. Taxpayers have to come up with the money to repair the "external costs" of this private behavior.

Major areas to look at include:

Concentration

In most cities, three or four banks hold two-thirds or more of all deposits. In smaller cities, two banks hold three-fourths of all deposits. Overall concentration in banking is about twice as high as in manufacturing. In California, for example, five banks--Security Pacific, Bank of America, Wells Fargo, Crocker Bank, and United California Bank--together control three-fourths of all bank deposits, assets, and offices in the state.

Usually, the largest banks are the greatest political donors to campaigns and finance the most powerful lobbies in the state capitol. These contributions can be compiled from public records. The profit records of these banks can be obtained from local business pages and from annual reports. As the Los Angeles Times reported in mid-1975, "In the midst of America's worst recession since the 1930's, the U.S. Banking industry has just completed its most profitable first quarter in history."

Urban Disinvestment

Also known as "redlining," this is the policy of lending institutions to avoid investing in home mortgages, construction or rehabilitation, and

in some cases small businesses in certain urban areas they decide are "undesirable" or likely soon to become "undersirable." An increasing number of studies around the country have documented the existence of "redlining" and related it directly to factors of race, age of housing stock, and income.

In Los Angeles, for example, the Center for New Corporate Priorities, a public interest research group, used a computer to analyze the location and amount of loans by state-chartered savings and loans over a six month period. The results were displayed on a map, colored various shades of red and green to indicate which areas of the county received loans and which did not. The Center's graphic report helped to touch off a debate among state and city officials about "redlining."

In addition to such studies, public hearings on "redlining" can elicit testimony from individuals who have personally suffered from loan denial and from community groups who are trying to save their neighborhoods from the self-fulfilling prophecy of the banks that the area is going downhill.

Strip Mining of Capital

Private banks and savings and loans often seek and accept deposits from low-income, depressed areas, then take the money out of the community for loans elsewhere, much as a multinational corporation extracts profits from an underdeveloped country. Hearings on the proposed state bank bill in New York produced testimony that money is striped from rural communities in upstate New York and funneled into the large banks in New York City, which use it for overseas investments.

The large banks in a state should be required by legislation and in public hearings to provide data on the relationship between the location of deposits and loans within the state.

Community Economic Development

Private banks rarely supply funds to community development corporations. Examples can be gathered, through hearings and letters, of CDC's that have sought bank loans for projects and been rejected.

Small Business

In many states, small businesses, particularly those run by women and minorities, have trouble getting loans. It is easier and more profitable for banks to make large loans to their largest customers. In California, the staff of the state Senate's Committee on Small Business has compiled a file of complaints from small businesses around the state about their troubles in obtaining loan funds.

Cooperatives

Cooperatively-owned enterprises such as supermarkets, drug stores, health centers, etc., have trouble getting loans from private banks. This appears to be based more on ideological hostility on the part of bankers than on the actual prospects of the businesses. Case examples can be collected from coops and from groups trying to start coops on their experience in obtaining money from private banks.

Unemployment

The loan activites of private banks contribute to unemployment in the inner city, rural areas, and certain sectors of the economy. Refusing to

to loan money puts people out of work. In addition, making certain kinds of loans also puts people out of work. In California, the Bank of America has readily supplied funds to agribusiness and large farmers to mechanize their operations, thereby throwing farm laborers out of work. At the same time, the bank is not forthcoming with loans to small family farmers or farmworker coops which are trying to find capital to enable them to purchase their own farm land.

In urban areas, banks favor loans to large corporations for investment in capital-intensive activities. Medium-sized companies in California producing solar energy equipment--a relatively labor-intensive business--say that the banks will not finance them.

Often, case examples can be found of large-scale investment by banks in foreign countries. These investments are frequently open to criticism, depending on the country involved and the nature of investment. The Bank of America and Chase Manhattan, for example, had branches in Saigon during the Vietnam War and strongly supported government policies in that region.

Government Bond Market

State and local governments rely on private banks to sell their notes and bonds. Recently, the bond market has been eroded by events in New York City. In Massachusetts, government agencies have experienced refusals to buy their bonds.

A careful study should be made of a state's bond situation and of the responsiveness of private banks to the plight of individual cities.

Environmental Protection

Private banks rarely, if ever, take into account the environmental effects of the loans they make. If a development destroys a shore area or if a new factory pollutes a lake, it is no concern to the bankers who financed the venture. A recent survey by the Center for New Corporate Priorities in Los Angeles found that environmental effects of loans play little role in bank investment decisions.

A survey can be taken of private banks regarding their environmental policies.

Consumer Treatment

Consumer groups in some states, for example San Francisco Consumer Action, have published comparative ratings of banking services in particular cities. Such studies are useful in illustrating the varying quality of consumer services provided by banks and highlighting those areas in which banks are engaged in either misleading or shoddy practices.

STRUCTURE AND OPERATION OF A PUBLIC BANK

The courts have upheld the right of government at all levels to engage directly in business activity. Legal challenges to the Bank of North Dakota and later to the Tennessee Valley Authority were decided in favor of the government. The actual scope of action of state and city governments with regard to public ownership and operation of enterprises such as banks varies considerably from state to state, depending upon whether the state's constitution limits, encourages, or takes no position on such action.

A state's constitution may limit state participation in ownership or operation of enterprise by, for example, prohibiting the state from contracting debts for public works such as railroads, highways, and dams (e.g. Kansas, Minnesota); from loaning its credit in aid of any individual, association or corporation (e.g. Arkansas, Florida, Idaho, Iowa, Minnesota, Nebraska); or from becoming a stockholder in any private corporation (e.g. Iowa). Such limitations are an expression of public policy, not a constitutional principle.

To create the Bank of North Dakota, the state constitution had to be amended to read:

> That the state or any county...may establish and maintain a system of rural credits and thereby loan money and extend credit to the people of this state upon real estate security in such manner and upon such terms and conditions as may be prescribed by general law.

Some of the state bank bills currently proposed, for example, in Washington, require constitutional amendments. In 1932, Justice Brandeis (in New State Ice Co. v. Liebmann) put forward the now generally accepted opinion that a state may "serve as a laboratory; and try novel social and economic experiments..." Over the years, North Dakota has shown that a state government can successfully run a bank. It is no longer a novel experiment.

Municipal governments are creations of state government and exercise such powers as the state delegates to them. Consequently, the range of options available to municipalities in public ownership is potentially

as wide as that of the state in which the city is located. City ownership of banks is quite common, for example, in West Germany. There is no reason why a medium-sized city in the United States could not establish its own public bank.

In the drafting of public bank legislation, public accountability and participation should be built into the structure of the bank. This is important because public enterprises can be managed just as autocratically and unresponsively as private enterprises. The Bank of North Dakota, for example, is governed by a three-person Industrial Commission, made up of the governor, the attorney general and that state treasurer. Its activities are watchdogged by a legislative committee and its profits must be returned to the state treasury. This is not the ideal model. As is spelt out in detail in the model legislation in the appendix, it seems preferable to have a board of directors with representatives of labor, consumers, cooperatives, and small business, as well as state executive officers such as the state treasurer.

It is also proposed in the model legislation that branch banks (in states that allow branch banking) have community loan advisory committees to periodically review the activities of the state bank in the community and to recommend certain categories of loans and approaches to economic activity in the community.

As do private commercial banks, the public bank should have speciality officers and desks. For example, the bank might have a department geared to the assistance of the formation of cooperatives. This department would not only evaluate loan applications from existing coops; it would provide

technical assistance to fledgling coops around the state or city. A state bank might, like some international development banks, have a rural desk or an agricultural loan department to work with family farmers and with farmworkers wanting to start agricultural coops. There might also be special desks to handle the financial problems of community development corporations.

The public bank, through its research department, would serve an entrepreneurial function by studying possible new markets for the state's products and pointing out new directions for small businesses, coops, and CDC's. The bank's research would also be a valuable guide to the legislature in assessing the overall economic health of the state.

In the initial staffing of the bank, it will be necessary to search out publicly minded individuals from the private banking community. Some experts might be located from existing international development banks. Eventually, the public bank can work with business schools at universities within the state to develop new curriculum for the training of public bankers. Special training programs can be created in public enterprise, management of cooperatives, community-based economic development, and other subjects now neglected by existing, corporate-oriented business schools.

Finally, in states where there exist strong credit unions, they can be joined into the statewide public banking network. In British Columbia, which has a strong history of credit unions, this was done when the publicly owned British Columbia Savings and Trust was established last year. A similar proposal has been made by Bill Batko in his paper outlining a

municipal banking system for the District of Columbia.[2]

In its daily operations, the public bank would also provide public education on money and credit issues by producing low-cost, easy-to-read pamphlets on loan options, family budgeting, and how to start small businesses, coops, and CDC's.

Small, community-based private banks are often more responsive to local needs than branches of large multinational banks. The public bank may well find it advantageous to work closely with the smaller banks in the state, joining with them in loan packages aimed at developing the local economy in which the private banks are located.

FINANCING THE BANK

Initial capitalization of the public bank should be by direct legislative appropriation. Initial deposits would include some or all of the state and/or municipal funds now deposited in private banks. This public money need not be removed all at once, but semi-gradually over a period of time. Discretion in this matter should be left to the officers of the public bank.

The bank would solicit demand and time deposits from consumers and private businesses and from socially-minded institutional investors such as churches, universities, and labor unions. The bank would also issue its own bonds and notes.

Public employee pension fund systems at the city, county, and state level could be required to invest a percentage of their assets in the

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[2]Batko's paper is reprinted in the Public Policy Reader prepared for the 1976 Conference held in Austin, Texas

state bank. A detailed study of the California public pension fund system made by Ed Kirshner under contract to the state Department of Employment Development recommends just such a course of action.[3]

UCLA political scientist Karen Orren has proposed a similar requirement for the insurance industry. In her pioneering study, Corporate Power & Social Change: The Politics of the Life Insurance Industry (Johns Hopkins University Press, 1974), Ms. Orren suggests that life insurance companies be required by law to place one third of their investible funds--over seventeen billion dollars nationwide in 1970--in a development bank. She points out that "life insurance funds are well suited to such a plan... (they) carry a fixed rate of interest assumed for the entire period of the insured's 'deposit,' providing a convenient method for setting the interest rate at which the development bank would pay the life company for the use of its money."

In addition to making such a legal requirement for insurance companies regulated by the state insurance commissioner, state's might also consider establishing their own public insurance companies. Three Canadian provinces operate auto insurance companies, investing the premiums to benefit the local economy.[4]

POLITICS OF WINNING

Establishment of public banks, given the predictable resistance of private sector interests, necessitates a comprehensive political strategy.

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[3]The Kirshner study is reprinted in the Austin Conference Public Policy Reader

[4]For more information on public insurance companies, see Case, Goldberg and Shearer, "State Business," Working Papers, spring, 1976

Two elements of that strategy have already been discussed: an assessment of the potential benefits to citizens from the operation of a public bank and an accounting of the social costs eminating from the existing private banking system. One final factor, perhaps the most vital, remains. This is the ideological argument: the contest against the attitude that government can't do anything to improve the quality of life in the U.S.

The Wall Street Journal, for example, argued in an editorial against the New York state bank bill that government is incompetent and incapable of handling business enterprise. The Journal wrote:

"New York City's financial situation may not yet be rotten to the core, but the proposal by the Big Apple's legislative delegation to establish a network of state banks amounts to offering to do for the rest of the state what they have done for Fun City."

In a similar vein, an official in the Massachusetts state government told a Boston Phoenix reporter,

"Bankers are not the brightest group I ever met, but compared to the guys the legislature would put on a state bank board, they're geniuses. You need a certain amount of honesty in government before you can have good public institutions."

One answer, of course, is that we need honesty throughout the society, in private institutions as well as in government. The behavior of the leaders of large corporations is no study in honesty nor ethics. Regarding the issue of government itself, it is not a matter of more or less government--but of what kind of government and for whom? Reforms such as public banks will only be successful if they are related to citizens'

movements to put new kinds of political people into office: rank-and-file union leaders, community organizers, environmentalists, womens' activists, senior citizen leaders, etc.

Of course, public banks can be boondoggles and bailouts for private interests--what Ralph Nader calls "lemon socialism"--if they are run by the same old politicians who are beholden to the large corporations for their offices. Partly this can be avoided by building participation and accountability into the structure of the public bank--but only partly. The real answer is to make politics relevant to people's daily lives, so that they do not allow public institutions to be captured by the very forces which necessitate change in the first place.

APPENDIX

BIBLIOGRAPHY

General Books on Banking

THE BANKING SYSTEM: A PREFACE TO PUBLIC INTEREST ANALYSIS
by Stanley W. Black III, Glen Canner and Robert G. King, The Public Interest Economics Center, 1714 Mass Ave., N.W., Washington, D.C. 20036, 1975

THE DOLLAR BARONS
by Christopher Elias, MacMillan, 1973

CITIBANK, by David Leinsdorf and Donald Etra, A Nader study group report, Viking, 1973

THE BANKERS, by Martin Mayer, Ballantine, 1974

THE CONSUMER'S GUIDE TO BANKS, by Gordon L. Weil, Stein & Day, 1975

Redlining

URBAN DISINVESTMENT: NEW IMPLICATIONS FOR COMMUNITY ORGANIZATION RESEARCH AND PUBLIC POLICY, by Arthur J. Naparstek and Gale Cincotta, National Center for Urban Ethnic Affairs, 4408 8th St., N.E. Washington, D.C. 20017

REDLINING HANDBOOK, Movement for Economic Justice, 1609 Connecticut Ave., N.W., Washington, D.C. 20009

WHERE THE MONEY IS, Center for New Corporate Priorities, 1516 Westwood Blvd., Los Angeles, CA 90024

Bank of North Dakota

"Living with Sin and Liking It: North Dakota, a Conservative State is Deep into Socialism," Forbes, January 15, 1976

"Hard-Nosed Socialism: The Bank of North Dakota Knows How to Make a Buck," Barron's, June 2, 1975

The Bank of North Dakota (Main Street, Bismarck, N.D. 58501) will provide a summary of the bank's history and copy of the bill stablishing the bank upon request.

Public Banking

"State Business," by John Case, Leonard Goldberg, and Derek Shearer, Working Papers, spring 1976

TWO MODELS OF FOREIGN DEVELOPMENT BANKS, by Mya Maung, Center for Community Economic Development, 1878 Mass Ave., Cambridge, Mass. 02140

STATUS OF PUBLIC BANK LEGISLATION

California

In 1975, consultants for the state Department of Employment Development produced a draft state bank bill. A copy of that bill is included in this appendix.

This year, Senators Nicholas C. Petris (D-Oakland) and John F. Dunlap (D-Napa) requested the State Senate to conduct an 18-month feasibility study of a state bank. For up-to-date information on the progress of the study write: Jonathan C. Lewis, Legislative Assistant to Senator Petris, State Capitol, Room 3082, Sacramento, CA 95814

Colorado

As yet, no state bank bill has been introduced in the Colorado legislature. Treasurer Sam Brown is interested in the concept, but he is concentrating on a study of the operations of the existing private banking system, under a foundation grant. Copies of Brown's study should be available by the end of the year.

Brown has instituted a system of "linked" deposits for state tax money deposited in private banks. Information on the criteria that Brown is using in his system is available from the Office of the State Treasurer, State Capitol, Denver, Colorado.

District of Colombia

In 1975, an ad hoc committee established by city council member Nadine Winter looked into the possibility of a public bank for Washington, D.C. The ad hoc committee submitted legislation to establish a Commission on the Establishment of a Municipal Bank, but that legislation has not, as yet, gotten out of committee for a council vote. For up-to-date

information on the status of the bank proposal for Washington, D.C., contact ad hoc committee member Bill Batko, c/o Institute for Local Self-Reliance, 1717 18th St., Washington, D.C. 20009, (202) 232-4108.

Massachusetts

A full fledged state bank bill has been drafted and introduced into the Massachusetts legislature in the 1976 session by state Senator Chet Atkins. Atkins expects the bill to have preliminary hearings this spring. The extent of support for the bill and the position of Governor Dukakis to are unclear as of this writing.

For a copy of the bill, write: Senator Atkins, State House, Boston, Mass. 02133

New York

Greatest progress toward passage of a public bank bill has occured in New York. A bill to create the New York state bank passed the Assembly in 1975, but was killed in committee in the Republican-dominated Senate. The bill was strongly supported by Assembly speaker Stanley Steingut (D-Brooklyn). Hearings on the bill were conducted in late spring by the Assembly Committee on Banking chaired by Assemblyman George Cincott (D-Brooklyn). Among those testifying were Ralph Nader, Eliot Janeway, H.L. Thorndal, President of the Bank of North Dakota, and James Needham, chairman of the New York Stock Exchange.

Because it is a two year session, the bill can be brought up again in 1976. Steingut still is pushing the measure. For copies of the bill

and of testimony from the hearings, write to the: Office of the Speaker, New York State Assembly, Albany, New York, 12224

Oregon

In 1975, a state bank bill modeled directly after the state bank of North Dakota was introduced into the legislature by Rep. George Starr (D-Portland). The bill is currently being studied and redrafted to strengthen it. For current information on the proposal, contact: Office of Rep. George Starr, Oregon State Legislature, Salem, Oregon, 97310

Washington

A state bank patterned exactly after legislation creating the Bank of North Dakota was introduced into the Washington legislature in 1975 by Rep. Michael Parker (D-Tacoma). The measure provoked immediate opposition from the Washington State Bankers Association. If passed, the state bank would become the third largest bank in Washington.

Under attack from the state's private bankers, Parker conceded that the bill could be watered down to prevent the state bank from competing for deposits and loans with private banks. Parker, who is running for Congress in 1976, told the American Banker:

"I'm not criticizing the local banking community in any way. What I see the state bank as being able to do is provide them with more options. We were looking for a more acceptable way we could provide employment. If that's through a state bank that can loan money to other banks at a more acceptable rate than they can get it through the Federal Reserve, that may be the way to do it."

Parker sees the state bank as a "kind of mini-Federal Reserve system" that would serve as a bond bank for local issues, provide more funds for student loans, and offer housing funds at lower rates. The bill requires a Constitutional amendment, since the Washington state Constitution prevents the state from setting up such a bank. As a constitutional amendment, the bill requires two-thirds approval of both houses of the legislature.

The bill was introduced for study in 1975 and for action most likely in 1977. Copies of the bill are available from the office of Rep. Michael Parker, State Capitol, Olympia, Washington 98504.

Florida

Rep. Ray C. Knopke has introduced legislation (HB 2410) in the 1976 session to establish a select joint legislative committee to study the feasibility of creating a state-owned bank. Knopke feels that this is the best strategy, given the strength of the banking lobby in Florida and the newness of the issue. For copies of his bill, write: Rep. Ray C. Knopke, 416 House Office Building, Tallahassee, Florida, 32304.

April 21, 1975

BRIEFING MEMORANDA ON THE

PROPOSED NEW YORK STATE PUBLIC BANK

(A.6531 and A.6532)

Attached are three briefing memoranda concerning the proposal to establish a New York State Public Bank. The first of these memoranda sets out specific issues raised by this proposal and offers responses to these issues. The second of the memoranda sketches the precedent for this bank: the Bank of North Dakota. The third of the memoranda briefly traces the history and evolution of banking in the United States.

These memoranda are not meant to be a comprehensive treatment of the issues at hand. Rather, they present background statements to better acquaint the media with the complexity of the proposal at hand.

MEMORANDUM ONE: Briefing Memo on the Public Proposed New York State Bank.

ISSUES AND RESPONSES

NEED FOR A PUBLIC BANK

Q: What are the concerns and problems that led to the conceptualization of the public bank?

A: 1. Redlining -- Redlining is a policy of banks in New York and across the country to avoid investing for new home construction and mortgages in "undesirable" communities. The observable phenomenon that many sections of the State of New York, particularly our cities and low income communities, are unable to obtain financing for new home construction and that existing property renovation and rehabilitation are virtually impossible is the result of this bank policy. The pervasive effects of redlining undermine the very financial structure of our cities and low-income communities.

2. Municipal Bond Market -- The erosion of the municipal bond market is the result of another bank policy. The repeal of the Port Authority covenants and the UDC crisis have shaken the confidence of the banks in the municipal bond market. The recent suspension by Standard and Poor's of New York City's "A" rating has further eroded this confidence. As a result, the financing of municipalities has become an increasingly costly burden.

3. Community Development -- The perception by the banking community that community development is not profitable has led to an almost total lack of long-term capital for community development. As a result, neighborhoods have nowhere to turn for funds making community decay all but inevitable. Lack of this kind of funding by the banks represents a severe disservice to the people of the communities from which the banks draw their funds.

4. Venture Capital -- Venture capital is high risk capital for new industrial and commercial enterprises. This flow of money to innovative businesses is essential to keep the state's economy healthy and to provide a base for future job creation. Being basically risk averse, the banking community has shunned these investments resulting in an almost total absence of risk capital in the state.

5. "Strip mining" of Capital -- The disintermediation of monies has resulted in the flow of money from rural areas to small villages, from towns into cities of increasing size, and finally into the major money centers. Ultimately, this money is exported to other states and countries where it

can earn the higher rates of return than are currently available in the state. Increasingly, monies deposited in New York State are being used to finance development elsewhere in this country and abroad. Doubtless, this process will be accelerated by the statewide Branch Banking Law, and in that context, the following direct quote as reported in the Rochester Democrat and Chronicle, April 10, 1975, from Arthur M. Richardson, President and Chief Executive Officer of Security, New York State Corp., an upstate regional bank holding company, is of relevance:

> "To the internation giants like Citibank, Chase Manhattan and others, their upstate banks are like strip mining operations. The raw material, money, is extracted from our local communities to be used anywhere in the world where they can get the best terms regardless of local consequences."

MORE GOVERNMENTAL BUREAUCRACY

Q: Are there alternatives to a state bank in order to accomplish the same purposes? In other words, do we need a new institution and a new governmental bureaucracy?

A. Yes, we do. For perfectly sound reasons having to do with maximizing earnings per share in the case of commercial banks, and the less clear purpose of increasing capital surpluses in the case of savings banks and Savings and Loans, the banking institutions have historically been unable and continue to be unable to deal adequately with the collection of problems referred to previously. It is pointless to berate the FHA for its historic reluctance to insure in urban areas, (leading to the self-fulfilling prophetic results of disinvestment) and it is equally unproductive to criticize banks

for preferring to loan under insured and reduced risk circumstances. However, the socially undesirable results of these policies are observed in the geographical distribution of the New York State savings banks' mortgage portfolio as of December 31, 1974. At that time 44.21 percent or $19,115,000,000 of mortgages were in insured VA or FHA mortgages. Conventional one and two family mortgages were only 18.3 percent of the portfolio or $7,797,000,000 worth. Of the total mortgage portfolio of the savings banks, 51.8 percent or $22,396,000,000 worth was in New York State and the balance or 48.2 percent being $20,840,000,000 was in mortgages outside of New York State.

Clearly, the private sector is not serving the needs of the state. A new governmental agency is needed in order to stimulate the private sector to better serve public needs.

YARDSTICK COMPETITION

Q: How will the state bank effect the performance of existing banking institutions?

A: There is at present no adequate yardstick by which the performance of conventional banking institutions can be measured relative to their performance as underwriters and market creators of governmental financing. Experience in North Dakota with the State Bank of North Dakota established in 1919 is valid historic precedent for seeking to establish this yardstick.

A multiplicity of incentive and guarantee insurance programs would not be sufficient to produce an efficient, coordinated system of public purpose federal and state programs. However, through direct

competition and indirect support, the state bank can act as a positive influence on the existing banking structure and thereby achieve a healthy level of "yardstick" competition.

MANAGERIAL COMPETENCE

Q: Where would the managerial competence come from to run this large scale enterprise?

A: National examples abound of special purpose financial institutions such as farmers credit programs and other public purpose banking efforts which have been run competently and profitably so that capital structure is owned by the client population although policy continues to be set by the executive and by Congress. Even private lending institutions will privately admit that there is no reason to suppose the state cannot run this effort in a profitable manner. Attracting competent management is not an insurmountable obstacle.

UNIVERSAL PANACEA?

Q: Are you seriously trying to tell us that this bank is going to solve New York State's financial problems and the financial problems of the cities?

A: Of course not. Opponents of the bill will seek to destroy this valuable institution by imputing to it such vast goals and objectives that it must necessarily fall of its own weight. It will of necessity have relatively modest resources with which to operate.

ANOTHER UDC?

Q: Why isn't this just another UDC?

A: 1. Profitability -- The whole operational premise of UDC was that it was a developer and builder of last resort. The public bank would not be exclusively a lender of last resort. The public bank is charged with the responsibility of being profitable.

2. Flexibility -- UDC is entirely limited to the most difficult form of long term financing whereas the public bank has unlimited flexibility to lend both long and short.

3. Cash Flow -- It was never contemplated that the cash flow from UDC projects would be adequate to pay debt service until the projects were, in fact, complete. It should also be remembered that the banks refused to loan to UDC prior to the completion of the projects.

4. Regulation -- The public bank would be subject to the regulation of the banking department whereas UDC was essentially unregulated.

5. Intent -- There is little relationship between a development organization such as UDC and a bank. These organizations were designed for different purposes and there is no reason to suspect that they will be subject to the same pitfalls.

SOURCES OF FUNDS

Q: Where will the money come from?

A: The money will come from a variety of sources including:

1. Capitalization of $50 million of first instance funds;

2. Municipal deposits and state deposits which at year end

1974 totalled $3.4 billion on hand in state chartered commercial banks;

3. It is contemplated that local assistance funds projected to be $6.2 billion for 1975 will be transferred through the state bank producing an average daily deposit in excess of $11.5 million a day;
4. The state bank will solicit time deposits of all varieties including day of deposit to day of withdrawal, time deposits, certificates of deposits and other like debt instruments. Under consideration is the possible exemption from federal, state and local taxation of interest earned on time deposits in the state bank;
5. The state bank will solicit demand deposits;
6. It is contemplated that the state bank will be an eligible recipient of grants both federal and state and other forms of public assistance to pursue its objectives.

UNSOUND AND DESTRUCTIVE COMPETITION

Q: Won't the state bank destroy other commercial and thrift institutions?

A: Not at all. The state bank will work closely with such institutions and will function in some respects like the import-export bank. It could participate in loans with other banks and could administer loan insurance and guaranty programs. It should be remembered that banking as a regulated industry is a protected industry and it is not the purpose of the public bank to limit competition but to increase competition. The combined effect of the bank holding law and the statewide banks

banking law are far more significant events relative to decrease of competition than the state bank could ever be.

INSURANCE

Q: What security will the depositors have that their money will be there when they want it?

A: In addition to the moral authority of the State of New York we are exploring whether it is more appropriate to obtain Federal Deposit Insurance or create a State Deposit Insurance as the State Bank of North Dakota did. Either of these alternatives should provide depositors with firm safeguards that their deposits are secure.

MEMORANDUM TWO

"HISTORICAL PRECEDENT -- THE BANK OF NORTH DAKOTA"

HISTORY

-- The Bank of North Dakota opened in 1919.

-- It is owned by the state government, not private stockholders.

-- It sought to save farmers from ruinous falling agricultural prices following World War I. At that time, private bankers were quick to foreclose on property and slow to grant loans. As a result, the state successfully stepped in and saved many farmers from financial ruin.

OPERATIONS

-- It is run like any other bank and as such, seeks sound, profitable investments.

-- Its assets are four times greater than any other bank in the state.

-- According to Forbes magazine (1/15/75), its rate of return on assets is almost twice as great as any of the 100 largest banks in the United States.

-- It does little direct lending and soliciting of deposits. Rather it seeks large corporate and state accounts and acts to participate in loans initiated by other banks.

-- One of its most valuable functions is to act as a primary market for small municipal bond issues.

-- Local governments are required to deposit their funds in the Bank.

-- Head of the Industrial Commission is also the Governor, the Attorney General, and the Commissioner of Agriculture.

MODEL FOR NEW YORK STATE

-- New York has parallel problems to those for which the North Dakota Bank was established. For example, the issue of redlining and the lack of capital flowing to low income communities is analogous to the problem faced by farmers in North Dakota.

-- In addition, many New York municipalities and state authorities would benefit from the role the North Dakota Bank plays in bolstering the market for municipal and state bond issues.

SUMMARY

-- The Bank of North Dakota proves that a state government can be successful in the banking business.

-- The Bank of North Dakota also proves that social, public interest needs can be met while profits are simultaneously pursued.

-- The Bank of North Dakota provides a positive competitive influence on the banking system to act in the public interest as well as aid to the existing private banking structure by participating in loans by banks.

MEMORANDUM THREE

"BANKING HISTORY"

INTRODUCTION

-- Banking in New York is a complex scheme of commercial banks and trust companies, savings banks, savings and loans, credit unions, state and federal regulatory agencies.
-- This is the result of an historically decentralized banking system with over 13,700 separately incorporated commercial banks.
-- This is an unusual system. Most other nations have a powerful central bank which does not exist in the United States.

EARLY BANKING

-- In 1791, the First Bank of the United States was established. It was jointly owned by the federal government and private investors. Political division in Congress prevented renewal of its charter in 1811 but it did act to establish banking as an industry in the United States.
-- From 1811-1816, private banks proliferated. With little control and regulation, these banks irresponsibly issued notes causing inflation and widespread monetary disorder.
-- In 1816, Congress created the Second Bank of the United States. This bank ran into political trouble with President Andrew Jackson and in 1836, its charter was not renewed.

MODERN BANKING

-- In 1864, Congress approved the National Bank Act which provided for a national currency and federal chartering of banks. It provided the first real regulation and supervision of the banking

system. This Act brought order and stability to banking for a while.

-- Despite the stability achieved under the banking act, true banking reform and the beginnings of modern banking began with the Federal Reserve System, established in 1914.

-- In 1935, after the wave of banking failures during the depression, the Federal Deposit Insurance Corporation was established. The FDIC has brought stability and confidence to the banking system.

BANKING REGULATION

-- Banks can either be chartered federally by the U.S. Comptroller of the Currency or by the state through the State Banking Department. Federally chartered banks are regulated by the Comptroller of the Currency and must become members of the Federal Reserve System. State chartered banks are regulated by the State Banking Department and by the Federal Reserve Board if they choose to join the Federal Reserve System.

-- Membership in the Federal Reserve System imposes certain restrictions on banks but also grants them borrowing privileges. State chartered banks that don't join the Federal Reserve System are supervised by FDIC.

-- State chartered savings and loan associations and credit unions are regulated by the State Banking Department. Federally chartered savings and loan associations fall under the supervision of the Federal Home Loan Bank Board.

TYPES OF BANKS

Commercial Banks

-- They are corporations owned by shareholders.

-- They may be federally or state chartered.

-- They may provide the following services:

  -- time deposits,

  -- checking accounts,

  -- bank credit cards,

  -- consumer and business loans, and

  -- home and corporate mortgages.

Savings Banks

-- In theory they are owned by their depositors. However, actually there are no owners. Operating capital comes from depositors rather than shareholders.

-- Savings banks are permitted by Federal Reserve Board and the FDIC to pay higher interest rates on deposits than commercial banks.

-- Savings bank services include:

  -- savings accounts,

  -- home mortgages and general real estate financing, and

  -- passbook loans and savings banks life insurance.

-- Savings banks cannot offer checking accounts, personal loan services, or bank credit cards.

Savings and Loan Associations

-- They are similar to savings banks and subject to many of the same limitations.

-- Savings and loan associations are owned by depositors similarly to savings banks.

-- There is limitation on savings and loans for investing their assets in home mortgages. Otherwise, they operate the same as savings banks.

Credit Unions

-- These are organized around existing institutions or organizations and are not generally open to the public.

-- Credit union members own the organization and get paid dividends in lieu of interest.

-- Credit unions engage mostly in consumer loans for the benefit of their members.

DRAFT

CALIFORNIA STATE BANK ACT

A Bill to Create a California State Bank

(1) The legislature finds the following: Nearly ten percent of the labor force during the current rescession are unemployed with chronic and persistent underemployment affecting segments of the population such as the young, the unskilled, and even recent college graduates even in good times.

(2) A lack of sufficient stable, satisfying employment opportunities is the most significant underlying cause of poverty, public dependence, and crime.

(3) Our customary methods of dealing with unemployment, bureaucratic programs of public assistance and temporary unemployment compensation, have gorwn ever more costly to the taxpayer but have failed to alleviate the problem of poverty.

(4) It becomes increasingly difficult for the small businessman, the independent retailer, the family farmer, to compete economically with the major corporations while economic instability combined

with direct and indirect government subsidies increase the concentration of ownership and wealth in the major sectors of our economy such as agriculture, retail marketing and manufacturing.

(5) Competition and opportunity in the private sector are waning and the mosaic of independent entrepreneurs and farmers which formed the middle class is eroding. At the same time the low income population is suffering from chronic limited opportunity for upward mobility because of a lack of venture capital for new business development and a lack of job opportunity.

(6) Our financing mechanisms increasingly fund all but the wealthy as consumers rather than as income producers.

(7) A need exists to provide substantial venture capital to stimpulate additional business opportunity and attendant employment opportunity.

(8) A need exists to provide additional sources of capital funds to small businessmen and family farmers to strengthen their capacity to compete with conglomerates and multinationals.

(9) A need exists for community-based enterprise to deal affirmatively with the hard core problems of poverty and unmet public needs. In addition to creating new jobs, a need exists to provide capital for imperiled existing business to preserve jobs,

I

PURPOSES

1. The Purposes of this act are:

a. To mobilize public funds to provide needed sources of venture capital and financial assistance to preserve existing jobs, create new jobs, strengthen small businesses and the family farmer, preserve competition, eliminate poverty, underemployment in disadvantaged segments of the population, create new opportunities for entrepreneurs and community owned and controlled enterprise, assist communities in financing needed services,

b. To augment the existing commercial banking institutions with a public entity established to provide financial services which existing private mechanisms have not undertaken effectively,

c. To provide an alternative to current indirect government assistance programs which

have proven costly but have failed in the main to achieve their objectives.

d. To create a depository for public funds and quasi-public funds such as pension funds, dedicated to the public interest.

II

ORGANIZATION

2. State Bank Created. The California State Bank Corporation (hereinafter called "state bank"), is hereby created as a public corporate agency of the State of California. Unless otherwise specified in this chapter, the state bank shall be exempt from the provisions of the California Financial Code pertaining to banks and related financial institutions.

3. Board of Directors. The state bank shall be governed by a board of directors of 16 persons, composed of the following: The State Treasurer, The Secretary of Business and Transportation, The Director of the State Department of Banking, The Director of Employment Development, The Director of Housing and Community Development, The Director of Agriculture, as well as two representatives of each of the following interest groups: organized labor, the cooperative

movement, small business, community development organizations, and two representatives at large, all of whom shall be appointed by the Governor, subject to confirmation by the State Senate. The initial board members appointed by the Governor shall serve for the following terms: 3 for terms of two, 4 for terms of four, and 3 for terms of six years. Successor board members shall serve for terms of six years each. Vacancies in the board shall be filled by appointment of the Governor, subject to confirmation by the Senate to serve for the balance of the unexpired term. The Governor shall designate the chairman of the board from its membership.

a. Quorum. A majority of the membership of the board shall constitute a quorum for the purpose of conducting the business of the state bank. In determining such majority, duly-appointed representatives of the public officials serving on the board shall have all powers of board members, provided that such substitution has been filed with the chairman of the board prior to any meeting attended by the representative.

b. Compensation. Public official board memers shall serve without salary or other compensation. Appointed members shall be entitled to

reimbursement for necessary expenses incurred in the performance of official duties and shall receive a per diem not to exeeed $250.00 for each meeting of the board or a duly-constituted subcommittee of the board attended by the member, provided that the aggregate of such per diem compensation to any single member during any fiscal year shall not exceed $7,500.00.

4. General Powers. The state bank shall have the following general powers:

a. To sue and be sued;

b. To make and execute contracts, and all other legal instruments necessary for the reasonable exercise of its powers and functions;

c. To make and amend By-Laws for its organization and management;

d. To acquire, hold, sell, lease or otherwise dispose of personal and real property in furtherance of its purposes;

e. To appoint officers, agents and employees;

f. To borrow money and issue negotiable notes, bonds or other obligations;

g. To accept and hold deposits from any and all public and private sources;

h. To invest funds held in reserve in obligations of the State or the United States government, or obligations, the principal or interest of which are guaranteed by the State or the United States government;

i. To accept gifts, grants, loans or financial or any other aid from any source;

j. To engage the services of private consultants on a contract basis for rendering professional and technical assistance and advice;

k. To establish, own and control subsidiary corporations or departments and through such subsidiary or departments, to buy, hold, maintain, sell, lease or otherwise dispose of real property and invest in securities and otherwise conduct the business of a trust company, provided that such trust company business is conducted in conformity with Finance Code §§1500-1590;

l. To invest in securities subject to the limitations of Finance Code §§773 and 774;

m. To make loans or to guarantee loans, make grants and subsidize interest rates on commercial loans obtained from private banks;

n. To market and service any bonds or other general obligation issued by any county or municipality, public agency, or any public instrumentality;

o. To do any and all things necessary, incidental or convenient to carry out its functions and purposes and to exercise the powers expressly granted in this act.

4. Executive Functions. The principal executive functions authorized by the board of directors shall be carried out by the president.

a. The president shall be appointed by the Governor, subject to confirmation by the State Senate;

b. Unless removed for cause by the board of directors, the president shall serve a term of six years;

c. The board shall also elect vice-presidents, a secretary and a treasurer to perform such duties as are delineated in the By-Laws;

d. The president may appoint such additional staff as he deems necessary and convenient for the conduct of the state bank's business and affairs.

5. Borrowing Power. The state bank shall have the power to issue negotiable bonds and notes in such amounts as the board determines is necessary to carry out its purpose, including, but not limited to,

payment of principal and interest on obligations of the state bank, the establishment of reserves to secure the repayment of principal and interest, the retirement of bonds previously issued by the state bank, and all other expenditures necessary and incidental to the fulfillment of the powers and functions of the state bank.

a. General Obligations. Except for such bonds as are secured by particular revenues as specifically provided, every issue of the notes or bonds of the state bank shall be general obligations of the state bank payable out of any of its revenues or assets.

b. State Not Obligated. Neither the directors nor any person executing the bonds or notes are personally liable on the bonds or notes by reason of their issuance. The state bank is sole obligor and neither the state nor any of its agencies or political subdivisions shall be liable on any of the notes, bonds or obligations of the state bank. The assets of the state bank shall be the sole source of payment of such obligations, and the bonds shall so state on their face. The bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation applicable to the State.

c. Board Resolution. Notes or bonds shall be authorized by resolution of the board of directors. Such resolution shall provide for the date the bonds should bear, the date of maturity, the interest rate, the denomination and series, the form of the bonds, coupon or registered, any conversion or registration privileges, the rank or priority of such bond, if any, the manner of execution of the bonds, the terms of redemption, and any incidental terms.

d. Sale. The bonds may be sold at public or private sale, at such price or prices as the board shall determine. Advance notice of any sale of bonds shall be published at least once in newspapers having a general circulation in the City and County of San Francisco, the City of Sacramento, the City of Los Angeles, the City of Fresno and the City of San Diego.

e. Covenants. In connection with the issuance of bonds, the directors may enter into any covenants with bondholders deemed by the board to be reasonable and necessary: (1) The board may proscribe a procedure by which the terms of any agreement with bondholders may be amended or abrogated; (2) The directors may provide for the powers and duties of the trustee and the terms and conditions upon which the

trustee or the bondholders may enforce any covenant or rights vested in them under the terms of the bonds, subject to the trustee powers described in Paragraph j

f. Attorney General's Certification, The directors shall submit any bonds to the attorney general for an opinion as to their validity. If the bond issuance in its terms is consistent with the authority of the board under this chapter, and if the bonds when delivered and paid for will constitute binding and legal obligations of the state bank, the attorney general shall certify on the back of each bond that it is issued in accordance with the Constitution and State laws.

g. Tax Exemption. All bonds issued by the state bank shall be free and exempt from taxation pursuant to Article XIII, Section 1-3/4 of the California Constitution, except for estate and gift taxes.

h. Agreement with the State. The State does hereby pledge to and agree with the holders of any notes or bonds issued under this act, that the State will not limit or alter the rights hereby vested in the state bank to fulfill the terms of any agreements made with the holders thereof, or in any way impair

the rigths and remedies of such holders until such notes or bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs, and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. The state bank is authorized to include this pledge and agreement of the state in any agreement with the holders of such notes and bonds.

i. Redemption of Bonds. Notwithstanding and in addition to any provisions for the redemption of bonds which may be contained in any contract with the holders of the bonds, the state may, upon furnishing sufficient funds therfor, require the state bank to redeem, prior to maturity, as a whole, any issue of bonds on any interest payment date not less than twenty years after the date of the bonds of such issue at one hundred five per centum of their face value and accrued interest or at such lower redemption price as may be provided in the bonds in case of the redemption thereof as a whole on the redemption date. Notice of such redemption shall be published in newspapers of general circulation in the cities of San Francisco, Los Angeles, Sacramento and San Diego at least twice, the first publication to be at least sixty days before the date of redemption.

j. Remedies of Noteholders and Bondholders.

(1) In the event that the state bank shall default in the payment of principal of or interest on any issue of notes or bonds after the same shall become due, whether at maturity or upon call for redemption, and such defualt shall continue for a period of thirty days, or in the event that the state bank shall fail or refuse to comply with the provisions of this act, or shall default in any agreement made with the holders of any issue of notes or bonds, the holders of twenty-five per cent in aggregate principal amount of the notes or bonds of such issue then outstanding, by instrument or instruments filed with the Secretary of State and the Clerk of the County of Sacramento, may appoint a trustee to represent the holders of such notes or bonds for the purposes herein provided.

(2) Such trustee may, upon written request of the holder of twenty-five per cent in principal amount of such notes or bonds and having first given the state bank thirty days' written notice of intent to enforce noteholders or bondholders rights:

(a) Enforce all rights of the noteholders or bondholders, including the right to

require the state bank to collect fees and charges and interest and amortization payments on loans made by it adequate to carry out any agreement as to, or pledge of, such fees and charges and interest and amortization payments on such loans and other properties and to require the state bank to carry out any other agreements with the holders of such notes or bonds and to perform its duties under this act;

(b) Bring suit upon such notes or bonds;

(c) By suit, require the state bank to account as if it were the trustee of an express trust for the holders of such notes or bonds;

(d) By suit, enjoin any acts or things which may be unlawful or in violation of the rights of the holders of such notes or bonds;

(e) Declare all such notes or bonds due and payable, and if all default shall be made good, then, with the consent of the holders of twenty-five per cent of the principal amount of such notes or bonds then outstanding, to annul such declaration and its consequences.

(3) Such trustee shall in addition to the foregoing have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth herein or incident to the

general representation of bondholders or noteholders in the enforcement and protection of their rights.

(4) Any suit brought by a trustee against the state bank pursuant to this section shall be brought in the Superior Court of Sacramento County, notwithstanding any provision of the Code of Civil Procedure to the contrary,

5. Capital Reserve Requirement. The state bank shall establish and maintain a capital reserve fund. The capital reserve fund shall at all times be equal to the aggregate of annual debt service payments of the state bank for the current or any succeeding calendar year.

a. The annual debt service shall include all interest payable during such calendar year on all bonds of the corporation then outstanding, the principal amount of all bonds of the corporation then outstanding which mature during such calendar year plus the amount of all sinking fund payments payable during such calendar year with respect to all bonds of corporation outstanding;

b. A sinking fund shall be maintained by the state bank equal to the amount necessary to amortize

term bonds pursuant to any resolution of the directors authorizing term bonds and providing for a sinking fund.

6, Capital Reserve Fund, A capital reserve fund shall be established and maintained for;

a. Any monies appropriated by the state for the purposes of such fund;

b, Any proceeds of sale of notes or bonds required, by a resolution of the board authorizing the issuance of such bonds, to be placed in such reserve account; and

c. Any other monies which may be made available to the state bank for the purpose of such fund from any other source or sources.

d. Use of Capital Reserve Fund. The monies held in or credited to the capital reserve fund shall be used solely for the payment of the principal of bonds of the corporation secured by such reserve fund as the same mature, sinking fund payments, the purchase of such bonds of the corporation, the payment of interest on such bonds of the corporation, or the payment of any redemption premium required to be paid under the terms of such bonds, when such bonds are redeemed prior to maturity, Monies in such fund

shall not be withdrawn therefrom at any time in such amount as would reduce the amount of such fund to less than the capital reserve fund requirement specified in §5 of this chapter, except for the purpose of paying principal and interest on the bonds of the corporation secured by such reserve fund maturing and becoming due and any sinking fund payments and for the payment of which other monies of the corporation are not available.

e. Income of Capital Reserve Fund. Any income or interest earned by, or increment to, the capital reserve fund due to the investment thereof may be transferred to any other fund or account of the state bank to the extent it does not reduce the amount of the capital reserve fund below the capital reserve requirement.

f. Bond Limit. The corporation shall not issue bonds at any time if upon issuance, the amount in the capital reserve fund will be less than the capital reserve requirement, unless the corporation, at the time of issuance of such bonds, shall deposit in such reserve fund from the proceeds of the bonds so to be issued, or otherwise, an amount, which together with the amount then in such reserve fund will be not less than the capital reserve fund requirement.

g. State Supplement to Capital Reserve Fund. In order to further assure the maintenance of the capital reserve fund and the solvency of the state bank, such amounts as are certified by the chairman of the board to the Governor as necessary to restore such reserve fund to an amount equal to the capital reserve fund requirement, shall be paid by the State to the state bank for deposit in the capital reserve fund; provided that such payments shall in any event be limited to a maximum contribution of $8,000,000 in any given fiscal year and that any contribution to the capital reserve fund in excess of that amount will require specific authorization by the legislature. However, any transfer of State funds to the state bank other than the appropriation for the initial capitalization of the state bank, shall constitute an advancement to be repaid if and when and under such conditions of repayment as are deemed by the board of directors to be feasible.

7. Deposit Reserves. The state bank shall maintain additional reserves equal to the following percentages of the aggregate amount of its deposits:

a. 45% of the aggregate of deposits of public monies from state, county, municipal and other

public sources;

b. 25% of the aggregate of all other deposits.

c. Computation. The reserves required by this section shall be computed on the basis of average daily net demand deposit balances covering bi-weekly periods

d. Nature of Deposit Reserves.

(1) Thirty percent of all reserves on deposit shall be in the form of United States currency kept in the bank's vault; and

(2) The remainder may be in the form of notes and obligations of the federal government.

8. Lending Authority. The state bank may engage in the following lending activities:

a. Community Development. The bank may assist municipalities, counties and public authorities in financing capital expenditure for public works and community facilities, including but not limited to, facilities for education, health, social welfare, recreation, sanitation, water systems, housing development, public transportation and public utilities, by direct loans, the purchase of obligations, or guarantees of the payment of principal and

interest on obligations duly issued by such public entities to finance projects specified in this paragraph or projects not specified but deemed by the board of directors to be consistent with the purposes of the state bank.

b. Community Economic Development. The state bank may make or guarantee loans to;

(1) Consumer or producer-owned cooperative associations; or

(2) Enterprises organized for the purpose of providing additional employment opportunities in a geogrpahical or demogrpahic section of the State deemed by the board of directors to be economically disadvantaged or subject to sustained unemployment; provided that such enterprise is controlled by the community intended to be benefited; or

(3) Enterprises, owned wholly or partly by an agency of the State, municipality, county or other public entity, organized for the specific and primary purpose of stimulating the economy and creating jobs in an economically disadvantged area.

c. Loans to Persons. The state bank may make loans to individuals provided credit is unavailable to the applicant through conventional com-

mercial lending channels and the state bank finds that having reviewed the feasibility of the proposal, there exists a reasonable expectation and ability to repay the principal and interest, and additionally, that the purpose of the loan is consistent with the purposes of the act,

d. Commercial Loans. The state bank shall make loans to small businesses

(1) To provide for expansion of a labor-intensive activity;

(2) To finance a feasible plan of reorganization provided that such funds:

(a) Are not readily available elsewhere; and

(b) Such loan is necessary to protect existing jobs or to provide for additional jobs,

(3) When the management of the business demonstrates reasonable ability and capacity;

(4) Reasonable fiscal projections reflect the ability of the borrower to service the debt over the term of the loan;

(5) For the purposes of this act small business shall be defined as a business entity having sales during the year prior to the year of no more than $2 million in 1975 dollar values, or employing not

more than 150 employees, and having no more than 25% of the cost of goods manufactured or sold produced outside the State of California, exclusive of raw materials;

(6) The aggregate of loans to any single small business, its affiliates, or subsidiaries, shall not exceed $800,000.00 in 1975 dollar equivalents;

(7) No such loan shall be made for a term exceeding ten or less than two years;

(8) No such loan shall provide for interest only payments for more than the initial 18 months;

(9) All such loans shall provide for full amortization of the principal in equal monthly or quarterly payments over the term of the loan;

(10) Interest on such loans shall be no more than 1/2 of 1% over the then current prime commercial lending rate;

(11) All such loans will subject to the further conditions that the borrower will:

(a) Fill an agreed percentage of positions with persons categorized as underemployed by the State Employment Development Department; and

(b) Undertake on the job

training for an agreed upon number of persons categorized as underemployed with the aim of creating for such persons, full time positions;

(c) Establish and implement a suitable affirmative action plan for hiring and upgrading minorities and women;

(d) Implement a program to enable employees to obtain for consideration, an equity interest in the business and a corresponding share of the profits.

(12) The limitations applied on loans by commercial banks enumerated in Financial Code §§1221-1235 shall apply to commercial loans made by the state bank.

9. Subsidiaries or Departments. The state bank shall, within one year after commencement of its operation, establish the following departments:

a. Investments. A trust department for the specific purpose of acquiring, where appropriate, securities to provide venture capital for entities eligible for loans under Paragraph 8 of this act.

b. Land. A land bank department to acquire, maintain and lease land deemed by local and regional public planning entities to be suitable for development

for low and moderate-income residential use or deemed suitable for industrial and commercial use in areas in which the board of directors has found a condition of persistent underemployment. Lands so acquired shall be leased on such terms as will provide housing available for purchase or rental at reduced costs attributable to the terms of the lease, and in the case of industrial and commercial land will provide an incentive for the establishment of labor-intensive enterprises in an area of persistent underemployment.

c. Technical and Other Assistance. The bank shall provide technical assistance to eligible borrowers to facilitate sound planning and fiscal management of the enterprise. Technical assistance to non-profit entities may include planning grants and seed money grants comparable to investments in profit-making entities to provide venture capital.

10. Deposits. All public moneys possessed or controlled by the State, any county or local government and any agency or instrumentality of the State, county or a local government, shall be deposited in the state bank.

a. Agents. In any county in which the state bank does not have a branch suitable for a

depository, it shall designate an appropriate commercial bank to serve as its local agent. The state bank may enter into agreements with commercial banks to serve as an agent for deposit of public funds on condition that such banks agree to establish policies and a program to affirmatively promote job development in California through its lending and investment practices. Standards governing such agreements shall be prepared and adopted by the board of directors.

b. Public Moneys. By "public moneys" is meant: all revenues from taxes, assessments, income from public services, proceeds from bond sales, grants, revenue sharing funds, and transfers from other public sources including state and federal sources, and any other fund maintained by any public entity whatsoever for any public purpose except that lawful reserves maintained by public entities which are other than in cash deposits, whether or not interest bearing, shall be exempt from these provisions and nothing herein shall be construed as limiting the rights of such entities to maintain such reserves.

11. Offices.

a. Principal. The principal office of the state bank shall be Sacramento.

b. Branches. The state bank shall, as soon as practicable but in no event more than one year following the commencement of operation, open full service branches in the following cities: Los Angeles, San Francisco, Oakland, San Diego, Fresno, Redding, Ukia, Eureka, Stockton, Bakersfield, Santa Maria, Monterey, El Centro, Riverside, and San Bernardino. Other branches may be opened at such times and in such places as are deemed by the directors to be convenient.

12. Advisory Committee. A public advisory committee to the state bank shall be established in each county in the State.

a. Membership. The membership of the advisory committee shall consist of a total of six persons: two each from the business community, organized labor and the general public; and shall be appointed by the board of directors for terms of three years.

b. Functions. The advisory committee shall serve as liason between the staff of the state bank and the community. They shall assist persons and entities seeking to use the state bank's services in

developing suitable applications and plans and shall evaluate applications to the bank and make recommendations to the state bank as to the probable effect of the assistance requested on the local economy. Advisory committees shall also participate with bank officials in negotiating conditions for loans which maximize positive economic benefit to the local economy, particularly the job market.

c. Staff Assistance. An adequate number of bank employees shall be assigned the responsibility of working with advisory committees, State and local agencies and business in order to make the services of the bank readily available and to provide assistance in meeting the requirement for assistance of the state bank. The reasonable cost of providing technical assistance may be charged to recipients.

13. Space. The State General Services administration shall elicit the cooperation of State agencies in making suitable space available to the state bank for the purposes of its branches.

14. Accountability.

a. Examination. Once every three years the Director of the State Department of Banking, in

cooperation with the State Treasurer, shall conduct a full examination of the state bank. The examination shall include, but not be limited to, a review of accounts, books, receivable, disbursements, contracts, reserves, funds, investments and any other matters material to its financial standing.

b. Audit. Additionally, the state bank shall annually obtain an independent certified audit of its financial standing.

c. Annual Report. An annual report of the financial condition of the state bank shall be submitted to the Governor and the legislature within 180 days after the end of its fiscal year. The report shall include a detailed statement of operation, including but not limited to, receipts, expenditures, assets, liabilities, laons, financial assistance, reserves, bonds and other obligations of the bank.

d. Public Disclosure. All loans, financial assistance and investments shall be public information, and quarterly reports of the banks' lending and investment activities shall be available to the public for inspection at all branches:

(1) Any and all resolutions of the board as well as any guidlines or interpretations of bank policy utilized generally to carry out the functions

of the bank statewide, shall be available for inspection by the public at any branch;

(2) Requriements for loans and other forms of assistance shall be simply and clearly stated to enable applicants to gain a clear understanding of pertinent requirements;

(3) All meetings of the board of directors shall be open to the public and the minutes of the board including the minutes of the investment committee shall be available for public inspection.

15. Capital. The state bank shall be capitalized with $25 million hereby appropriated for such purpose. An additional $1 million is hereby appropriated for advancement by the State Treasurer to the state bank within ten days of the enactment of this legislation to defray its initial expenses incurred in planning and organization. The $25 million appropriation shall be transferred to the state bank by the State Treasurer from the general funds of the State within ninety days after the enactment of this act or ten days after the initial meeting of the board of directors whichever first occurs.

16, Tax Exempt. The property, real, personal and intangible, and income, shall be exempt from taxation.

17. Inconsistent Provisions. Any provisions of any other law inconsistent with the provisions of this act shall be superceded to the extent of such inconsistency and the provisions of this act shall be controlling.

18. Separability. A determination that any portion of this act is unconstitutional or invalid for any other reason shall not effect the validity of any other portion of the act not specifically invalidated.

19, Urgency Legislation. This act shall be deemed to be urgency legislation necessary for the immediate preservation of public peace, health or safety within the meaning of Article IV of the Constitution and shall take effect immediately on its enactment. The facts constituting such necessity are the high levels of unemployemnt which prevail generally throughout the State and particularly the chronic underemployment which affect certain segments of the population.

The National Conference on Alternative State and Local Public Policies was founded in Madison, Wisconsin, June, 1975. It is a major meeting place and forum for elected and appointed officials, community organizations, political activists and technically trained experts interested in alternative politics and programs at the state and local level. Discussions and workshops within the National Conference include questions of political strategy. However, concentration is on the specific nuts and bolts of programmatic alternatives. Subjects considered include land use, tax reform, consumer protection, agricultural policy, minority employment, public power, community and state-owned enterprises, control of natural resources, women's issues, public employees, and many others.

The National Conference has its headquarters in Washington, D.C., at the Institute for Policy Studies. Besides holding regional and topical conferences, and an annual national conference in June, the national office maintains a Clearing House of Alternative Legislation. The National Conference publishes a quarterly newsletter, an Alternative Legislation Series, and a Public Policy Pamphlet Series. A Public Policy Reader is prepared for the annual national conference and is also available from the national office. Finally, the national office coordinates a series of task forces composed of local officials, planners and informed citizens who are drafting model legislation.

The National Conference was organized to be of service to state and local public officials, as well as others who are interested in alternative programs. Your communications can be of great help in furthering the work and extending the influence of the Conference. Please send information, new names, and suggestions to:

Barbara Bick, National Coordinator
Conference on Alternative State and Local Public Policies
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Development and Planning in Alaska with Special Reference to Land Use and Mineral Leasing

by
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College Park, Maryland

"The future economic development of Alaska will provide a critical testing ground for U. S. regional development theory and practice. It is here that the demands of the future for fuel and economic expansion will confront all of the traditional issues in regional development. But in addition, more recent conflicts in contemporary U. S. values are emerging in Alaska on a very large scale."[1]

I - Special Opportunities for Alaska

In the face of sharply increasing national and international demand for its vast untapped oil reserves, and with approval granted for construction of the Trans-Alaska Pipeline (TAP), the State of Alaska now enjoys unique opportunities to use oil revenues to design its future development. With large anticipated revenues (to some degree already realized, in the billion dollars in lease bonuses for North Slope oil), and large unsettled open spaces, the State of Alaska is in a powerful position to observe historical experience in regional development elsewhere and by avoiding the mistakes that have been made, to develop in ways responsive to the demands of the future. The low density of population and lack of heavy industry have thus far made it possible for Alaska to avoid committing some typical errors of the "lower 48" states in the pursuit of regional development. In particular, serious large scale damage to the environment has been avoided. The State has unprecedented opportunities to observe the experience of other regions and to break new ground in designing development

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[1] John H. Cumberland, Regional Development Experiences and Prospects in the United States of America, Paris, Mouton Press, 1971, Chapter 11, "The Special Case of Alaska."

policies to improve the standard of living or the quality of life (where this is defined in broader terms, for example including environmental amenities, than the traditional per capita (money) income measures) for the people of the region and which might in turn serve as a new pattern for reorienting development in other areas. Thus, Alaskans, learning from the experience of other regions in the past, may provide lessons for development of still other regions in the future. Both the opportunities and the problems in Alaska are formidable.

II - Special Development Problems of Alaska

Major problems for development in Alaska are the harsh climate and great distances involved, making transportation and communication particularly difficult and expensive. The distances and the low density of human population prevent economies of scale and keep the costs of transporting people, goods, and services very high. This in turn suggests, at least to some residents, the desirability of public sector investment to provide transport facilities for resource development. Because of the climate and distance problems, and the need for economies of scale and transport facilities, Alaskans tend to perceive their development problem as one of subduing a hostile environment. One of the great dangers in this perception is the fact that the Alaskan environment, with its perma-frost and tundra, is actually rather fragile, easily damaged in ways which require extremely long periods of recuperation, or are even irreversible.[2]

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[2]For a discussion of the special problems for planning posed by environmental losses of extremely long duration, with particular reference to the Alaskan environment, see John Krutilla and Anthony Fisher, The Economics of National Environments: Studies in the Valuation of Commodity and Amenity Resources, Baltimore, Johns Hopkins University Press, 1975, Chapter 3, "Irreversibility and the Optimal Use of Natural Environments," and Chapter 10, "The Trans-Alaska Pipeline: Environmental Consequences and Alternatives."

Another danger in Alaskan development, suggested by the experiences of Appalachia in particular, is the confusion of resource exploitation with regional development, which we understand as improvement in the overall quality of life in the region. In Appalachia, large scale investment in resource exploitation, mainly coal and timber, has produced benefits primarily accruing to investors and consumers outside the region. Much of the cost - the massive and well documented environmental damage, for example - has however fallen on the less affluent local residents.[3]

There is at least some danger that this could be repeated in Alaska, where the development of oil and gas resources by major corporations could primarily benefit absentee stockholders and residents of the continental U.S., with only minimal benefits to the native population. Considering the possibilities of extensive and irreversible disruption of the environment associated with the raising and transporting of oil under such difficult circumstances, the native communities could even wind up as net losers from the development. One very important aspect of coal resource development in Appalachia has been the freedom of the coal companies from liability for damages to surface property occasioned by mining activity. Typically, a lease carries the right to remove the mineral by "whatever means necessary," with no mention of compensation for surface losses. We shall want to consider this question of assignment of liability for damages and its affect on resource allocation in the next section's discussion of planning policies.

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[3]The situation is described in moving detail by Harry Caudill, Night Comes to the Cumberlands, Boston, Little, Brown and Co., 1963.

The major policy issue for Alaskan regional development is then how to channel the forces of development generally, and demand for Alaskan resources, into pursuits which will improve the quality of life for Alaskans, as well as yielding money returns to outsiders.

III - Gearing Economic Development to Improvements in Quality of Life

In meeting the challenge of channeling the returns which overflow from development of Alaskan oil and gas into true regional development, among the most important considerations are advance planning and protection of the local environment. Major problems of development in the continental United States and elsewhere have resulted from lack of planning and from planning which came too late.[4] That mistake need not be repeated in Alaska. Given the vast revenues which will flow from its oil, the investment of only a small percentage of the total could provide Alaska with regional planning facilities second to those of no other state, and could unquestionably yield benefits far in excess of costs involved in planning. A good start has been made in the establishment of the Joint Federal-State Land Use Planning Commission, discussed further in section IV below. Though this Commission has advisory powers only, its charge is extensive, and if supported by good research could play a crucial role.

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[4]The Wall Street Journal of June 10, 1974 carries a story which indicates that Ataturk, the founder of modern Turkey, was advised back in 1923 not to locate his capital in Ankara, then a city of 30,000, because the enclosed (by mountains) site would give rise to serious air pollution if the city grew much. The advice was ignored and Ankara is one of the world's most polluted cities, even without the benefit of substantial auto traffic or heavy industry.

Advance planning for regional development in Alaska is particulary critical in the environmental area. It is in this area where Alaskans can learn most from the errors of other regions. The application of a number of basic principles can go far to prevent the Alaskan counterpart of the damage from Appalachia strip mining, and the air and water pollution that characterize many areas of the U.S. In particular, the principles which can prevent this type of damage include full liability of the polluter, life cycle planning, region-wide planning, a multi-disciplinary approach, and democratic participation in the planning process.

A fundamental principle is full liability of the polluter-developer for any environmental damage. This may be justified on ethical or political grounds, but is also suggested by economic theory. Advance knowledge by the polluter that he must pay the full costs of his damage provides strong economic incentives to use the best possible technology, to use his ingenuity and ability to best advantage to reduce pollution. At the same time, the pollution charges and abatement expenditures which they induce raise the prices of products whose production requires intensive use of the environment, in turn choking off demand for these products. In general, the introduction of prices for the scarce assimilative resources of the environment can be expected to move the economy toward greater efficiency in allocation.[5]

Another principle closely related to polluter liability is life cycle planning. It should be obvious that any type of development project goes through

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[5]The efficiency properties of pollution charges, or effluent fees, are now well-known to economists. Although many have contributed to the literature here, the work of Allen Kneese might be singled out. See, for example, Allen V. Kneese and Blair T. Bower, Managing Water Quality: Economics, Technology, Institutions, Baltimore, Johns Hopkins University Press, 1968

a number of phases including planning, exploration, development, operation, and then finally, termination and restoration. All of these phases are important and must be recognized, particularly in the huge scale developments which are anticipated for Alaska, such as the Trans-Alaska Pipeline and the potentially huge water resource development plans. All of these activities involve potential pollution and other environmental damage during the exploration stage as well as the construction, development, and operation stages. In the frigid Alaskan environment wastes are not easily assimilated and the scarring of the land surface cannot easily be healed. For these reasons developers could be required to plan adequately for the recycling or removal of wastes and restoration of the environment where possible. An effective way of achieving this is to require that bonds be posted to assure compliance.[6] Where restoration is not possible, a additional charge might be levied on the developer to compensate for the loss of options in perpetuity, as discussed further in section V below.

We know from the emerging science of environmental economics that all phases of production and consumption involve waste. The concept of materials and energy balance can be utilized to assist in showing for regional development projects what inputs go into every phase of the project, and what residuals, outputs, and environmental damage result from each phase.[7] We also know from the materials balance concept that pollution treatment processes themselves generate

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[6]This approach is put forward and discussed in John H. Cumberland, Regional Development Experiences and Prospects in the United States of America, Paris, Mouton Press, 1971.

[7]The materials balance approach, which stresses the pervasiveness of residuals in the economy, was developed in a seminal article by Robert U. Ayres and Allen V. Kneese, "Production, Consumption, and Externalities," American Economic Review, June 1969.

pollutants, and pollutants from waste treatment processes are becoming part of the problem. Developers might therefore be required to show how they plan to recycle, reuse, or otherwise dispose of wastes from each phase of a project, including waste treatment processes. The use of complete materials balance planning plus life cycle planning and posting of bonds to cover any unforeseen consequences can be used to assure the developers will be responsible not only for all of the costs of their projects, but also for restoring,at the end of the useful life of the project, any land, air and water which is damaged. In the case of the Trans-Alaska Pipeline, this would require the formation and disclosure of plans for the eventual dismantling of the Pipeline and the restoration of the surface and the disposal of any materials involved.

A major shortcoming of regional planning in the Continental United States has been domination of the planning process by segments of politically and economically powerful groups in both the private and public sector, usually to the exclusion from the planning process of those who are damaged by it. The task of converting regional economic development into socially beneficial regional development oriented towards the public interest, as well as the private interests, of the various social and economic groups in Alaska will be particularly difficult because of the need to include not only local citizens, but also the native populations of Indians and Eskimos. Under both ARA legislation and EDA legislation in the U.S., token efforts were made to assure democratic planning of regional development projects, but these efforts all too often failed because of the power of established groups.

Another reason for the failure of planning for regional development has been the non-availability of regional planning models and concepts adequate to indicate to local planners the full range of options and the probable impacts and distributional consequences of these alternative development strategies. Using local planning powers of zoning, land use, and similar instruments, regional governments can exercise some discretion over the types of economic activities and development strategies to be emphasized in the region, such as heavy vs. light industry, public vs. private sector investments, or capital- vs. labor-intensive processes. Each of these choices implies alternative sets of impacts and trade-offs for job creation, revenue generation, public expenditure, and environmental management. Regional development models are now available which can help to estimate the impacts of these alternative development programs and aid in the design of development strategies which are optimal, given the particular objectives and priorities of the region.[8]

The task of achieving a meaningful democratic planning process will be made particularly difficult by the varied cultural background of the growth oriented white settlers and the traditional cultures of the Indians and Eskimos who had evolved a viable ecological relationship with the fragile environment of Alaska. This fragile environment is now threatened by extraordinary pressures that the rest of the world is bringing to bear upon Alaska in order to extract its oil, gas, and other natural resources. Clearly the task of achieving

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[8]See John H. Cumberland and Robert J. Korbach, "A Regional Inter-Industry Environmental Model," Regional Science Association Papers, 1973, Volume XXX.

regional development in the true sense with improved quality of life for all Alaskans including Indians and Eskimos, cannot be achieved through economic initiatives alone. Development of Alaska under current pressures will require new mixtures of insights not only from economists, but also from anthropologists, ecologists, and many others. Perhaps for the first time in Alaska regional development will be perceived as a problem in total social development. Certainly efforts are being made, for example through the Land Use Planning Commission with its native Alaskan representation, to avoid the worst excess of expropriation (of Indians) and exploitation (of blacks) that characterized some phases of continental U. S. development.

IV - The Joint Federal-State Land Use Planning Commission

We have mentioned the Land Use Planning Commission a couple of times in passing. It seems potentially an important enough departure in regional planning to warrant separate discussion here. To begin with, it is very much a partnership between state and federal governments, having been created by the Alaska Native Claims Settlement Act (1971) of the U. S. Congress, and an act (1972) of the Alaska legislature. Co-chairmen are the Governor of Alaska and an individual appointed by the President of the United States. Four additional members are appointed by the Governor, and four by the Secretary of the Interior. At least one member of the Commission must be an Alaska native, and there is, in addition, an advisory committee representing a broad cross-section of Alaskan interests - commercial users, recreationists, environmentalists, natives, and others.

Until very recently nearly all the land in Alaska, some 375 million acres, was in Federal ownership. Under the terms of the Alaska Native Claims Settlement Act, 40 million acres will pass to Native Regional Corporations, and another 103 million to the State of Alaska and private owners. Moreover, the Secretary of the Interior is directed to withdraw up to 80 million acres to be studied for possible inclusion in the various federal management systems - parks, forests, wildlife refuges, wild and scenic rivers, and so on. The task of the Commission is to assist in this process of transition and study.

In the first instance, it is to undertake a planning study as a basis for recommendations concerning areas to be retained as part of the federal management system. At the same time, recommendations are to be made concerning the disposition of lands to the state and the native regional corporations, and ways to avoid conflict in the selection process.

Secondly, the Commission is to advise and assist in the formulation of land use plans for the state and the native corporations. With respect to both federal and state agency lands, recommendations are to be made concerning programs, budgets, and changes in law and policy. And interestingly, in view of our earlier discussion, all of these recommendations are to be for the purpose of insuring that development improves the economic and social well-being of the native peoples and other citizens of Alaska, and is compatible with national and local environmental policies.

It is clear that in pursuing these objectives, a major focus of the Commission's efforts will be extractive resources - oil, timber, and potentially

also the metallic minerals. In what areas, and at what times, are these commercial resources of Alaska to be developed in order to yield maximum net returns, taking into account environmental costs? Since the most important resource in value terms, oil, is extracted via leasing arrangements, and the metallic minerals may soon be too, this question can be formulated in terms of leasing policy. As a matter of fact, the Commission recently (December 1973) held a conference on minerals leasing, designed to explore whether and how the oil leasing system could be used to obtain better value from the land bearing other minerals. Among the questions considered were, what should be the objective of a minerals leasing policy, and how can it best be realized? As suggested above, a plausible objective is maximization of net social returns from the mineral in question, taking into account environmental costs of extraction and transportation. How, then, is it to be realized? What areas should be leased, at what royalty rate, and so on? We conclude with some suggestions on these matters from the economist's point of view, drawing also on some of the principles of regional development discussed earlier.

V - Minerals Leasing Policy and Alaskan Regional Development

The first question we should address is, why have any policy charging miners for use of federal, state, or native lands? We said earlier that the related policy of charging for pollution would promote efficiency, but according to a well-known theorem, the same allocation of resources would result if the polluter had the rights to use of the environment, and was paid by others not to pollute.[9]

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[9]Ronald Coase, "The Problem of Social Cost," Journal of Law and Economics, October, 1960

Changing liability, or property rights, would affect only the distribution of income. Similarly, it might be expected that charging miners a royalty or rent would not affect use of the land. It would still be employed in the use which maximized value, and only a certain amount of redistribution of income, perhaps better accomplished via an explicit policy for this purpose, would result.

Although the Coase theorem is well known, less well known is that it is applicable only under certain rather restrictive conditions, namely that transaction costs and income effects are negligible. In effect assigning property rights to miners (as under the 1872 Mining Law) can lead to inefficient use of the public lands in the increasingly common case in which mining is not the highest valued use, but the costs of gathering together all of the thousands of affected parties to buy out a mining claim are very high - or more than they can afford to pay![10] The situation is the same with respect to pollution (with the exception discussed also by Coase of producer-to-producer spillovers, for which transaction costs and consumer income effects are not relevant). There seems to be a case, then, for a policy of charging for environmental modification and extraction of mineral resources, along with careful benefit-cost analyses of alternative uses of the land. Also, though this is not subject to proof, it seems desirable that the rents to scarce mineral resources on their lands should go to the native population or Alaskans generally. As noted above, present leasing arrangements for oil and gas do

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[10] This assumes that the non-mining values are not easily capitalized.

work this way, and access to the metallic minerals, though still typically free under the 1872 Mining Law, seems to be moving in this direction.

Although there are many varieties of leasing arrangements employed, in the U. S. at least the essence of the system is bidding by mining firms for a lease to a tract of land which confers exclusive rights to the mineral, say oil, there, subject to the payment of a royalty on production. The royalty is a fraction,often around 1/8 to 1/6, of the gross revenues from sale of the mineral, and the amount bid is called the lease bonus. In principle, the objective of the public agency or native regional corporation is, or should be, maximization of the combined sum of bonus and royalty payments (net of environmental costs, which we ignore for the moment). The policy instrument for this purpose can be the setting of the royalty rate. But since the royalty payments are received over a long period of time and are uncertain, it may not be obvious how the rate should be set to maximize rent. In what follows, we offer some guidelines.[11]

Suppose the public agency is less concerned than the typical private mining firm with a quick return from exploitation of the site. This seems a realistic proposition since the government (or native regional corporation) is in the position of a steward of resources for future generations, as the private firm is not. Then a given <u>future</u> return from the mine would be worth more to the government. Put another way, the return is <u>discounted</u> at a lower rate (of interest). The government discount rate might be low relative to the pri-

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[11]This discussion is based in part on an unpublished NSF grant proposal by Hayne Leland, and on conversations with Professor Leland.

vate firm's for another reason as well. The private firm would likely be more risk-averse, requiring a higher premium for risk-bearing in the form of a higher discount rate. Now, to the extent that future returns are less heavily discounted by the government for the reasons given above, a higher royalty rate would be desirable. This gives the government a larger stake in the long-lived investment, without unduly reducing the lease bonus it receives, since the firm's bonus bid will be relatively unaffected by loss on a increment of future income. In the limit, the government might set the royalty rate at 100 per cent, in effect assuming the role of entrepreneur, hiring factors of production to exploit the mineral deposit on its property. Against the gains from this policy would have to be balanced the possibly undesirable aspects of government as opposed to private enterprise (bureaucratic inefficiency, and so on).

Apart from its differential effect on discount rates, uncertainty about returns from the mining operation should influence the choice of royalty rate for another reason. If the government is more optimistic than mining firms about the probability of discovery at a site, the size or richness of the strike, or the price it will bring, a relatively high royalty rate is indicated. Again, this gives an expected future return greater than the cost in foregone bonus. Where private firms seem more bullish, on the other hand - or for that matter more inclined to gamble - the rent-maximizing royalty rate is correspondingly reduced.

How much land, or how many tracts, should be leased at a given time?

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[12] For a review of the discount rate literature, including a discussion of the reasons why government would be less risk-averse than private firms, see Krutilla and Fisher, op. cit., Chapter 4.

One consideration here is the owner's monopoly power, if any. Where the state of Alaska, for example, represents a substantial share in the supply of a resource to a market, it may realize greater returns by not opening up to development too much of the resource at any one time, i. e., by not "spoiling the market". Monopoly restriction of output, which this is an example of, is generally considered socially inefficient, but may not be in this case. Spreading out extraction over time is, after all, practicing resource conservation. To the extent this is considered desirable, some element of monopoly return to the state may not be contrary to national policy.

Another influence on the rate and pattern of leasing is the effect of experience with earlier leases on expectations, and hence bids, for new leases. Exploration by the leaseholder develops information about prospects for other tracts. A favorable outcome in one is likely to result in higher bids for others close by or in similar geological configuration. Certainly this has occurred in the leasing of North Slope oil tracts in Alaska. One counter consideration here is that exploration may be less vigorous if a firm expects that much of the benefit will accrue to others. Large lease blocks may be desirable for this reason.[13]

How do environmental effects fit in the rent-maximizing framework? Recall the earlier discussion of the desirability of polluter liability. It is applicable here, and should lead to more stringent control of pipeline breaks, oil spills, acid mine drainage, and so on, as well as compensation to the victims of these effects. In cases where potential environmental damages are very great,

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[13]The "information spillover" in petroleum exploration and its implications for policy are discussed by Frederick M. Peterson, "Two Externalities in Petroleum Production", study for the Ford Foundation Energy Policy Project.

or returns from the mining operation marginal, firms may not find it profitable to bid for development rights to a site, and it would remain unmodified.

It is not only the incidental effects of commercial resource development that should be taken account of. Suppose a mineral deposit, a stand of timber, or a site for hydroelectric power production, is also valuable in its natural state, i. e., if not modified for any of these purposes. Minerals and timber often occur in scenic mountain areas, and a hydroelectric site may be a free flowing stream suitable for inclusion in the national Wild and Scenic Rivers System. Loss of the recreation and other values associated with unspoiled natural environments is, or should be, just as much a consideration as potential pollution damages in the decision whether to develop a site. In principle, efficient use of the environment would require that development take place only if the expected gains (net of pollution damages) are at least as great at the opportunity losses - the values that are sacrificed by conversion of the environment to developmental purposes. We should acknowledge that both the theory and the practice of measuring these values are currently rather primitive. Hopefully this is due only to neglect, nearly total to date, and will be remedied by future research.[14]

We stated just above that an area should be opened up to development via minerals leasing only if the expected returns, the rents to the mineral, are at least as great as the environmental costs. Although this has to be true, given that the land manager's objective is to maximize net social returns, it

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[14] The only organized research effort we are aware of which addresses the issue of valuing the amenity resources of natural environments, and integrating these values into a theoretical resource allocation framework, is the Natural Environments Program at Resources for the Future. For a statement of results in theory and method obtained in this program, along with some examples of empirical studies, see Krutilla and Fisher, op. cit.

conceals a point that is not obvious and should be made explicit. Earlier we spoke of long lasting or irreversible environmental damage. Where the magnitude of the damage, along with the returns from commercial development of a site, is uncertain, development may entail a cost - the loss of "option value" - in addition to the measured losses from the damage (and, of course, the direct resource costs). Option value, as the name suggests, is the value to an individual of an option to consume a good or service sometime in the future. One interpretation is that it is the amount he would pay to avoid the risk of not being able to consume, to assure the availability of the good should he demand it.[15]

Another interpretation, which does not depend on risk aversion, and instead makes use of a Bayesian approach, is the following. Suppose a public agency has under review an (otherwise profitable) activity which will result in the irreversible loss of a natural environment. Suppose, further, that the passage of time results in new information about the benefits of alternative uses - development or preservation - of the environment. Since this information can be taken into account only if the irreversible decision has been deferred, there is a value to refraining from development. Conversely, development entails a cost - the loss of this option value.[16] One important implication for leasing

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[15]Option value was first discussed by Burton Weisbrod, "Collective Consumption Services of Individual Consumption Goods", Quarterly Journal of Economics, August, 1964. It is further discussed and the relation to conventional consumer surplus clarified by Charles Cicchetti and A. Myrick Freeman, "Option Demand and Consumer Surplus: Further Comments", Quarterly Journal of Economics, August, 1971.

[16]See Kenneth Arrow and Anthony Fisher, "Environmental Preservation, Uncertainty, and Irreversibility", Quarterly Journal of Economics, May, 1974.

policy is that development of different sources of energy (or for that matter other materials) should be sequenced in a way that permits planners to take account of new information about the full social costs of each.

VI - Conclusion

The main point of this paper is that Alaska presents an unusual challenge to the U. S. and to the world to use its non-renewable fossil fuels and other natural resources in ways, and at rates of use, which reflect maturity and responsibility with respect to the rights not only of current generations, but of future generations, not only of those who will use the resource, and gain from its exploitation, but also of those on whose land it has been found. Perhaps then Alaska offers the first and last great opportunity, at least for us in the U. S., to perceive regional development not only as a process of exploiting the earth, but of achieving a new balance between the claims of economic development and social and environmental responsibility.

SCOMM

#18.5

PERMANENT FUND FREE CONFERENCE COMMITTEES 1980

cassettes:

Tape No.	Date	Significant Information
1	2/12	House Permanent Fund Committee meeting
2	2/14,2/19	Senate Proposal
3	3/17	Coffman and Fry
4	3/17	Bob Richards, Ak. Pacific Bank
5	3/18	Swick, Plaia, Demand
6	3/18	Demand (con't), McLean
7	3/19	Tony Deane, Bob Greeley
8	3/19	Bob Greeley(con't), Commonwealth North
9	3/20	George Wolf
10	3/21	Peter McDowell, Bob Dupere, Angie Krukenberg
11	3/21	Krukenberg (con't), Godfry, Johnson, Stephan, Trywell, Renk, Fonger, Castle, Darbey, Aleck Reiliss, Loesche
12	3/21	Loesche (con't), discussion
13 - 16	3/22	Mark-up
17 - 18	3/23	Mark-up

reel-to-reel:

19	3/28, 3/31	Final mark-up and passage of FCCS HCS SB161.

**See also notes and minutes of meetings in committee files

1st FCC

TAPE #3

3/17 PF FCC

Side 1.

Coffman –

yes { 1. have imperfections in banking system caused cap. shortage.
{ 2. have govt policies

role of surplus + PF.
state consider
abolishing –
145 state need not be in loan business
state should subsidize people, not capital.
subsidize houses, not mortgages.
185 end of summary

190 conceptual issues
real capital vs. financial capital
capital stock + capital flow.
capital shortages – defined in either stock or flow.
240 distinction betw. positive (cc) + normative shortage.

340 positive capital shortage – 8 reasons. (p. 3)
1. temporary due to change in market supply + demand.
2. perm due to int. rate ceilings
3. markets monopolistic
4. infrastructure.
400 5. govt. created risks + uncertainties
6. taxes + regs.
7. market mechanisms

425 normative (social) shortage.
perceived needs.
1. subjective – varies from person to person
2. ignores resource constraints.
3. ignores cost.

470 p. 4 – shortages

#3 3/17

490 transaction + info. costs

515 confusion betw. shortage of capital + shortage of income.

530 confusion betw. shortage of cap + shortage of work

547 confusion w/ shortage of subsidies

562 end of listing of varieties of normative shortage

569 If there are positive shortages, cure should fit disease.
590 shattered illusions & failure
620 end of Coffman presentation

Qs
625 Mulcahy - different illusion -
650 Coffman response - "monopoly power" (concentration)
680 Hohman - abolishing (p. 1)
C - private capital markets would be more efficient.
725 Mulcahy - fishing & timber industries
C capital - importing - international markets.
759 Mulcahy - concern about foreign control.
C - both parties benefit.
777 Hohman - lower r.l. rates offset neg. effects.
provide Alaskans an edge.
818 end of Coffman

820 Dr. Fry
minds are fairly made up.
Outsiders' look.
2 corrections to summary
franchise tax (p. G+H) should be 7% gross receipts tax)

840 evidence - market imperfections in rural Alaska.
850 There is no rural Ak. capital market. no discrimination in a. sense.

Side 2 Fry cont.

24 financial capital.
40 rural Aks. have 1/3 wealth of urban
120 bank branches - high concentration in rural.
145 uneconomically small
170 branch network.
185 community reinvestment act.
220 state govt. has created cap. shortage through subsidized lending (estate loans)
250 wind down loan program.
cost of providing subsidized credit
278 state loan programs have replaced private.
282 destroyed high risk, high-interest lending useful for sm. bus.
300 recs.
312 you can't create capital plenty.
320 capital is fungible
348 Q's.
Malone - item G. consumption tax.
370 Fry - consumption tax more efficient than income tax. creates incentive to save.
415 pay fed. tax on savings thru state tax credit.
475 Chair - bus. loans Is problem high int. rate or lack of collateral?
450 both - cash-flow problem.
504 Malone - state loan programs.
530 Fry - give them more wealth, not more mortgages
Hohman - Bristol Bay
570 Mulcahy - banking critiria

650 Fry response.
680 Hohman
685 Fry - If you provide all those things, you won't have rural AK. anymore
694 Malone - p. 4 - sec. B - "subsidize housing, not mortgages
700 Fry
712 Malone pauses -
715 Fry - make cash grants to purchase. "That's what they get anyway." regressive. Go to heart of problem - to the people.
730 Chat - what do we call it?
745 brief recess.
resume

Hohman - Qs for Coffman + Fry.
760 Do you believe in concept of PF
Coffman no opinion. Given. Therefore, what standards. Fry.
785 Malone - "something on paper" basic issue
797 Mr. Bob Richards - Alaska Pacific Bank, pres.
"dramatic shift" - implementation of fund.
814 achieve + maintain effective level of govt. services in future - overriding consideration.
2 conclusions: 1. surplus (1093) should go into PF rather than overexpansion.
2. PF divide into 2 parts - endowment fund (trust) and development bank.
840 structure of administration - pass-out page.
850 adm. of fund should be ind. from poli. pressures.
"quasi public org"

Side 3 10 - word "permanent." - capital preservation endowment fund. well-defined policy. govt. securities etc.

#4 3/17

46 social objectives - normative shortages.
channel investmts. thru. deposits in Ak. banks.
CDs
79 decreasing liquidity of Ak. banks. - more loans.
120 deposits can carry strings
130 achieve both objectives - preserve cap + social
existing fin. institutions as conduits.
150 development bank -
expand Ak's industrial base to maintain
huge revenues in the future
substantial investmt. needed
185 "whistling in dark" - large, large projects.
194 "World Bank" - dams, ports, transportation
facilities. most in private projects
(oil + gas lines, refineries, etc)
215 floor level - must be big.
business loans best addressed elsewhere -
Gen. fund.
235 10-yr, 5-yr, & 1-yr plans - supplied
by management to leg. Bd of directors should
have broad powers.
256 singular objective - sustainable revenue
over long-run.
266 social objectives - kept out + in jurisdiction
of leg.
280 secondary effect.
290 in-state investment - bloom out of
proportion. magnitude requires that
it goes outside 1. Ak. economy can
absorb only so much. 2. prudent man
rule - low-risk etc.
324 summarize 3 key pts.
1. singular objective
2. generate 2 ways - earnings of endowmt. fund
& expanded industrial base

3. adm. of fund independent
345 end

Qs
350 Malone - endowmt. fund concept.
395 - Richards - subsidies from gen. fund.
425 M - concern about downturn of ec, default on loans. how do you insulate the fund
450 R - If fund rec'd market rate, rate compensates for risk.
472 M - "holiday on state loan paymts."
477 R - risks everywhere - NYC bonds PF wouldn't have mordinate amt of money in Ak, even if satisfied total normative demand
496 market loss on mortgages -
515 M - dev. bank - gasline - risk depends on govt. policy.
545 R - public policy is a real risk.
570 Freeman - problems w/ argument reasonable limit to what we can absorb
585 importing earnings
R - agree completely. As banks, banks could put out more funds if had them.
600 Freeman - limit to banks?
R - absolutely. 2 kinds - what customers can use, & prudency. - how much do I want this one depositor to have in bank. (policy - limited to 20%).
620 F - protect trust.
R - maintain purchasing power - generate return equal to inflation + add earnings to fund
645 Chat - dev bank concept.
What about returns? from highways etc.
R - earnings opportunities cost.

Chat - they are normal things for govt. to do.
670 ec viability - what can dev. bank do
that conventional bank system can't.
R - credit decisions are value judgments.
different attitude towards Ak. risk.
world today - more cooperation between
public & private sectors.
715 key pt is magnitude of kinds of investmts.
investmts. must alter magnitude of economy.
alter ec. structure
735 Chat - take gasline.
750 R - immense social implications
757 Malone - what sort of standards.
how to agree on what is a good project.
790 R - present annually 3 plans.
808 M. separate good projects from hype
819 R - I'll give it some more thought.
825 M -
875 side finish

Side 4 discussion when people leaving.
next mtg. tomorrow 1:30
discussion of scheduling of additional mtgs.
40 Malone - schedule.
78 end.

3/18 PF FCC

Swick + Plaia

Swick begins

62 SP – commercial loans
78 market acceptability
tax-exempt
200 scenario of default
265 bond buyer looks to p.f. earnings
299 bill fraught w/ uncertainties
marketplace would only look at reserve accts.
310 TS –
320 Chat – restates point.
340 Hohman – reserve acct.
Plaia – acct. as lynch pin.
360 education in market place. additional premium.
strange animal
380 Hohman – lapsing gen. fund balances
400 SP – true collateral.
Ceiling
417 Hohman – do you know what needies in state.
no.
450 problem w/ tax exempt? (Hohman)
SP – could trigger violation of t-e purposes
470 Hohman – E.F. Hutton
500 SP – require them to try conventional financing first?
525 Chat – screening committee
580 Hohman – abdication of leg. responsibility?
600 power debt guarantee.
625 leg. overview
640 management by Rex vs PF Corp.
685 Malone – capital needs
700 Hohman responds.
725 Malone – collateral

#5 3/18

Side 2

Pblo continues

40 Malone - managers might look to same source (reserve accts) instead of quality of loans

75 Chat -

recess.

110 Chat - House PF bill. criteria. "trust concept"

200 Mulcahy - mustmt. lost in lgt. of today's inflation.

240 Bob Greeley asked to respond.

310 end of Greeley.

333 TS - public purpose loans.

yield curves

447 bond buyer index - formula in SBJ

510 States will end up buying most of these bonds.

525 Malone - reduce mtest in St. bond purchases

540 Dupree - agree w/ testimony. 1 purpose 2 reduce drive down rates # of agencies issuing bonds. 3. lots of public purpose loans to allow enuf $ for com. loans.

565 Chat - bond buyer of last resort.

590 student loans - direct subsidy.

630 Milce Fed. Demand - for homeeq.

responding to Coffman + Fry

market discipline

Side 3

36 Qs to Demand

Malone - reactions to Richard' dev. bank.

215 Joe McLean - for homeeq (Duncan lawyer)

246 gains & losses - disguise

309 Social programs belong in leg. process.

347 Q from Malone.

379 end of McLean

380 schedule discussion

#6 3/18

3/18 PF FCC

Public Input / Nov:

have these caused cap shortages

Imperfections in capital markets?

Govt Policies? (US Govt is also a factor Q) Q

- State usury law
- repeal gross receipts
- reduce reserve req
- state loans

Concepts

What can be done to imp cap shortage.

- × abolish rate, gross receipt, 20% reserve requirt
- × abolish state loan program New state loan act.
- × new-state loan act.

budget earnings

social acceptable housing

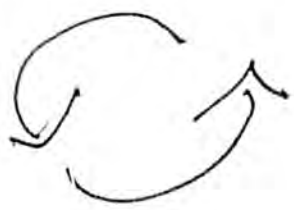
A.H.F.C. price level adjustment

consumption tax instead of state tax.

capital real & financial capital stock. & flow.

positive shortages.

capital markets



Intervention by
govt
State - money supply
Federal - money supply

Q infrastructure problem
widespread public benefits
govmt created risk.
lack of market mechanism to deal with risk.

NORMATIVE - SHORTAGE.

NEEDS?

subjective.
overall resource constraint. } Demand.
ignores costs.

Transactions & Info.
Capital v. Income
Capital & work. - Will they benefit not benefits.
Subsidies v. Capital.

II General Policy
Positive shortages - remedies limited to disease.

Mulcahy - Timber investments cited as an example.
Ownership of capital.

Geo. Preferential rates are of benefit to Alaskans.

Control of resources thru
Nat. Res. policy.
Disadvantaged because of
lack of financing

Dr. Fry. Capital in Rural Alaska.

No separate market / FOR Rural Ak.
economic shortage.
However, less wealth and less
equity. Which provides less.
Increasing wealth.
$80,000.
Producing more loanable funds.

Allocation of capital.
puts 1/3 of amount of urban Alaska.
reasonable to suggest:
No regional breakdown of loans.
However, monitoring agencies (Fed) says
credit loans are

State Govt — capital shortage
due to subsidised credit.

Development questions

Security / Cash flow
"utility
graduated payment
loans.
sweetheart.

• subsidize homes - not mtgs.
... houses .....
cash grants to purchasers.

(other approaches — cash grts for construction materials.

Bob Richard ABB.

Coffman ā High-yielding assets

— Bob Richards —
A.P.B. - President.

Notes:

FOCUSES ON IMPLEMENTATION ON FUND. MANAGEMENT. ACHIEVING & MAINTAINING EFFECTIVE LEVEL OF GOOD SERVICES.

I CLOSE AS POSSIBLE TO 100%.

II Divide into
A endowment fund
B development bank.

Remain relatively independent.
F.R.B or W.B. - quasi-public

ENDOWMENT Fund
- protect assets
- social questions HOW DO YOU FORCLOSE. Q
normative capital shortages
thru deposits in Ak Banks (var. rate)
(say 1/3) ~~[illegible]~~
DEPOSITS 3X - 4X
70 53
80 76

SOCIAL POLICY / FORECLOSER ?
RATES

See notes

① Be difficult to replace O+G revenues thru small scale investment.

Generate sustainable revenue over the long run.

Points / Magnitude:

- 2-pronged approach is not new.

General problem:

"How we determine what infrastructure" projects really have net "benefits". Could return.

3/19 PF FCC

Opening remarks - Hohman + Malone
85 - arbitrary deadline
156 - Tony Rees, John Nuveen & Co.
appearing at request of bond committee
200 - beginning of testimony
260 - known pools vs. blind pools
314 - when they're all put together, they have a quandry.
384 - matter of significant concern - design rating on basis of weakest link in chain.
465 - worst case scenario
528 - AA rating if manage all wealth wisely.
no issues can have rating higher than state's rating
565 - concludes formal testimony
Q from Malone re: conclusion to be drawn.

635 - Hohman amendments to BB Rel.
Kasis explains - contribution rate
655 - board of trustees (Chief. gov. as chairman)
etc.
714 - Malone - eligible investments.
742 - Bob Greeley
Side 2. Greeley Cont.
inflation
50 case study - w/slides. United kingdom
Switzerland
170 week double digit inflation, almost impossible to keep up.

#7 3/19

192 - end of slides.
discussion of UK + Switz + lessons to be learned.
278 - trust funds.
307 - futures markets - hedging
325 - liquidity
342 - Eurodollar CDs.
357 - nice to have things available if you have to use them.
379 - Malone Q
510 - Mulcahy Q - worried about foreign risk.
611 - Malone -
630 - mortgages - hard for PF to foreclose
643 - insured real estate loans not up to quality or other
one of Hohman's amendments - would not meet safety
of principal requirement.
720 - use g.f. to meet these special requirements
(mortgages etc.)
728 - Mulcahy - problems - exporting capital.
850 - end of Greeley
860 - Sheffield + Bill Donahue + John Arthur (?)
2 week away from completing report.
Side 3 001 - part way into side 3.
property tax elimination effect.

#8 3/19

3/20 PF FCC

47 beginning of George Wolf testimony
100 SEC. 103 IRS - tax-exempt.
210 novelty of this sort of bill - no precedent for being sure of leveraging on a large scale as contemplated.
256 Hohman - loaning money at cost + some administration. profit? - arbitrage.
280 not clear it is government program.
380 Hohman - curious def. of profit. have to go to IRS ruling.
318 replacement clause - arbitrage.
350 IRS would likely rule that pf earnings should be used for loans instead of bond proceeds.
390 need to be resolved before bonds are issued but IRS will not rule on hypothetical transaction.
410 could get "special ruling" - very rare.
440 ruling would take from 6 mos. to yr., + litigation could take years.
455 copied in other states - Congress + Treasury would not like - could be prohibited then as retaliatory action.
480 Hohman - If passed 3 yrs. ago, would program have offered benefits to Alaskans?
508 garden variety problems.
515 Hohman - we would have enjoyed the special status.
526 Malone - Ullman bill
600 Malone t-e financing problems other than housing?
630 Hohman - Oregon's program.
696 end of Wolf
714 end of tape

Side 2
#9 3/20 21 end of meeting

"indignant survivors"

3/21 PF FCC

Side 1

30 beginning of Pete McDowell
127 new start after fooling w/equipment.
137 SB 1
180 jt. chairman's report - 1976.
233 SB 161.
348 summarize SB 1 loan programs fund.
440 additional notes - last 2 pages of memo.
448 end of testimony
453 Q Malone - corp. vs. revenue.
543 Q Malone - ex. dir. vs. dir. within merit system. effect on day-to-day management.
596 Q Chat - possibilities on last page - which of 8 listed would be most appropriate for PF.
610 PM - option B - ind. corp. would be appropriate form. magnitude. along w/ tools + constraints.
645 Q Chat - which bill is closest
HCS SB 161.
Q Sumner - w/o regard to ec., social purposes. assumes single commitment.
718 Q Malone.
738 Bob Dupere - wants to clear up testimony.

Side 2 15% oil receipts to loan program
37 huge pool of cash - from repayment of old loans. "balancing act".
70 McDowell omitted discussion of purposes.
284 Q Sumner - how much $ would be available for loans. - 1,280,000,000.
364 end of Dupere.
370 Angie Kruckenberg - Fbks. - OK Lumber Co. came in 1973.
analogy - PF like a tree in forest -
515 Hohman - back to Coffman + Fry.
527 Q Chat - what brought you to AK. - challenge.
620 Q Mulcahy - 1/8. separate the issues.
733 end side 2

#10 3/21

Side 3 Q Malone - state loans - didn't get to finish
40 Angie's answer
163 end of Angie
180 Keith Godfrey - businessman.
not much headway being made.
public is mistrusted in sharing in resources.
235 more $ at a reasonable interest rate.
268 Mr. Johnson.
well aware of intrigue & games.
Legislature doesn't want to help people & business.
you've made your minds up - flying in guys
from outside. Theoretical experts.
We object strenuously.
we want it first invested in it.
we don't care about outside markets.
359 come election time you'll see a mandate.
365 Prof Stephan - Anch. Lifetime At. - large number of family businesses.
loans are not giveaway.
Govt. is putting us out of business.
535 Q Malone - should state institute similar
program for com. loans as residential loans
just put out.
PS - should eliminate loan limits.
580 Q Malone - loan limits.
PS - no limits - If viable, feasible & collateralized,
then loan whatever is needed.
Malone - thru banks or state offices.
PS - private.
655 end of Stephan
675 Ned Trywell - Anch. ~~etc~~
770 end of Trywell
775 Al Renk
742 end
Side 4 Al Renk
52 Chat -
68 Max Fonge - Anch. - teaches bus. course

#11 3/21

215 end of testimony
228 Mr. Castle - wants to build apt. building. came to Ak. for opportunities.
270 Ed. Derbey - At. Truck Center manager - Anch.
333 not fair for bus. to pick up slack when banks + govt. fail.
345 Rev. Aleck - accountant + real estate. 1/8 of what?
378 when Alaskans approved PF, they wanted it for their own use.
404 bond vs. state dept - state agency on regional/local basis.
435 Q Chat -
468 Jim Reiss - Arch. - helps people find financing. 14% earnings vs. 8% loans - take into account multiplying effect (social benefits).
522 Hohman - mentions meeting at Westward. mt. rates - Sen. Rec. - 8% + 7% (vets).
550 Don Loesche - Totem Air - complaining about Coffman + Fry. "lost $900 million in 1969"
582 wants to keep $ out of PF + into loans. PF is supposed to develop renewable resources.
610 the people in the state are unhappier than I've ever seen them - recall.
639 can stop boom - bust.
729 end Loesche
Q Chat - We're appropriating $38 this yr. How much more do you want?
DL - That should be enough, if we get it.
745 end of side 4
Side 5 #12 3/21 Hohman - results of some survey. need to direct it as people want. praises citizen involvement.
more Loesche
197 end Loesche

202 Stephan Kid - 16 yrs. old -
afraid won't have chance to get into
business as father + grandfather did
226 Johnson - gov. has law right now to
settle our problems (g. f. investment).
244 Joe Eishloch - Anch. businessman -
don't put PF in existence until all state
problems are solved.
312 capital move.
360 end of JE
375 discussion of mtg. tomorrow.
12:30.
386 end of mtg.

3/22 PF FCC

1 take up HCS SB 161 as mark-up vehicle
35 leg. oversight
100 flag p.3 l 7 confirmation
170 p. 3 sec. 4 gov's responsibilities.
250 p. 2 l 10-13.
300 p. 3 l. 25 - Ak Perm. Fund.
p. 4 l. 10 - 50%
Hugh suggests to limit to 25% but leave silent additional contribution. (delete 3 + leave 4).
360 l 17-18 corp.
p. 3 l. 29 - bonuses - also 25%
400 p. 5 Fergie Q - corp. as ind - doesn't want it to be.
440 leave up to other legislation as to use of ~~m~~ earnings & additional approps.
450 Hohman - amendmt on make up of bd of trustees.
485 Malone p. 6 qualification of bd of trustees.
rec - delete (b). members of adm. could serve on bd.
525 If in state agency, would ~~not~~ ~~it~~ want to look at law having to do w/ duties.
543 Masks Fergie his op. on bd. of trustees.
F - prefer to knock out portion of bill making it separate corp. keep it in Rev.
565 Hohman - his amendmt. as compromise
580 Freeman - wants to require most competent people in financing. Hohman's suggested people might not be most competent.
610 Fergie - suggest putting 100% in PF for 5 yrs. - including interest - then hire competent people to invest in Ak. (provide for budget)
628 Malone - there are ways to put it in Rev. + other possible composition of bd.
659 Chat to Ferg -

#13 3/22

676 Malone - p. 8 l 14-15. may contract to Rex.
715 Ferg - reason for motion. asks for vote up or down.
all $ except what needed for budget.
5 years.
732 end side 1

Side 2 Ferg cont.
20 removes motion.
43 Hohman suggests going to investmt. section.
100 House amendmts. - Malone - p. 9
purposes:
1) provide additional flex as hedge against inflation.
reason for (12)
delete (h) + substitute check to provide only for hedging
2) (13). notes secured by mortgages
195 Hohman asks Jack Johnson how limiting that would be. Johnson - realistic + workable.
240 p. 8 l. 16 - allowable %s of various investments.
292 Mulcahy - problems w/ foreign markets.
2 pts. interest difference - worth risk?
no problem w/ amd. 13 for Ak. mortgages.
364 Chat - 2 full int. pts?
373 Malone - (h) could be amended. in regard to foreign.
400 Mulcahy - foreign investments?
Malone - (h) would give clear authority for futures - domestic - unless 12 is adopted too.
435 (g) is careful to prevent foreign banks or securities
452 Malone on procedures.
490 new Hohman amdmt. - section k - shall.
in-state investmts.
Chat - does this substitute for amd. #3.
Koesis - no conflict.

Hohman amd. #2 - delete "+ expected yield" from k-1

570 amd. #3 - yield no lower than 10%.

590 amd. #4 - loans secured by prop. in new capital.

610 Chgt to Malone - discussion of cap. mod.

650 Hohman response - cap. mod.

667 Ferg - wants his motion discussed in caucus.

676 recess for ½ hr.

resume

677 Ferg. - delete (12) + adopt (13). + new (4).

693 Malone - clarification.

710 Ferg - amend motion to include both House amendments. w/ exception of (12).

716 Malone - to make consistent, omit sentence in (i) relating to q 12.

734 end side 2

Side 3 discussion of motion - no unanimous consent.

17 Ferg - move adopt Senate amd. re: bd of trustees.

35 Malone - asks F. to withdraw the mov. done.

59 Malone - move adopt S. amd. #1 (k). may to shall

86 Ferg asks to add amd. 3.

106 like to consider as and to and.

126 Ferg so moved.

179 Malone discussion of and 3.

210 Ferg. - amend. 10% "unless ratio are low"

Malone response.

238 F. withdraws old and. + moves "unless comparative rates are low."

277 Malone -

285 Chas to F. prudent man rule.

343 Malone -

362 Chas -

#14 3/22

384 Malone - intent of motion to include or exclude "& expected yield".
400 Hohman - delete.
p. 10 l. 4 - F. reads his complete amd.
cont. discussion.
462 vote on amd. - 3 to 3 - fails
470 Q on main amd.
unanimous consent. amt. 1 passed.
move amd. C
494 discussion - Malone. benefits would only accrue to Ak. banks, not to Ak. cc.
Koesis reply.
544 Chat - Q - approp. to limit w/ %?
Mulcahy - leave open for management.
574 Malone - new house amd. re: CD's.
would require collateralization of CD's or have secondary market.
611 Ferg. ~~prepare~~ preferred org. S. amd.
626 Malone - amd. to amd.
discussion.
729 short recess
740 Malone - additional investmts. to
762 end of side 3
Side 4
6 Q on
30 Hohman to Tillion re: newspaper acct.
70 back to discussion of CD amd.
100 F - unanimous consent to hold amd.
115 F - move to adopt. D.
references to portions
delete 12.
include 13.
Malone object.
160 discussion.
240 ~~Hohman amd to a~~ Q 2-4 (Mulcahy) fail -

258 schedule discussion.
397 recess 'til 9:00.

TAPES #15 + 16
(SIDES 5-8) - no notes

KHS
3/24/81

3/23 PF FCC mark-up cont.

Side 9 continued.
212 Rhode + Kocsis explain CS + changes made.
290 Malone should amend state leasing law.
38.05.180 (g). could add lang. to (2) p. 4.
380 amdmt. adopted unanimously
390 ~~[illegible]~~ .050 changes
513 amdmt. ~~[illegible]~~ adopted
516 p. 6 .090 + .100
530 changes in mnstmt. list
677 effective date
700 Mulcahy moves 100% of (13)
713 Malone response
722 amd. adopted
733 new Fergie amd
740 end

Side 10 Fergie amd.
passage contingent on adoption of Comprehensive Alc. Loan Program
Malone response.
90 Fergie requests look at HCR 33.
180 F amd. to amd - change Loan Program to comprehensive cc. assistance program.
264 Fergie - amd to amd. would be consistent w/ HCR 33
300 " - HB 509 set precedent.
325 vote - 3-3 FAIL
330 F moves to adjourn.
370 recess to 8 p.m.
8 p.m.
effective date - house amdmts.
Malone explains
513 mtmt
680 Fergie - wants source of revenue for loan (cc. assistance)
706 recess
708 Fergie - moves his amendmt. re: eff. date.

#17 3/22 - 3/23

127 Feigt - renumber
136 discussion. Feigt - condlso
146 end side 10
Side 11 discussion of Feigt amdmt.
#18 3/23 Chad - haven't we voted on this already?
70 Q 3-3 vote FAILS.
Malone -
110 move House amd - sec. 8-12.
115 Feigt - amd. to amd. delete sec. 12, division of Q.
305 back to order after break
305 Feigt withdraws amd. to amd.
395 Q 3-3 amd. fails.
405 adjourn

SCOMM

#18:6

In making their decision on the Alaska Permanent Fund, the Committees have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

Three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the legislation.

Safety of Principal

The House Permanent Fund bill provides a framework for highly conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments; the flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committees to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. As former Permanent Fund Committee Chairman Clark Gruening has said, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The five members of the board will be appointed by the Governor and confirmed by the Legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the Legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

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The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The House Special Committee, like its predecessor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the Committees' intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that that committee report back to the Legislature within two years, recommending how best the oversight duty could be carried out and including consideration of the option of delegating the responsibilities to a separate committee.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund.

HUGH MALONE
Chairman
House Special Committee on the Permanent Fund

ORAL FREEMAN
Vice Chairman
House Finance Committee

agency securities, certificates of deposit, high-grade corporate

In making their decisions on the Alaska Permanent Fund, the Committees have focused on the single most important question at this time -- the management of the Fund's principal. It is to be, as the Governor has urged, "an inviolate trust" which, in the words of the bill, conserves "a portion of the state's revenues from mineral resources to benefit all gererations of Alaskans." It is to be independent, yet held accountable so as to "maintain safety of principal while maximizing total return" (page 4). Thus three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the proposed legislation.

Safety of Principal

The House PErmanent Fund bill provides a framework for highly conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

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The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments and federally guaranteed loans (pages 8-9). Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income

next pg to line before "state govt. After the Dept. of R" stored in A 9
from "state ... dep of power to ... ?
Heading "uncontrolled spending etc" } stored in A10
Among the bills reform to end of that pg - stored in A11
Last pg stored in A12

gency securities, certificates of deposit, high-grade corporate

The House Special Committee, like its predecesor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several bond authorities, and the general fund.

As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and the extent to which the economic and social goals of the various programs are being achieved.

(C) This agreement expires with the adjournment of the First Session, Eleventh Alaska Legislature, unless terminated earlier as provided in Clause II(B) of this agreement.

CLAUSE III. - PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

(A) Contractors total compensation for providing the services described in this agreement shall be the retainer of Five Hundred Dollars ($500) per month.
(B) Per diem shall be at the prevailing State rate. Out of pocket expenses incurred as a result of these consultations,

Three major concerns --- safety of principal, accountability, and legislative oversight --- are addressed by the legislation.

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The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases. ~~will be placed in the Fund~~ Fund.

HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND
HOUSE FINANCE COMMITTEE
JOINT COMMITTEE REPORT ON CS HB 281 (FINANCE)

The House Special Committee on the Permanent Fund, in designing its Permanent Fund legislation, narrowed its focus to consider the single most important question at this time -- the management of the fund principal. The bill, CS HB 281, raises the contribution level to the fund from 25% to 50% for all bonuses, and from 25% to 50% for all other royalty payments from new leases (p. 3-4). Most importantly, the bill insures that the Permanent Fund will be managed as a trust; this conforms to the Governor's "bottom line" that the Permanent Fund be managed as "an inviolable trust fund." Three major concerns -- legislative oversight, accountability, and safety of principal -- are addressed by the proposed legislation.

Legislative Oversight

The House Special Committee on the Permanent Fund found that there is a need for oversight of the performance of state agencies, including the proposed Permanent Fund Corporation, which perform lending or investment functions. Legislative oversight would provide information on the policy and performance of the agencies, the extent to which the agencies conform to statutory intent, and the impact on the economy and state treasury.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (p. 1-3). As

proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the committee's intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that that committee report back to the legislature within two years, recommending how best the oversight duty could be carried out and including consideration of the option of delegating the responsibilities to a separate committee.

Accountability

It was the aim of the committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in basic public policy and accountable to the people through their elected officials. As former Committee Chairman Clark Gruening used to say, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that a fund of the size of the Permanent Fund should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The Permanent Fund Corporation created by CS HB 281 therefore has its

own board of trustees which is made accountable in several ways (p. 5). The five members of the board will be appointed by the Governor and confirmed by the legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (p. 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (p. 11) including a financial statement audited by independent auditors, a statement of the earnings from each investment, a market-value appraisal of the investments, and an examination of the impact of the investment criteria on the corporation portfolio. These reports will be published in newspapers and reviewed by the Legislative Budget and Audit Committee.

As proposed, the Legislative Budget and Audit Committee will oversee the performance of the Permanent Fund Board and Corporation (p. 2). The committee will review plans and reports, provide for audits and review independent audits, and present reports and recommendations regarding investments and appointments to the legislature.

In summary, CS HB 281 insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, and will be accountable to both the executive and legislative branches through the appointment process and oversight by the Legislative Budget and Audit Committee. In addition, the Permanent Fund will be further safeguarded by the statutory limits placed on the fund managers concerning permissible areas of investment.

Safety of Principal

CS HB 281 provides a framework for highly conservative and responsible management of the fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, Federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments and Federally guaranteed loans (p. 8-9). Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments

in common or preferred stock, restricts the purchase of corporate bonds to 25% of the fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the fund from either borrowing or guaranteeing the obligations of others (p. 8).

The fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (p. 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments; the flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill also provides for the handling of gains and losses and income (p. 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the fund principal; this protects the fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the fund principal. The fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

As stated earlier, this bill addresses only the question of fund management and leaves the separate question of how to use the fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund.

In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

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Legislative Oversight

The House Special Committee, like its predecessor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

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The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.

H Malone

HUGH MALONE
Chairman
House Special Committee on the
Permanent Fund

Oral Freeman

ORAL FREEMAN
Vice Chairman
House Finance Committee

JOINT COMMITTEE REPORT
HCS for SB 161
PERMANENT FUND MANAGEMENT

In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

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The bill also provides for the handling of gains and losses and income (page 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committees to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. As former Permanent Fund Committee Chairman Clark Gruening has said, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The five members of the board will be appointed by the Governor and confirmed by the Legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the Legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (page 11) including a financial statement reviewed by independent auditors, a statement of the earnings from each investment, a market-value appraisal of the investments, and a performance evaluation with recommendations for needed changes. These reports, which must be written in easily understandable language, will be available to the Governor, the Legislature, and the public. The income statement and balance sheet will be published yearly in newspapers and every two years in the election pamphlet.

The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The House Special Committee, like its predecessor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

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The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.

HUGH MALONE
Chairman
House Special Committee on the
Permanent Fund

ORAL FREEMAN
Vice Chairman
House Finance Committee

JOINT COMMITTEE REPORT - HCS for SB 161
PERMANENT FUND MANAGEMENT

In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

Three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the legislation.

Safety of Principal

The House Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). Nothing precludes in-state investments of these types, as long as they fulfill the standards of quality as specified in the bill. Importantly, the bill has a minimum of investment restrictions yet provides a very definite certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

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HOUSE BILL 281	SUGGESTED ALTERNATIVES
(1) obligations of, or obligations insured or quaranteed by, the United States or agencies or instrumentalities of the United States;	(1) obligations of, or obligations insured by or guaranteed by, the United States or agenices or instrumentalities of the United States; (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
(2) corporate securities which under the Securities Act of 1933 are freely marketable;	(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and which are secured as to the payment of principal and interest in accordance with Alaska law and for which a generally recognized secondary market exists; (4) corporate debt securities which are rated A or better by a nationally recognized rating service;
(3) short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.	(5) short-term corporate promissory notes of the highest rating assigned by a nationally recognized rating service. (6) bankers' acceptance drawn on and accepted by United States bank each of which have a combined capital and surplus aggregating at least $200,000,000; (7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;
(4) loans secured by first liens on unencumbered realty or leaseholds;	(8) notes secured by mortgages of fully developed commercial or residential real estate if the mortgages are insured by a corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; (9) notes secured by conventional residential mortgages if the originating financial institution retains at least 25% of the mortgage for a minimum of two (2) years; (10) notes secured by mortgages of fully developed commercial real estate if the originating financial institution retains at least 25% of the mortgage; (11) the guaranteed portion of Federal Small Business Administration loans; (12) first lien real estate mortgages guaranteed by the Federal Veterans Administration; (13) FHA insured portion of business and industrial loans made under the Rural Development Act of 1972; (14) the guaranteed portion of Farmer's Home Administration loans.

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Suggested List of Investments

(1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or imstrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments ((a) and (b) require the investments to be income-producing and prudent);

(4) corporate securities which under the Securities Act of 1933 are freely marketable;

Option 1

(5) loans secured by first liens on unencumbered realty or leaseholds;

Add qualifying paragraph:

No portion of the assets of the corporation may be used for the purchase of loans if immediately following the purchase the proportional (market) value of all loans would exceed 30 percent of the assets of the corporation.

Option 2

(5) loans secured by first liens on unencumbered realty or leaseholds if the offering financial institution retains at least 25 percent.

INVESTMENTS PROHIBITED BY OMISSION

1. COMMON STOCK
2. PREFERRED STOCK
3. DIRECT LOANS
4. SECONDARY PERSONAL LOANS
5. NO SECOND MORTGAGES
6. FOREIGN SECURITIES
7. GOLD, SILVER OR PLATINUM
8. NONRATED CORPORATE DEBT
9. REAL ESTATE EQUITY

Alaska State Legislature

1976

Source:

SCS CSSS HJR 39(Resources) am S

HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL
PERMANENT FUND COMMITTEE

HOUSE BILL NO. 281

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to nonrenewable resource revenues; to legislative oversight; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20 is amended by adding new sections to read:

ARTICLE IV. INVESTMENT OVERSIGHT COMMITTEE.

Sec. 24.20.600. INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED. The Investment Oversight Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for technical review and oversight of the performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.610. FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of all agencies of the state which perform lending or investment functions since these functions do not receive the detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and treasury.

Sec. 24.20.620. PURPOSES. The purposes of the Investment Over-Sight Committee are to

(1) monitor and report

(A) the performance of the agencies of the state which perform lending or investment functions,

(B) the extent to which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens,

(C) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal, investment and financial planning;

(2) hold these agencies accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature;

(3) annually review the extent of capitalization of the investment funds of the state and alternative investment policy for the general fund surplus and recommend needed legislation.

Sec. 24.20.630. MEMBERSHIP. The Investment Oversight Committee is composed of eight members: the president of the senate, the speaker of the house, and three members appointed from each house by the respective presiding officer. The membership from each house shall include at least one member from each of the two major political parties. The committee shall select its own chairman.

Sec. 24.20.640. TERM OF MEMBERSHIP. (a) The Investment Oversight Committee shall be organized within 15 days after the organization of each legislature. Members serve for the duration of the legislature during which they are appointed. If a member is reelected or his term of office extends into the next succeeding legislature, he continues to serve until reappointed or until the appointment of his successor.

(b) When a member of the Investment Oversight Committee files a declaration of candidacy for an elective office other than that of

member of either house of the legislature, and he has not resigned from membership on the committee, his committee membership terminates on the date of filing.

Sec. 24.20.650. VACANCIES. When a vacancy occurs in the statutory or appointive membership of the Investment Oversight Committee, the presiding officer of the house incurring the vacancy shall choose a successor. If the office of the president of the senate or speaker of the house of representatives becomes vacant and a vacancy from the affected house occurs among the membership of the committee, the remaining committee members from the house incurring the vacancy shall appoint a new member.

Sec. 24.20.660. MEETINGS. The Investment Oversight Committee may meet during sessions of the legislature and during the interim between sessions at such times and places in the state as the chairman may determine. Members may receive, for the minimum time required to get to and from meetings and for the period while attending meetings, the same travel and per diem allowances provided by law for members of the legislature when attending sessions, except that members of the committee receive no per diem during legislative sessions other than the per diem allowance paid to other members of the legislature.

Sec. 24.20.670. POWERS. The Investment Oversight Committee has the power to

(1) organize, adopt rules for the conduct of its business, and prescribe procedures for the comprehensive fiscal analysis, budget review and post-audit functions of those agencies of the state which perform lending or investment functions;

(2) hold public hearings, administer oaths, issue subpoenas, compel the attendance of witnesses and production of papers, books, accounts, documents and testimony, and have the deposition of witnesses

taken in a manner prescribed by court rule or law for taking depositions in civil actions;

(3) require all state officials and agencies of state government to give full cooperation to the committee or its staff in assembling and furnishing requested information;

(4) hold public hearings on the confirmation of the members of the Board of Trustees of the Alaska Permanent Fund Corporation, and the members of the Board of Trustees of the Alaska Renewable Resources Corporation;

(5) prepare and distribute reports, memoranda, or other necessary materials;

(6) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(7) receive and review reports and post-audit analyses conducted by the Legislative Budget and Audit Committee relating to all agencies of the state which perform lending or investment functions;

(8) enter into and enforce all contracts necessary or desirable for the functions of the committee.

Sec. 24.20.680. STAFF. The legislative audit division and the legislative finance division shall provide audits, reports and analyses requested by the Investment Oversight Committee. The committee may hire and determine the salary of the staff it considers necessary within the limit of the budget approved by the legislature.

Sec. 24.20.690. DUTIES. The Investment Oversight Committee shall

(1) report to the legislature its recommendations relating to the confirmation of suggested appointees to the Board of Trustees of the Alaska Permanent Fund Corporation and the Board of Trustees of the Alaska Renewable Resources Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(b) with recommendations for any needed legislation;

(6) in conjunction with the finance committee of each house, recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs.

Sec. 24.20.700. RECORDS. The Investment Oversight Committee shall keep a complete file of all reports presented to it and all reports presented by it to the legislature or to a legislative committee.

* Sec. 2. AS 37.07.020 is amended by adding a new subsection to read:

(b) The governor shall annually, before the convening of the legislature, report to the legislature through the Investment Oversight Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 3. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of any amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) thirty per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of future generations of Alaskans;

(2) the corporation's [primary] goal should be to maximize

total return while maintaining safety of principal;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation as needed for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings established in AS 37.13.020.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The board shall annually elect a chairman from among its members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. Initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office by and with the consent of a majority of the members of the legislature in joint session. A removal

by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a vacancy is not created but the board member may not participate in board business and may not be counted for purposes of establishing a quorum. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers of a permanent board member until such time as the legislature in joint session fails to confirm the appointment of the interim board member

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.13.080. QUALIFICATIONS OF BOARD OF TRUSTEES. (a) No individual may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of the United States or of this state.

(c) At least one member of the board shall have recognized compe-

tence and wide experience in finance, investments, or other business management-related field. No two members may be appointed to the board who share substantially similar professional or occupational backgrounds.

Sec. 37.13.090. QUORUM. Two members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.100. COMPENSATION OF TRUSTEES. Members of the board receive an honorarium of $250 for each meeting day if they attend the meeting and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and all other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board are subject to the provisions of AS 39.50.

(b) If a member or employee acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is applicable to the board in the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise

where are the requirements to help minutes in a report to stock Holders - of residents

the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital.

(b) The corporation assets may only be used for income-producing investments.

(c) The board shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Investment Oversight Committee.

(e) The corporation may not borrow funds or guarantee from principal of the fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation except i may not contract with agencies or departments of the state to recommend or select investments.

(g) Subject to (a) and (b) of this section, the board may invest corporation assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States; loans secured by first liens on unencumbered realty or leaseholds; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

(1) No portion of the assets of the fund may be used in the purchase of stock of a corporation which is not paying dividends on that

stock in cash at the time of purchase; nor in the purchase of bonds of any corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the corporation may be used for the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the corporation would exceed 30 per cent of the assets of the corporation.

(h) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to the Investment Oversight Committee for review and comment.

(i) Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.150. INCOME. The interest and dividends received in a

year are the income of the co ation for that year. The income available for disbursement shall be mined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

Sec. 37.13.155. MORTGAGE LOSS RESERVE ACCOUNT. The board may establish a mortgage loss reserve account for the purpose of protecting the financial integrity of the fund.

Sec. 37.13.160. BOARD BUDGET. The board's operating budget is from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.170. AUDITS. The Investment Oversight Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of corporation investments including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the

investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet. The board may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board and employees of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.220. DEFINITIONS. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation.

* Sec. 4. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 5. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Board of Trustees of the Alaska Permanent Fund Corporation.

* Sec. 6. TRANSITION. The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the board of trustees of the corporation.

* Sec. 7. AS 37.10.065(c) is repealed.

* Sec. 8. AS 37.10.065(a) and (b) are repealed.

* Sec. 9. Section 8 of this Act takes effect upon transfer of the funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 6 of this Act. The remainder of this Act takes effect immediately in accordance with AS 01.10.070(c).

PERMANENT FUND BALANCES
UNDER
ALTERNATIVE LEASING AND PERMANENT FUND SCENARIOS

Year	Bonus	Production	Royalty	Permanent Fund Contribution 50% Bonus 30% royalties	Permanent Fund Balance	Permanent Fund Contribution 50% Bonus 50% Royalties	Permanent Fund Balance
			12.5%				
1	100.0			50.0	50.0	50.0	50.0
2					50.0		50.0
3					50.0		50.0
4					50.0		50.0
5					50.0		50.0
6		100.0	12.5	3.7	53.7	6.2	56.2
7		100.0	12.5	3.7	57.5	6.2	62.5
8		100.0	12.5	3.7	61.2	6.2	68.7
9		100.0	12.5	3.7	65.0	6.2	75.0
10		100.0	12.5	3.7	68.7	6.2	81.2
11		100.0	12.5	3.7	72.5	6.2	87.5
12		100.0	12.5	3.7	76.2	6.2	93.7
13		100.0	12.5	3.7	80.0	6.2	100.0
14		100.0	12.5	3.7	83.7	6.2	106.2
15		100.0	12.5	3.7	87.5	6.2	112.5
			25%				
1	Ø			-	-	-	-
2				-	-	-	-
3				-	-	-	-
4				-	-	-	-
5				-	-	-	-
6		100.0	25.0	7.5	7.5	12.5	12.5
7		100.0	25.0	7.5	15.0	12.5	25.0
8		100.0	25.0	7.5	22.5	12.5	37.5
9		100.0	25.0	7.5	30.0	12.5	50.0
10		100.0	25.0	7.5	37.5	12.5	62.5
11		100.0	25.0	7.5	45.0	12.5	75.0
12		100.0	25.0	7.5	52.5	12.5	87.5
13		100.0	25.0	7.5	60.0	12.5	100.0
14		100.0	25.0	7.5	67.5	12.5	112.5
15		100.0	25.0	7.5	75.0	12.5	125.0

HOUSE SPECIAL PERMANENT FUND COMMITTEE

11 April 1979 -- Mark-up

HB 281

Sec 1 Investment Oversight Committee.

- Speaker, President, + 3 members each house.
- Oversight and audit function for investment of all state funds.
- Recommendations on confirmation and investments.
- Powers similar to Legislative Budget & Audit otherwise.

OPTIONS

- HB 281 (Investment Oversight Committee).
- Delegate to existing LB&A Committee.
- Delegate to standing committees (Finance).
- Delete function.

Sec 2 Report by Governor on investments as part of budget message.

OPTIONS

- Delete (means using existing reporting by agencies).

Sec 3 Alaska Permanent Fund (37.13 - new chapter).

010 APF contributions to principal.

- 100% mineral lease bonuses (net of other deductions).
- 30% royalties, rentals, federal revenues (5% above existing rate, about $18-20 million per year today).
- Other appropriations or contributions by law.
- Payments to principal monthly (same as present schedule).
- Management will be by APF Corporation (now function of Deptarment of Revenue).

020 Findings on APF.

030 Purpose.

* Strike "primary", P. 6 L. 29.

040 Establishes Corporation as separate entity, within Department of Reve

050,60,70 Establishes 3 member Board of Trustees, appointed by Governor, confirmed by legislature.

* Increase Board?
* Confirmation and removal requirement may be challenged by executive.

080 Qualifications of Board.

* Perhaps (c) should be deleted.

130

- P. 10 L. 13, reference to Investment Oversight Committee.
* P. 10 L. 18, word "not" questioned.
- P. 10 L. 20, eligible investments gives broader range than current law (see separate sheet comparing).
- P. 11 L. 12, Investment Oversight Committee.

140 Gains and losses.

Provides that capital gains and losses be netted out, remaining losses to be made up over time. Remaining capital gains become part of principal.

150 Provides for calculating income as lesser of current income or 5 year average. Income from interest and dividends only, after adjustment for losses charged to that year.

160 Operating expenses.

* General Fund or Permanent Fund income?

170 Reference to Investment Oversight Committee.

200 Political activity.

* First sentence may be useless.

* items refer to problems or questions raised previously and noted here for your consideration.

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) loans secured by first liens on unencumbered realty or leaseholds;

(3) corporate securities which under the Securities Act of 1933 are freely marketable;

(4) short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

((a) and (b) require the investments to be income-producing and prudent.)

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

The case for a specific, restricted list of investments is that it reduces the risks that can be taken by the fund and lessens the skills that are required of the fund managers.

The case for a general list of (trust grade) investments is that it will allow the managers to adjust to market changes and seek more than minimal returns, e.g. Treasury bills, which are issued for up to one year, have ranged from 3% to 9% and back over the past decade. As for the sound performance of the managers, that is favored by having a bottom-line that can be measured by national standards, by the fund's ability to pay salaries above the civil service rate, and by the fund not being forced to accept loans from state programs.

Alaska State Legislature

House

JUNEAU ALASKA

April 3, 1979

M E M O R A N D U M

TO: The Honorable Ernie Haugen
House Finance Committee

FROM: Milt Barker, MB Fiscal Analyst
Legislative Finance Division

SUBJECT: Power Project Financing

Following is a summary of the various funding sources and mechanisms that might be used to finance power projects:

1. General Funds can be appropriated to fund entire projects, front-end costs (reconnaissance and feasibility studies, engineering, etc.), reserves for revenue bonds, or partial project costs. Appropriation of general funds can be designated as coming from the reserve for energy facilities development account which is allocated 5% of mineral rents, royalties, and bonuses, or the reserve for capital outlay account which is allocated 25% of mineral revenues.

If the appropriation is made as a grant, it should probably be viewed as a subsidy. This would allow undertaking of projects that would not otherwise occur, although it is conceivable that a project would be subsidized even if capable of being conventionally financed in order to lower costs to users, say to fight inflation or provide or promote economic development.

If the general funds are appropriated as a loan or to the power project revolving fund or water resources revolving fund to be passed on as a loan which will ultimately be paid back out of project revenues, the appropriation may or may not involve a subsidy depending on the terms of the loan.

The payback of loans from these revolving funds will eventually create another source of funding; however, at present there are essentially no unloaned funds in these revolving funds.

2. Revenue bonds can be sold by the State or the Alaska Power Authority for construction costs. If the State were to combine its full faith and credit with the pledged revenues in a "double-barreled" bond a lower interest rate could be obtained. (See attached materials on HB 241 which proposes this combined revenue-general obligation bond.) Such bonds would need voter approval.

3. Guarantees of revenue bonds have been proposed from permanent fund income in HB 414. Bond underwriters estimate this technique could get interest rates down to within 1/4 to 1/2 of a percentage point of G.O. bonds. The advantage of this proposal is that permanent fund income is the only available source of revenue that can legally be dedicated, thus avoiding the necessity of making a large appropriation to a reserve or guarantee fund to assure the bondholder of monies to be paid in the event of a default.

4. Subsidies of revenue bonds are proposed in CSHB 414 (attached) by setting aside 50% of permanent fund income for guarantees of bonds for which it is estimated that project revenues will not be sufficient to pay debt service.

5. G.O. bonds or double-barrel bonds could be issued for projects that were not capable of paying the debt service. This would be another way of providing subsidies where needed and determined to be appropriate.

6. A loan can be made from the permanent fund principal. However, it will usually be cheaper for the State to issue bonds, at least GOB's or guaranteed revenue bonds, at tax-exempt interest rates of say 6% than to appropriate or loan their general and permanent funds which can be invested in taxable securities earning more like 8%.

7. The Alaska renewable resources corporation could fund power projects from their 5% of mineral revenues; however, generally their mandate is to assist innovative projects rather than standard hydroelectric facilities.

MBB:pw

Attachments

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 22, 1979

John Nuveen & Co. Incorporated
209 South LaSalle Street
Chicago, Illinois 60604

C. Richard Walker
Orrick, Herrington, Rowely & Sutcliffe
600 Montgomery Street
San Francisco, California 94111

Subject: HB 241

The enclosed bill is now pending before the House Finance Committee and in preparation for discussion on the bill, I am requesting your official opinions on the following:

For John Nuveen & Co. response:
Would a pledge of the "State's full faith, credit and resources" and a pledge of specific program revenues to a bond issue create a problem in marketing bonds issued subject to this proposed provision?

For Orrick, Herrington, Rowely & Sutcliff response:
Would the proposed language have an adverse effect upon the current tax exempt status of State of Alaska general obligation bonds?

Since the measure is currently under consideration by the House Finance Committee and the Legislature is generally concerned with an expeditious handling of this year's business, we would appreciate your comments on these and any other points you might feel important as soon as possible.

Sincerely,

J. H. Hogan, Director
Legislative Finance Division

Enclosure: HB 241

CC: John Messenger, Acting
Commissioner of Revenue

1-01LH

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE
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SAN FRANCISCO, CALIFORNIA 94111
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C. RICHARD WALKER
JAMES F. CRAFTS, JR.
JAMES K. HAYNES
RICHARD C. SALLADIN
RICHARD J. LUCAS
CARLO S. FOWLER
DONALD A. SLICHTER
PAUL A. WEBBER
JAMES R. MADISON
GILLMAN C. RINSELL, JR.
WILLIAM L. HOISINGTON
THOMAS R. SHEARER, JR.
CAMERON W. WOLFE, JR.
RALPH C. WALKER

M. PETER LILLEVAND
WILLIAM E. DONOVAN
ROBERT J. GLOISTEIN
W. REECE BADER
PAUL J. SAX
MARYELLEN B. CATTANI
WILLIAM L. RILEY
E. THOMAS UNTERMAN
EDWARD B. ROGIN
JACK E. FERGUSON
ALVIN W. FARGO III
JACK E. OWENS
WILLIAM F. ALDERMAN
RICHARD E. V. HARRIS
G. KIP EDWARDS
RAYMOND G. ELLIS
STEVEN A. BRICK
JOHN F. SEEGAL

February 27, 1979

Mr. J. H. Hogan
Director
Legislative Finance Division
State of Alaska
Pouch WF, State Capitol
Juneau, Alaska 99811

Re: House Bill No. 241

Dear Mr. Hogan:

I received your letter of February 22 yesterday. In response to your question:

The federal income tax status of state and local government bonds must be determined individually by each issue or series. I can imagine general obligation bonds additionally secured by revenues which would be taxable "industrial development bonds" under the rules of the Internal Revenue Service. I can also imagine general obligation bonds additionally secured by revenues on which the interest would be exempt from federal income taxation. If a future issue of bonds pursuant to House Bill No. 241 were held to be taxable, that would not affect the tax status of any other general obligation bonds of the State.

More generally, this bill seems to me to state only the bare bones of the idea. If it is being seriously considered, you may wish to expand the language of the bill to more adequately provide for general obligation bonds additionally secured by revenues. In that connection, I am enclosing a copy of a comparable California statute.

Sincerely yours,

C. Richard Walker

cc: Mr. John R. Messenger

Enclosure

(c) "Legislative body" means the legislative body of the local agency as defined in Section 53000.

(d) "Revenue-producing facility" means an improvement, works, system or facility furnishing or providing services or products for which the local agency is authorized to impose a charge.

(e) "Pledge" means pledge, assign, place a charge upon and place a lien upon. (Added Stats.1961, c. 1157, p. 2900, § 1.)

Library references: Statutes ⇐170; C.J.S. Statutes § 315; Words and Phrases (Perm.Ed.)

§ 53501. Applicability of article. This article applies to all local agencies which have the power to issue general obligation bonds to acquire, construct or finance a revenue-producing facility. (Added Stats.1961, c. 1157, p. 2900, § 1.)

§ 53502. Authority of legislative body to pledge revenues. In any ordinance, resolution, order or indenture providing for the issuance of general obligation bonds of a local agency to provide funds for the acquisition, construction or financing of a revenue producing facility or any addition to, or extension or improvement of a revenue-producing facility, the legislative body of the local agency may pledge all or any part of the revenues of such facility to the payment or security of such general obligation bonds and the interest thereon in such manner and upon such terms as the legislative body may deem advisable. (Added Stats.1961, c. 1157, p. 2900, § 1.)

REVENUE BONDS

Notes of Decisions

Library references

Counties ⇐187.
Municipal Corporations ⇐950(15).
C.J.S. Counties § 276.
C.J.S. Municipal Corporations § 1957.

1. In general

The 1956 bonds issued by Department of Airports of City of Los Angeles were not payable out of airport revenue fund, and therefore 1963 amendment of city charter to eliminate requirement that all of fund, after payment of certain current expenses, should be set aside for payment of 1956 bonds did not impair security of 1956 bonds, where bonds on their face stated that they were issued in compliance with § 43600 et seq., that did not indicate that any particular fund should constitute security for indebtedness, and face of each bond contained unconditional promise of city to pay bearer amount stated on presentation and surrender of bond. City of Los Angeles v. Dannenbrink (1965) 44 Cal.Rptr. 624, 234 C.A.2d 642.

§ 53503. Terms of pledge; powers of legislative body. In connection with such pledge the legislative body may provide in such ordinance, resolution, order or indenture such covenants, promises, restrictions and provisions as it may deem necessary or desirable including, but not limited to, covenants, promises, restrictions and provisions relating to the use of bond proceeds, the maintenance, opera-

tion and preservation of such facility, the rates and charges to be established and collected for the services or products furnished or provided by such facility, the incurring of additional indebtedness payable from such revenues, and the establishment, maintenance and use of reserve funds, sinking funds, interest and redemption funds, maintenance and operation funds and other special funds for the payment or security of the bonds and the interest thereon. In connection with such pledge and in connection with such covenants, promises, restrictions and provisions the legislative body shall have, but shall not be limited to, the powers specified in the Revenue Bond Law of 1941 (Chapter 6 of this part). (Added Stats.1961, c. 1157, p. 2901, § 1.)

Notes of Decisions

1. In general

The 1956 bonds issued by Department of Airports of City of Los Angeles were not payable out of airport revenue fund, and therefore 1963 amendment of city charter to eliminate requirement that all of fund, after payment of certain current expenses, should be set aside for payment of 1956 bonds did not impair security of 1956 bonds, where bonds on their face stated that they were issued in compliance with § 43600 et seq. that did not indicate that any particular fund should constitute security for indebtedness, and face of each bond contained unconditional promise of city to pay bearer amount stated on presentation and surrender of bond. City of Los Angeles v. Dannenbrink (1965) 44 Cal.Rptr. 624, 234 C.A.2d 642.

§ 53504. Pledge and payment and security provisions additional to existing law. The pledge and the payment and security provisions authorized by this article shall be in addition to, and not in derogation of, any provisions permitted or required by law, charter or the Constitution of the State of California relating to payment of general obligation bonds from the proceeds of ad valorem taxes or ad valorem assessments and relating to the levy and collection of such taxes or assessments. (Added Stats.1961, c. 1157, p. 2901, § 1.)

Notes of Decisions

1. In general

The 1956 bonds issued by Department of Airports of City of Los Angeles were not payable out of airport revenue fund, and therefore 1963 amendment of city charter to eliminate requirement that all of fund, after payment of certain current expenses, should be set aside for payment of 1956 bonds did not impair security of 1956 bonds, where bonds on their face stated that they were issued in compliance with § 43600 et seq. that did not indicate that any particular fund should constitute security for indebtedness, and face of each bond contained unconditional promise of city to pay bearer amount stated on presentation and surrender of bond. City of Los Angeles v. Dannenbrink (1965) 44 Cal.Rptr. 624, 234 C.A.2d 642.

§ 53505. Statement of intention. If the legislative body intends to exercise the powers granted by this article it shall make a statement of such intention in any ordinance, resolution or order calling or providing for an election to authorize the general obligation bonds for a revenue producing facility. Such statement may be general only or

nuveen

John Nuveen & Co. Incorporated 209 South LaSalle Street, Chicago, Illinois 60604 (312) 621-3000

March 1, 1979

J. H. Hogan, Director
Legislative Finance Division
The Legislature
State of Alaska
Pouch "WF" - State Capitol
Juneau, Alaska 99811

Subject: HB 241

Dear Mr. Hogan:

Your letter of February 22 requested a response from us to the question of possible marketing problems for bonds of the State of Alaska carrying both a full faith, credit and resources pledge and a pledge of specific program revenues.

The short answer is there should be no marketing problems if such a provision were included on certain State bonds. This is not an unusual provision with respect to municipal bonds. It is used less perhaps in financing state projects than it is in financing local government projects. A bond of this type is typically referred to as "double barreled," referring to the two different sources of security.

Acceptance in the marketplace varies, however, from issue to issue depending on the investors' analysis of the quality of the two pledges. If the full faith and credit pledge of an issuer is small relative to the size of the project being financed, then the specific program revenues pledged would be the determining factor and the bonds would sell like revenue bonds. On the other hand, with the substantial impact of a large tax base vis-a-vis the amount of debt service required for the project, then the bonds would trade like general obligation bonds.

A further factor should be kept in mind: if bonds of this type can be shown to be adequately serviced from the specific revenues pledged, most analysts and investors would remove the amount of such bonds from the full faith and credit debt when analyzing such debt, even though there would remain the liability of the full faith and credit to service the bonds in the event that the specific revenues fell short. A few analysts, however, would say that since the bonds carry the full faith and credit, they must be included in the general obligation debt totals. I believe, however, that this is a

minority view. As long as a conservative analysis would indicate that bonds could reasonably be expected to be paid from the specifically pledged revenues, I believe that a general obligation debt statement would not be impacted by that debt.

If you need further discussion of this subject, please don't hesitate to let me know.

Sincerely,

JOHN NUVEEN & CO. INCORPORATED

Walter W. Filkin
Vice President & Manager
Public Finance Department

WWF:RMc

cc: John Messenger, Acting
Commissioner of Revenue

Original sponsor: Gardiner

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 241

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to state bonding."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.15.010 is amended by adding a new subsection to read:

(b) General obligation bonds issued for acquiring, constructing, improving and equipping a state-owned utility or other revenue-generating enterprise may be additionally secured by a pledge of the revenue derived from operation. The bonds may contain the covenants which the state bond committee considers advisable concerning

(1) the rates or fees to be charged for services rendered by the public facilities, the revenue of which is pledged to the payment of the bonds;

(2) the deposit and use of the revenue of the public facilities;

(3) the issuance of additional bonds payable from revenue of the public facilities;

(4) the rights of the bondholders in case of default in the payment of the principal or interest on the bonds, including the appointment of a receiver to operate the public facilities;

(5) other covenants as the state bond committee determines.

IN THE HOUSE BY THE SPECIAL PERMANENT FUND COMMITTEE

CS FOR HOUSE BILL NO. 414

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

for an Act entitled: "An Act relating to income of the Alaska permanent fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.13 is amended by adding new sections to read:

Sec. 37.13.190. PERMANENT FUND INCOME. Income from investments of the permanent fund becomes part of the permanent fund and shall be deposited in the permanent fund annually. The income may be used to provide for guarantees of indebtedness issued by governmental agencies of the state for power projects.

Sec. 37.13.200. GUARANTEES OF INDEBTEDNESS. The Board of Trustees of the Alaska Permanent Fund Corporation is authorized to enter into agreements with any public authority of this state or any municipality or other governmental agency of the state, providing for a guarantee of the payment when due, whether at maturity or by sinking fund redemption but not by acceleration of maturity, of the principal of and interest on bonds, notes or other indebtedness issued to finance pr ,ects for construction of electric generating and related transmission facilities, this guarantee to be payable solely from the income derived from the Alaska permanent fund established by AS 37.13.010 (other than income derived from the Alaska enterprise development fund established by AS 44.55.010). The agreements shall contain such terms, provisions, and convenants in furtherance of the purposes of AS 37.13.190 - 37.13.240 as the board of trustees determines.

Sec. 37.13.210. SUBSIDIES OF INDEBTEDNESS. The board shall require as a condition of a guarantee an analysis which compares the anticipated revenues from the project which will be available after payme of estimated expenses of operation and maintenance to an assumed schedule, approved by the board, of debt service which would be payable if the bonds, notes or other indebtedness were publicly marketed with a guarantee under AS 37.13.200. If the net revenues available in any year are less than the required debt service, the bonds, notes, or other indebtedness to be guaranteed shall be considered subsidized.

Sec. 37.13.220. LIMITATION ON INDEBTEDNESS. Bonds, notes or other indebtedness which are not subsidized may not be guaranteed under AS 37.13.200 unless the board determines that the debt service for any year for all bonds, notes and other indebtedness guaranteed but not subsidized will not exceed fifty per cent of the amount of annual income estimated by the board to be derived during that year from the Alaska permanent fund (other than income from the Alaska enterprise development fund). Bonds, notes, or other indebtedness which are subsidized may not be guaranteed unless the board determines that the debt service for any year for all subsidized bonds, notes and other indebtedness guaranteed will not exceed fifty per cent of the amount of annual income estimated by the board to be derived during that year from the Alaska permanent fund (other than income from the Alaska enterprise development fund). The determinations shall be made by resolution of the board before the execution of a guarantee agreement under AS 37.13.200.

Sec. 37.13.230. GUARANTEE ENDORSED. A bond, note or other indebtedness guaranteed under AS 37.13.200 shall have on its face an endorsement of the guarantee by the chairman of the board or his designee.

Sec. 37.13.240. LEGISLATIVE APPROVAL. No bond, note or other indebtedness may be guaranteed by the board under AS 37.13.200 until the facilities to be financed with the proceeds of the bonds, notes or other indebtedness have been approved by the legislature by concurrent resolution. If the bonds, notes, or other indebtedness to be guaranteed are considered subsidized under AS 37.13.210, the resolution shall state the total subsidy estimated to be paid to the facilities during the life of the bonds, notes, or other indebtedness.

* Sec. 2. AS 44.56.090 is amended to read:

Sec. 44.56.090. POWER CONTRACTS AND THE ALASKA PUBLIC UTILITIES COMMISSION. (a) The authority shall, in addition to other methods which it may find advantageous, provide a method by which municipal electric, rural electric, cooperative electric, or private electric utilities and regional electric authorities, or other persons authorized by law to engage in the distribution of electricity may secure a reasonable share of the power generated by a project, or any interest in a project, or for any right to the power and shall sell the power or cause the power to be sold at the lowest reasonable prices which cover the full cost of the electricity or services, including capital and operating costs, debt coverage as considered appropriate by the authority, and other charges that may be authorized by this chapter. Power from a project financed with bonds subsidized under AS 37.13.210 may be sold or caused to be sold by the authority at prices which do not cover the full cost of the

electricity or services. A contract for the sale, transmission and distribution of power generated by a project or any right to the capacity of it shall provide:

(1) for payment of all operating and maintenance expenses of a project and costs of renewals, replacements and improvements of it;

(2) unless the bonds of the authority issued for the project are subsidized under AS 37.13.210, for interest on and amoritization charges sufficient to retire the bonds (OF THE AUTHORITY ISSUED FOR THE PROJECT) and reserves for them, plus a debt service coverage factor as may be determined by the authority to be necessary for the marketability of its bonds;

* Sec. 3. AS 44.56.110(b) is amended to read:

(b) Notwithstanding any other provisions of this chapter, the trust agreement shall contain a covenant by the authority that it will at all times maintain rates, fees or charges sufficient to pay, and that a contract entered into by the authority for the sale, transmission or distribution of power shall contain rates, fees or charges sufficient to pay the costs of operation and maintenance of the project, and, unless the bonds are subsidized under AS 37.13.210, sufficient to pay the principal of and interest on bonds issued under the trust agreement as the same severally become due and payable, to provide for debt service coverage as considered necessary by the authority for the marketing of its bonds and to provide for renewals replacements and improvements of the project, and to maintain reserves required by the terms of the trust agreement.

* Sec. 4. AS 44.56.130(b) is amended to read:

(b) The bonds issued by the authority, unless they are guaranteed under AS 37.13.190-240, do not constitute an indebtedness or other liability of the state or of a political subdivision of

the state, except the authority, but shall be payable solely from the income and receipts or other funds or property of the authority. The authority may not pledge the faith or credit of the state or of a political subdivision of the state, except the authority, to the payment of a bond and the issuance of a bond by the authority does not directly or indirectly or contingently obligate the state or a political subdivision of the state to apply money from, or levy or pledge any form of taxation whatever to the payment of the bond.

* Sec. 5. AS 44.56.180(b) is amended to read:

(b Upon completion of the reconnaissance study, the authority shall submit to the governor and the legislature a statement of its recommendations for financing each new project. The financing plan may include a recommendation for a guarantee of indebtedness or a general fund appropriation only when necessary to supplement private financing in order to make a project financially feasible. If the recommended financing for the project includes a guarantee of indebtedness by the permanent fund or an appropriation from the general fund, the legislature must first give its approval by joint resolution before the authority may proceed with the engineering or design phase of the project. The legislative approval required in this subsection may not be considered the approval required under (AS 37.13.230) AS 37.13.240 for granting of a permanent fund guarantee.

* Sec. 6. This Act takes effect upon the effective date of a version of House Bill No. 281 establishing the Alaska Permanent Fund Corporation.

SSHJR 39

"JOINT CHAIRMANS' REPORT ON CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

The principal of the Fund would be used only for investment in income-producing investments which the legislature would establish and change from time to time to meet the needs of the state. The Fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund.

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings -- ranging from adding to Fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures for the Fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.

HUGH MALONE
Chairman House Finance Committee

TERRY GARDINER
Chairman House Judiciary Committee"

HJR 41

The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) under consideration and a majority of the members of the Committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to revise the standard time zones in which Alaska is located) and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by Parker, Wallis, Fischer and Miller. Not concurring was McKinnon who has no recommendation.

Mr. Malone moved and asked unanimous consent that the Finance Committee referral on HOUSE JOINT RESOLUTION NO. 41 be waived. There being no objection, it was so ordered and the resolution was referred to the Rules Committee for placement on the calendar.

02.0018 (Rev. 10/78)

STATE
of ALASKA

MEMORANDUM

TO: Senator Clem Tillion

DATE: April 17, 1979

FILE NO:

TELEPHONE NO:

SUBJECT: Permanent Fund Legislation; Loan Programs

FROM: Governor Hammond

The following are my bottom line concerns regarding permanent fund enabling legislation and reorganization of the loan programs. I will be flexible regarding details and other aspects of the legislation, but I hope to see the following principles incorporated into any permanent fund legislation which arrives on my desk.

Permanent Fund

1. The permanent fund should be managed as an inviolable trust fund. This means that these funds should be invested in a safe, secure manner to provide a relatively certain flow of income. The principal of the permanent fund may not be used as a guarantee for any debt nor may the fund be used to guarantee debt of its own.

2. 50% of income return to general fund and 50% of income for specific programs as designated by the legislature, such as guarantees for hydro projects, guarantees for state loans, dividends to Alaskans (Ak., Inc.), provided that at a minimum of 25% of earnings would be returned to Alaskans.

3. Investment of permanent fund principal should be based on a list of eligible investments identified as appropriate with respect to risk level and return to the fund.

4. All permanent fund investments should yield a market rate of return.

5. Fund managers should be limited to operating within the guidelines specified in enabling legislation. They are not to be responsible for designing or implementing social or economic policy outside of their specific mandate.

6. No reorganization of state government for loan programs.

7. Increase contribution rate of 50% of bonuses and royalties, at a minimum.

8.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811

April 9, 1979

Representative Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

You have asked under what conditions would existing law (AS 37.10.065(a)) permit a Permanent Fund investment in the proposed Gas Pipeline. It is possible that such an investment could be made given the following conditions:

1. A guarantee by the United States government or an agency or instrumentality of the United States government that covers all debt service on an obligation issued to finance pipeline construction; or,

2. A rating of Baa or better on an obligation issued to finance pipeline construction.

I must emphasize that it is only theoretically possible that the Permanent Fund would invest in the project and that it is not at all likely that the Fund would do so. An investment of the size necessary for this project would not be compatable with management of a fudiciary trust which requires reasonable diversification of investments.

If I can be of any further help, please do not hesitate to contact me.

Sincerely,

Peter A. Bushre

Peter A. Bushre
Deputy Commissioner

PAB:ms

04-D12LH

5a

TESTIMONY BEFORE THE HOUSE
SPECIAL PERMANENT FUND COMMITTEE

By Clark Gruening

March 30, 1979

Mr. Chairman, committee members, friends, and former colleagues, I understand that you're about to go into what's known as "mark-up" on the various Permanent Fund proposals before you. As I recall, mark-up takes place when you've heard every conceivable bit of advice as to what you ought to do, and now it's your turn to do what you think should be done. Having been through this exercise myself once or twice, I hope I can share with you some basic references I found helpful in sorting out all the information and issues.

The two basic references I find helpful are: first, Section 15, Article IX of the State Constitution creating the Alaska Permanent Fund and those major principles Alaskans have told us they wanted written into any permanent fund legislation.

Before reflecting further on those basic references, one preliminary question needs to be addressed. This question will undoubtedly arise among that group known as "the body at the other end of the hall." That is, does there need to be any action this session to establish in law more definite

management and investment guidelines. This question is sometimes phrased as, what's wrong with letting the Department of Revenue go on doing as it has been doing with the Permanent Fund money.

Why is it better that a comprehensive Permanent Fund management bill pass sooner than later? In the first place, the passage of time is not going to make the legislature's decision any easier. As the size of the Permanent Fund grows, so will the number of lobbying groups which seek special uses of the money. The pressure will grow in proportion to the size of the Permanent Fund.

We would do well to take a leaf from our own State Constitutional Convention, which in 1955 and 1956 worked under the advantage of writing the Constitution in the relatively uncharged political atmosphere. That is not to say that the Constitutional debates were not spirited, heated, and arduous. But in the main, those debates focused on matters of long-term policy and not short-term political expediency. The hard work of the many eminent Alaskans who were delegates to the Convention was viewed by some as an academic exercise since, at the time of their deliberations, statehood for Alaska was still a major uphill battle to be won in Congress. Yet the delegates took their jobs seriously and were able to produce, in a relatively unpressured atmosphere, a document that is widely admired as a model Constitution.

In regard to the Permanent Fund, I have heard the comment more than once that the legislature really doesn't need to make a more definite and clear statutory statement of Permanent Fund management structure and investment guidelines until the fund grows to a size in which it can "really do something."

I firmly believe we need better guidelines than those stated presently in A.3. 37.10.065--otherwise known as the interim management statute. I disagree with the statement in the Governor's letter of transmittal for the administration's Permanent Fund proposal that this statute is adequate for the management of the basic 25 percent. If you also believe that the interim management statute can be improved, the time to do it is <u>now</u> before the pressure is really upon the administration and the legislature for bills to meet competing demands for immediate disbursement of Permanent Fund money for this or that project.

What are, then, the critical elements, not now in law, that a Permanent Fund management bill should contain? This brings us back to those basic references I referred to. After the passage to the constitutional amendment in November of 1976, public hearings were held, questionnaires were sent out, and both the House and Senate committees working on Permanent Fund legislation received testimony of statements both on how the fund should be specifically invested, what

should be the basic management concept. Even if there appeared to be no consensus on what the specific Permanent Fund investments ought to be, there appear to me to be a clear view by Alaskans on those general principles under which the fund should be managed.

In my view the five main principles emerging from the Alaska public can be simply stated as follows:

First, the Permanent Fund should serve as a safe depository for mineral revenues and not used for current expenditures;

Second, the mineral revenues placed in the Permanent Fund (the principal of the fund) should stay there and not be dissipated by using it to pay for operations of state government or by investing it unwisely;

Third, where there are sound investments in Alaska the Permanent Fund should make them without duplicating financial services already available;

Fourth, money earned by the Permanent Fund investments (the earnings or income) should be used for the benefit of current and future Alaskans; and

Fifth, the day-to-day management of the Permanent Fund should be insulated from politics but the management should be accountable to the public in matters of policy and performance.

Some of these principles are in a large degree mandated by a plain reading of the constitutional amendment. In reviewing A.S. 37.10.065, it's obvious that no attempt was made to write these principles into the law. It should

be noted, however, that this statute was only intended as an interim measure passed on the heels of the amendment in order to authorize somebody to invest the first Permanent Fund money.

What is critically important now is that a definite statement of investment management goals be stated in law.

The present list of investments is limited to mostly so-called "money market instruments" which, by their nature, preclude a larger portion of Permanent Fund money from being invested in Alaska even though undoubtedly many investments can be safely made in Alaska.

Another major problem with the interim management statute is that it authorizes management by the Department of Revenue. A primary function of that Department is to ensure that sufficient revenue is available from the General Fund to meet on-going state expenditures. In other words, of necessity, the General Fund is of primary concern to the Commissioner of Revenue. This is as it should be since it is the General Fund which will continue to be the largest repository of public money and the sole source of revenue for operation of state government.

Without being critical of any person or policy of the Department of Revenue, I have no doubt that had the interim statute permitted the Commissioner of Revenue to

purchase state loans with Permanent Fund money that past and current General Fund cash crunches would have sorely tempted the Commissioner to sell the least liquid loans to the Permanent Fund in order to achieve liquidity for the on-going expense of government operations. The same conflict exists between General Fund and Permanent Fund management policies even within the limited list of investments currently allowed for the Permanent Fund. Even money market instruments, because they can grow relatively less liquid or less attractive with fluctuating interest rates, are subject to being traded off at a loss to the Permanent Fund.

It may be argued that there is an economy to be achieved by having all the funds managed under one roof. This proposition is yet to be persuasively demonstrated, but should this be viewed as a critical factor, it might be wiser to place all investments functions under a board such as Wisconsin's Investment Board for which investment functions have been clearly separated from revenue and taxation problems. Even though there is a split within the Department of Revenue by division between investments and revenue collection, I would submit that a headstrong Commissioner (and Alaska has seen a few of these) can easily overlook any separation of function so as to solve whatever political or financial problems may confront him.

Moreover, there's something to be said because of the special constitutional stature of the Permanent Fund for establishing a separate corporate identity for the Permanent Fund management. (as Under the House proposal of the last session of the Tenth Legislature and House Bill 281 now before you) the establishment of a separate corporate existence removed from the Department of Revenue should not mean any less accountability. Accountability is assured by continued oversight by the legislature through an appropriate committee or committees. The administration would continue to have oversight ~~power~~ through the appointment and removal power and budget review under the Executive Budget Act. It is interesting to note that the administration has no problem with management of 75 percent of the Permanent Fund by a separate corporation.

This brings us back to a very basic question. What are you going to ask this management structure to do? What guidelines are you going to give them for the investment of this public money? After considerable deliberation, the predecessor to this committee, the House Special Permanent Fund Committee in the Tenth Legislature determined that the guidelines should approximate those of a savings trust and that regardless of whatever long-term investment commitments

the fund may be called on to make in the future, that a large portion of permanent fund money should be in very liquid form of investment--that is to say that a large portion of the fund would be flexible and available for a totally new kind of investment in which savings may or may not be the primary emphasis.

By flexibility or liquidity, we meant the ability to change the form or thrust of the investment without discounting or taking a substantial loss on the investment you are "cashing in." Implicit in this statement is the possibility that the legislature may reasonably or unreasonably decide at some time in the future that the fund should be committed directly or indirectly (by equity investment or by guaranteeing or pledging) to some major project or series of projects within the Alaskan economy or to address an "economic emergency" by certain investments the legislature may designate by statute.

The necessity and wisdom, however, of stating in law a clear statutory charter for the savings trust is that when that time comes to change the major thrust of the Permanent Fund, it can only be done by amending the law by a bill requiring hearings and majority approval of each House as well as the approval of the Governor. There is, in my view, a far less likelihood of ill-advised or secret deals being cut for the disposal of permanent fund money under

the requirement of a passage of a bill rather than simply the decision of a compliant bureaucrat.

The statutory charter you are called upon to address would also provide for a flexibility which may or may not be the case under the "temporary" statutory provisions. Without further inquiry it is difficult to ascertain the true position of Permanent Fund from the Department of Revenue's monthly investment reports.

One extreme would have been to completely remove the policy decisions of the Permanent Fund managers from reach of any elected officials. This would have had the unfortunate result, however, of completely insulating the managers of the Permanent Fund from the general public or the need to respond to changes of public policy. This was the essence of the major criticism against the establishing a Permanent Fund in the first place. Nevertheless, I believe the provisions of House Bill 281 will prevent the Permanent Fund from becoming a headless monster. House Bill 281 appropriately balances the need for insulation from day-to-day politics with the need for responsiveness to changes in basic public policy.

There is, among all the legislative proposals now before you, a consensus that the trust concept should be the dominant theme of any final bill. In order to make this

theme more plain to the principal fund managers, there needs to be both a general statement as to investment standards (such as the prudent man rule) and list of eligible investments specified as appropriate in regard to risk level and return to the fund. The greatest danger of substantial erosion of the Permanent Fund principal is not (as suggested in a February 23, 1979 Permanent Fund policy memorandum of the Division of Policy Development and Planning) from a practice of making investments at less than market rates but rather from making investments entailing more than a reasonable risk. Generally, in the investment world the higher the risk, the higher the expected return. In a number of instances, however, we have seen the investment of public assets in investments which are highly risky and yet offer in the outset a very low return. Sometimes, these investments are justified on policy grounds as being necessary to diversify the economy or create jobs. Often, neither goal is achieved.

Both before and after the passage of the constitutional amendment establishing the Permanent Fund, elected officials, consultants, members of the general public all offered differing views to what the Permanent Fund could and should accomplish. I recall writing an article in which I enumerated various worthy things the Permanent Fund could do. Principal

among these was the opportunity to use Permanent Fund money to diversify the economy and to replace absentee ownership of certain industries, particularly renewable resource industries, with Alaskan ownership. Now that I'm older and wiser, or at least older, I see the Permanent Fund cannot reasonably be expected to accomplish all our goals at once.

One reason for a modification in my view is that the fund didn't turn out to be as big a pot of gold as anticipated. Another factor was the realization that many of the "development banking" investments would be at risk levels generally incompatible with the concept of a savings trust. A solution we proposed was to commit the basic 25 percent mandated by the Constitution to a savings trust and to provide for an additional contribution over and above the 25 percent to an "Alaska Enterprise Investment Corporation." The purpose of this corporation, as in your House Bill 282, is to assist financially sound, small and medium scale productive private enterprises and community development projects in the State.

I urge you to act on bills which provide for clear and accountable management of the Permanent Fund and the Alaska Enterprise Investment Corporation. Whether or not capitalization for the enterprise function actually comes from an additional dedication from the Permanent Fund

or from the General Fund, I believe there needs to be an active entity in the area of development banking, designed to assist the economies of the varied communities and regions of the State in an original way which does more than merely replace sources of capital that otherwise would have been available. After the separate managements of the Permanent Fund and the enterprise function have had the opportunity to establish a track record, some joint participation by the two entities in "development banking" may be justified.

In the meantime, Permanent Fund management ought to be required by law to place a premium on safety and liquidity of investment so that when we see more clearly where the greatest potential of the fund for new investment opportunities lies, we can act.

Even though it now appears we cannot accomplish all our goals at once, over a period of time it is, in my view, possible to do most of those things originally envisioned for the Permanent Fund. Within the realm of a savings trust a number of current benefits still accrue to Alaskans:

1. Mineral wealth, otherwise destined for expenditure in the operating budget of state government is held available for future capital investment and improvement in the State;

2. Active capital investment in the State can be properly made under the savings trust concept;

3. The credit worthiness of the State for both general obligation bonds and revenue bonds is enhanced, thereby increasing the ability of the State to acquire new capital sources at lower cost;

4. The opportunity to participate in the diversification of the Alaska economy at a future time remains open; and

5. The Permanent Fund will continue to serve as a meaningful focus for the public to discuss State fiscal and economic policy.

There is a common awareness now that the income from the earnings of the Permanent Fund will never be sufficient to replace, in any significant amount, the revenue now required for state government. I'm still partial to the use of income proposal contained in House Bill 595 of the Tenth Legislature. That use of income proposal was designed to assist the development of low cost energy ~~projects~~ throughout the State.

If, however, this committee does not reach this conclusion as to the use of the income from the Permanent Fund, returning the income to the principal of the fund so that the impact of inflation on the corpus of the fund will be lessened is preferable to its present deposit in the General Fund.

To sum up, three points bear repetition. Whatever bill you finally agree on, provision ought to be made in the investment guidelines for liquidity of investment of the larger portion of the fund. Second, the statutes must provide for public accountability for the performance and policy of the fund's management. This, I believe, entails placing the management out from under the potential conflict situation within the Department of Revenue. Accountability also should include at a minimum, a meaningful reporting procedure and an active oversight function by the legislature. My last point is that the legislature has sufficient information to make a decision this session and I don't think there is any good reason for delaying a permanent fund bill.

MEMORANDUM
State of Alaska

TO: The Honorable Hugh Malone
Chairman, House Permanent Fund
Committee
Alaska State Legislature

DATE: April 7, 1979

FROM: Frances Ulmer
Director
Division of Policy Development
and Planning

RE: Suggested Amendments
to HB 281

I would like to share with you a few amendments to HB 281 which you might consider in your mark-up session.

p. 6,
line 11 The contribution rate in HB 281 is set at 30%, which we feel is better than 25%, but we request that you seriously consider a 75% contribution rate and a 100% contribution rate for bonuses.

p. 6,
line 29 Delete the word "primary" as it implies unstated secondary goals.

p. 10,
line 17 Board membership set at three. The Administration feels a larger board would provide additional perspective and expertise.

p. 7,
line 18 Legislative confirmation of the Board is probably unconstitutional.

p. 7,
line 28 Legislative consent for Board member removal is probably unconstitutional.

p. 10,
line 14 We would like to make special note of our support for this provision which is designed to prohibit placing the principal at risk through leveraging or guaranteeing with the principal.

p. 11,
line 13 We recommend the use of the language in HB 277, Sec. 190(1) which we believe is clearer.

p. 12,
line 13 We recommend that the funding for the operating budget come from permanent fund earings rather than the general fund for the extra incentive for efficient operation such funding source would create. Such funding would remain subject to appropriation and the Executive Budget Act.

MEMORANDUM
State of Alaska

TO: The Honorable Hugh Malone
Chairman, House Permanent Fund
Committee
Alaska State Legislature

DATE: April 7, 1979

FROM: Peter Bushre
Deputy Commissioner, Treasury
Department of Revenue

RE: HB 281

The Department of Revenue suggests that HB 281 be amended as follows:

Page 4, line 15: With regard to the powers of the Investment Oversight Committee, audits should not be restricted to the Legislative Budget & Audit Committee. Subsection 7 should be amended to review of reports and past audit analyses conducted by outside, independent auditors as well as Legislative Budget & Audit.

Page 4, line 20: With regard to Audit reports and analyses, the Investment Oversight Committee should have the option of contracting these items independent of the Budget & Audit Committee.

Page 10, line 18: With regard to the power and duties of the Permanent Fund Corporation, the Board is specifically prohibited by existing language from contract management of Permanent Fund investments with the Department of Revenue. Delete language beginning with the word "it" and all of lines 18 and 19.

Page 10, lines 20 through 27: Qualifying investments are not sufficiently defined to conform with the intent of the House Permanent Fund Committee as expressed in previous meetings. Existing language would permit soft loans and other investments of a questionable nature, particularly under the short term catagory. We suggest that the Committee substitute the investments as defined in Administration Permanent Fund Bill which is HB 277 (for the 25% trust, i.e., 37.10.065(b)).

Page 11, lines 16 through 29; and page 12, lines 1 through 9: With regard to treatment of gains and losses, the impact of HB 281 as currently drafted will be to spread such items over a defined future period. Net income is apparently added to the income (line 21). We suggest this be amended to inclusion within Section 150 requiring disposition of Permanent Fund income. The disposition of income appears to be somewhat unnecessarily complicated and we maintain that the language in the Administration Bill is superior and should be subsituted.

#18.07

SELECTED EXCERPTS FROM TESTIMONY BY MR. ROBERT BLIXT, THE EXECUTIVE SECRETARY OF THE MINNESOTA STATE BOARD OF INVESTMENT

presented to the House Special Permanent Fund Committee Nov. 19, 1977

BLIXT: You're hitting a question here that's just fascinating in Minnesota, and may I say-- watch out. I wonder if some of you see some of the problems involved in what you're discussing right now. In this problem of income versus total return, if you are actually going to sell stock that has a profit and use it as income, let us assume that fifty years from now the decision has been made to build a big dam in Alaska. You need money in a hurry. You need lots of money. You have a statute here which in essence says that if you sell stocks at a profit, it's income, under total returns. What do you have? Automatically, you go down your portfolio. Say that there's two billion in stocks at that time. What do you do? You sell everything at a profit. And you keep what we call your "puppy dogs." . . . We've gone through this actually in our state right now. And even though we use the total return concept of investment, we are extremely careful not to put the proceeds from the sale of equities on the total return system into the income stream because, if we do, we're continually lowering the quality of the portfolio. Now we use this total return concept, but there are many words for it. . . We use the total return concept-- total return, over all, over a period of years-- and then we can sell the stock at a profit, then turn around and put those profits back in the portfolio and maybe buy a bond or some other stocks with it. Once you find you're selling stocks at a profit, under a total return situation, to get money for now, the corpus of that permanent fund is going to streak out. I can see it happening in other states.

GRUENING: Right now the constitutional provision says that 100% of the income goes to the general fund, which means that if a stock were sold, 100% would go back to the general fund unless we decide to do otherwise, and what I was just suggesting is that we put 50% of whatever's realized back into the permanent fund. I'm just tossing that out.

BERRIER: The point that Mr. Blixt is raising-- and the committee can do this if it chooses-- is to define capital gains as principal rather than as income.

. . .

BLIXT: We take the capital gains and put them right back in the corpus of the fund. And let's be blunt-- investment men always make a lot of mistakes. Every time I sell a stock at a profit I find there's a couple of puppy dogs in there that I wish I'd never had in the first place and I want to sell at a loss. And you know, it makes it just marvelous to take a $100,000 profit and then a $90,000 loss to revamp the portfolio, and I'm still $10,000 ahead. But if I had to put all the profits into the current fund, what would I do with the losses? You're not going to find an investment man that's so good that he only buys things that go up.

. . .

Our constitution was changed in 1962. Our legal beagles didn't like the standard prudent man rule that you have in banks. . . Let me read you this language that's in there now-- it's been upheld by the court and it's pretty good-- "All funds arising from the sale or other disposition of the lands (that's our permanent trust fund lands), or income accruing in any way before the sale

or disposition thereof, shall be credited to the permanent school fund within limitations proscribed by law"-- I like this phrase-- "to secure the maximum return thereon consistent with the maintenance of the perpetuity of the fund." See what that says? We all like it. We think it means that the capital gains go right back into the fund. We must maintain the perpetuity of the fund. From now we must presume that we're going to want as much from this fund as we would have had if the iron ore was still in the ground and we could sell it now.

. . .

GRUENING: When Bill mentioned crediting the capital losses to the income, do you have an equivalent of that?

BLIXT: I think any investment man can always arrange to sell enough at a profit each year so that he'll come out a little ahead, and that's what we do. Yes, we have losses. Every year our permanent school fund has come out ahead. A fund the size you folks are talking about-- you'll be able to do the same thing. I wouldn't take it out of income as such. The constitution and the statutes in Minnesota do say, if I sell a whole group of stocks at a loss that loss must be made up out of income over a period of five years. I think that language is reasonable. Otherwise I could sell it off all one year and really dive into the income which we need for schools.

. . .

You have to have something that spreads your losses or gains over a period of time. We have one sentence in the contitution and the rest by statute. The sentence in the contitution is, "The principal of the permanent school fund shall be perpetual and inviolate for-

ever. This does not prevent the sale of any public or private stocks or bonds at less than cost to the fund. However, all losses not offset by gains shall be repaid to the fund by the interest and dividends earned thereafter." That's all the constitution says. Then we have other provisions in the statutes. "At the end of each fiscal year, the total amount of losses on the sale of securities not offset by gains on the sale of securities during that year shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and such an amount of interest and dividend income shall be added to the principal of the fund." In other words, losses taken on the sale of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold and losses taken on the sale of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. "In any fiscal year in which the gains on the sales of securities exceed the losses, such excess shall be added to the principal of the fund." What we're saying here is we can sell all kinds of bonds to take advantage of the market-- sell a bunch of bonds at 80 but if they're twenty-year bonds let's not take that out of income in one year. We will simply take enough out of the income each year so that we raise the amount from 800 to 810 the first year, then 820 the next. It's worked beautifully.

SCOMM

#18:8



FACING UP TO THE FUTURE

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

Fellow Alaskans:

Ever since the September, 1969, oil lease sale, the State has poured hundreds of millions of dollars worth of non-recurring "nest egg" wealth from oil revenue into the funding of a rapidly expanding State bureaucracy. All the while, the lion's share of Alaskan taxpayers have been lulled into indifference because their own taxes have not been raised to foot the bill for the expansion. I think it's high time they were told. That is why I wrote this series of newspaper articles. I hope you will take the time to read them--not for my sake, but for your own and for the sake of your children. If I leave nothing else in my wake, I want to buy for our kids a piece of a better tomorrow. It's my hope that Alaska, Inc. will accomplish that dream.

Sincerely,

Jay S. Hammond
Governor



". . . There are only two reasons why a politician will fly in the face of politics. Either he's stupid or he thinks he's right. I would hope you take time to plow through this series of articles so that you may draw your own conclusions. Don't do it for my sake. Do it for your own and for the sake of your children."

". . . We've been trying to fund a Rolls-Royce government on a V.W. income and have had to dig deeply into our 'nest-egg' inheritance wealth in order to do it."

FACING UP TO THE FUTURE

Part One of a Five-Part Series

by

Governor Jay S. Hammond

Introduction to "The Big Problem"

More important than gas pipeline routing, the North Slope Haul Road or even the wolf controversy is an economic issue which, until recently, has been almost ignored--much less understood. Yet it will do more to determine the future of Alaska than all other circumstances put together. It explains why the state is on far shakier financial ground now than it was in 1960; what happened to the $900 million nest egg; what will inevitably happen to all but the shell of the next nest egg--and the next and the next--unless drastic changes are made now; why almost no industry in Alaska now "pays its way"; why, unless we reduce per capita government costs or increase per capita taxes, we simply cannot afford new industry if it encourages population growth; why government growth has ballooned so dramatically; why most Alaskans here now are being subsidized by future Alaskans; why we've encouraged outsiders to "rip us off and then run"; why taxpayers no longer foot the bill; why we cannot at this time reduce taxes without making things worse; why we might reduce the pain of appropriate tax increases through the so-called "Alaska, Inc." proposal; and why, unless Alaskan citizens clearly understand it, we politicians are not likely to do a great deal about any of the above.

What I am talking about, of course, is the manner in which we have paid for expanded government. Instead of a prudent "pay as we go policy" which limited government growth to that which we could afford to pay for from on-going income, we have been feeding growing government with non-renewable resource "nest egg" wealth--i.e., the $900 million—which, unlike taxes, we will receive but once.

We have been something like a man who, with an annual income of $10,000 traded up for a Rolls Royce by turning in his VW plus some $20,000 from a "nest egg" inherited from his Great Aunt Minnie. When he finds he cannot pay the installments, much less for the gasoline and upkeep from the salary he makes, he can either (1) get rid of the Rolls, (2) find a more lucrative job, or (3) start hocking his home to pay for the car. Should he opt for number three, most would think he was stupid--except the people who sold him the Rolls or those who got to ride in it and liked it far more than the old VW.

Thus, it is with the state of Alaska. We've been trying to fund a Rolls Royce government on a VW income and have had to dip deeply into our "nest egg" inheritance wealth in order to do it. Moreover, it's highly unlikely the public, and in turn politicians, will permit us to trade back down to the VW. Most, of course, say they want to trim back. But, for goodness sakes, not at the expense of my special program. My program is not adequate now! Get rid of some bodies; spend more

efficiently; reduce salaries; or wipe out some other guy's project; but don't reduce my crucial service.

Government growth, of course, is not only salaries and personnel. Government growth is a new ferry, increased revenue sharing, aid for school construction, airfields, boat harbors, pioneer homes, old age assistance, and even maintenance of the North Slope Haul Road. Every motherhood measure obligates additional government growth. Like growth in the private sector, not all government growth is bad. It's whether the growth is subsidized that's important. Of course, all programs cannot "pay their own way". Most need subsidized help from other fund sources. But that subsidy should come from income rather than nest egg wealth.

Since some demands for new services are legitimate and compelling, government is going to continue to grow, and no one is going to dramatically reduce government costs while increasing government services. Minor tinkering can take place; but don't lose sight of the political issue because of smokescreening. The key issue is how to assure government does not continue to grow in a manner future Alaskans cannot afford.

Through this series of articles I'll provide information which caused me to conclude that this is by far the most crucial issue facing future

Alaskans. Unfortunately, however, like the hidden string in a necklace, it is virtually indetectable; though just as functionally imperative. It links past, present and future circumstances inexplicably together. Yet it is fast unraveling. Unless we thread together those circumstances with a new, stouter and enduring economic string, inevitably the unsound present string will break, showering all sorts of glittering dreams for Alaska's future through the floorboards. We can forget doing things appreciably better than they have been done elsewhere for we may never again have the opportunity or funds to string those dreams back together.

Smart politics suggests we sit back and hope the problem goes away rather than grapple with it. I cannot do that. There are only two reasons why a politician will fly in the face of politics. Either he's stupid or he thinks he's right. I would hope you'd take time to plow through this series of articles so that you may draw your own conclusions. Don't do it for my sake. Do it for your own and for the sake of your children. The course of events will be altered only if you insist that it is. It is my hope that this series of articles will help motivate concerned Alaskans to begin making those requisite rude noises.

In the next article, I'll present some information which hopefully will help fan those flames.

". . . Were we actually a business corporation, shareholders would throw us out on our ears."

FACING UP TO THE FUTURE

Part Two of a Five-Part Series

by

Governor Jay S. Hammond

The State's Balance Sheet

Many seem to think Alaska has money to burn. That's not surprising since we've really been burning it. However, the way we've used money to stoke up state government has been much like feeding one's home fires the home: certainly, one can stay warm and cozy while walls and roofing remain; however, long before you've burned the last board, the wind whistles in.

At long last many are starting to feel the draft. Though I may make a pest of myself in the process, I'm going to hold the door open until I have the attention of all. It's time we either turned down the heat under expanding government or hauled in more appropriate tax fuel.

Alaska started throwing its "floor boards" into the blaze when we sold an oil lease and, instead of putting that wealth into income-producing investments or capital construction, used it for increased on-going government salaries and services. With the $900 million Prudhoe lease wealth, we started burning our "home's" siding and studs.

Certainly, until we run out of lands to lease or oil to pump, we could keep the bureaucratic boilers sufficiently fueled to divert attention from snow seeping in. But unless we start using more appropriate fuel, inevitably some day the roof will cave in.

It's been mighty pleasant to bask in the warmth from burning those "floor boards" rather than having to haul more tax fuel in from outside. But this is depleting capital wealth from our savings account rather than using on-going income. As such, it is inappropriate fuel. Appropriate fuel comes from on-going taxes or income from investment of capital wealth. Hopefully prudent investment income from the permanent fund will permit a reduction in taxes. But we are by no means able to do so at present without simply shoveling more of our depleting basic wealth into on-going government instead of the permanent fund. I find few who want to do this, but once permitted to use readily available inappropriate fuel, it's hard for politicians either to turn down the heat by reducing state services or switch to the more appropriate fuel from new taxes. It can only be done if Alaskans understand what has happened and demand that we do something about it.

We politicians have had the best of all possible worlds: The capability of expanding services without having to raise taxes. That's where the $900 million went. That's where most of our future non-renewable resource dollars will go unless we shift now to another approach. Small wonder

that many think we Alaskans are flush. Yet actually Alaska is on far shakier financial ground now than in 1960. To recognize this clearly one need but imagine the state a business corporation and all residents "shareholders".

If one considers taxes paid to the state as income received for services rendered, in 1960 "Alaska, Inc." operated in the black. We took in more money than we spent. Moreover, on-going costs of state government were 98% funded from on-going taxes. The remaining 2% costs were paid by statehood transitional monies. In fiscal year 1969, before we began "burning" the $900 million, we still were using mostly appropriate fuel. 64% of recurring government costs were obtained from recurring revenues. 36% was fueled from non-recurring oil lease "nest egg" wealth.

By FY 1976, however, we were funding only 39% of government's recurring costs from appropriate sources. We are now required to shovel more than 400 million "nest egg" dollars from Prudhoe leases and future severance taxes into the remaining 61% of operational costs.

In 1960 the state spent about $600 per capita while it took in about $800 in taxes. "Dividends" of about $200 per resident shareholder were "earned". Not bad "corporate" performance; especially since our assets then were vastly greater than our liabilities and almost all of our non-renewable resource wealth was still banked in the ground accruing

interest. By contrast, in 1977, our non-renewable resource assets have begun to deplete while renewable assets such as fisheries are deep in the doldrums. Liabilities, on the other hand, have vastly increased. Bonded indebtedness has skyrocketed, and by FY 1976 we had long since stopped paying as we went for expanding government. In 1976 we had income of only about $1,450 per person while we spent almost $1,750. Thus, "dividends" earned per resident stockholder had fallen from $200 each to minus $1,065—61% of the $1,750 it now costs the state to provide services for each Alaskan. That's a deplorable performance for a presumably lucrative enterprise. Were we actually a business corporation, shareholders would throw us out on our ears. Instead, viewers see the plate glass, the deep piled carpets, the shiny new buildings and throngs of employees as evidence of a profitable venture which, somehow curiously still does not provide them with "adequate" service.

From a business standpoint, Alaska's government is in far worse shape than in 1960. Now we're deep in the red and kept from swamping only because we've used hundreds of millions of our non-recurring resource "nest egg" wealth to bail us out.

But who's complaining? At least we've raised nobody's taxes. While such may be good politics, is it good business? You might con unsuspecting voters into acceptance; but not shareholders whose "dividends" would reflect such incredibly poor performance.

For example, I suspect that had each citizen gotten a piece of Prudhoe through dispersal of dividends earned by sound investment of the public's $900 million, we would either know precisely what happened to that nest egg wealth, or it would still be intact yielding dividend checks to the shareholders. Under those circumstances, we would more likely have been willing to pay as we went for state services since the dividends would have helped offset the bite of more appropriate taxes or at least would have inclined shareholders to demand we politicians turn down the heat under state spending.

Perhaps it's time we created "Alaska, Inc." and gave Alaskans some direct shares of the resource wealth which all own. Perhaps only by so doing can we hope that they in the future will insist upon better accountability and performance by those of us tending the fires. It may be the only way to get us back on to more appropriate fuel before we've burned up the floor, the ceiling, the walls and the roof does cave in on our kids.

". . . This may well be the last chance we will have to shift to a more appropriate means of funding state government."

FACING UP TO THE FUTURE

Part Three of a Five-Part Series

by

Governor Jay S. Hammond

Something's Got To Give

Make no mistake, I'm opposed to new taxes. Isn't everyone? However I'm even more opposed to spending one dollar more of our depleting, non-renewable resource "nest egg" wealth for expanding government salaries or services. Most people seem to agree. At least when I ask if there's anyone in the audience who thinks we should put one more dollar of "nest egg" wealth into on-going government, the answer is always a resounding "no"!

By voting overwhelmingly to place at least 25 percent of our "nest egg" wealth into a permanent fund, Alaskans have demonstrated their awareness that we should not pay for the expansion of government with such monies since they will come to us but once. Instead, government should be allowed to grow only to the extent we're willing and capable of paying for from either income from investments of "nest egg" wealth or appropriate taxes.

Until recently, many Alaskans did not think of our "nest egg" oil wealth as the same as an "inheritance" because Prudhoe Bay should turn over

more of that "inheritance" to us in each of the next several years at least. Yet, despite the fact that our receipt of "inheritance" is stretched out over a longer period of time, it is just as inappropriate to feed it into the growth of government over the long run as it would have been to do so had it been conveyed to us in one lump sum.

Since we started selling oil leases, we've lived in a politician's paradise. We've been able to pump up governmental salaries and services without going to the public for one more tax dollar. By voting to create a permanent fund savings account, the public has, however, indicated a growing awareness that there's something wrong with what we've been doing. I believe, and I ardently hope, that the public will press to place ultimately all of our "inheritance" wealth into this savings account. Some argue that even severance taxes should be considered "nest egg" inheritance wealth since they come from a depleting non-renewable resource and, thus, someday inevitably will be gone. Despite the growing public awareness that our expanding government has grown from feeding off of our inheritance rather than income, few understand just how hooked on this practice we have become and how difficult it will be to wean government off of "inheritance" wealth and back onto a pay-as-you-go basis. For example, while almost everyone tells me that they do not wish to put one more "nest egg" inheritance dollar into on-going government, they are aghast to learn that just to keep government services at their current level next year will require that we put a minimum of about $477 million

such inheritance dollars into the budget. That is, if the legislature holds the line to the budget level I submitted. Contrary to public misconception, I did not ask for any new taxes should that budget level not be exceeded. I merely said that, should the legislature increase that budget, I propose various measures to increase state income in order to meet those costs. I am not opposed to expanding state services if we have income to pay for them. However, I do not believe the public wants us to dip even deeper into our depleting "nest egg" inheritance to provide that income.

I recognize that in my budget message I handed legislators, butt first, a loaded gun cocked and held to my forehead. If most legislators are more concerned with political games than the broad public interest, you can expect several "motherhood" measures to pass this session while taxes remain set at the current 1961 levels.

Most legislators know I mean it when I say I cannot in good conscience permit any increase in our already dangerous dependency upon "nest egg" inheritance wealth to meet government costs appropriately paid through current income. This may well be the last chance we will have to shift to a more appropriate means of funding state government, or at least hold down that government growth until appropriate means are available to permit its further expansion.

Perhaps the legislature will choose to discharge that gun in order to wipe me out politically by passing those "motherhood" measures and compelling me to alienate almost everyone. However, I am banking on principle outweighing politics for I believe most legislators are just as concerned as you tell me you are. If they are not, here is what will undoubtedly happen. Bills increasing benefits to old timers, teachers, taxpayers, municipalities, school districts, the poor, and the bush will all pass while no taxes will be increased on the public.

Even if we could put all of our "nest egg" inheritance wealth into sound investments, the income from those investments would not for many years permit us to shift totally to paying as we went for government. However, unless we start to suppress government growth and to increase the percentage by which we pay as we go for government, we will simply feed one $900 million "nest egg" after another into government's gullet.

I find few who do not agree that is inevitable. Most agree something should be done to preclude it. What? Some say slash government services to a level at which we can "pay as we go" such as we did back in 1960 when only state income and not one dollar of state non-renewable "nest egg" wealth was used to run government. But that would require we slash $477,000,000 this year alone in government services. The alternative, of course, to not "going" so far is to start "paying" more. One or the other or both are necessary if we ever are to shift back to sound

financial practice.

In my two years as governor, it has become increasingly apparent that unless we are able to make that shift, we have commenced a countdown to chaos which will make New York's financial plight seem trivial by contrast. One means of possibly helping us make that shift is a proposal I've put forth which would make each Alaskan a shareholder in our resource stocks. It's my hope that, by giving John Q. Alaskan a "piece of the action", we'll also be giving him an increased awareness of the improper uses those resource dollars are often put to. I call this grass roots revenue sharing proposal "ALASKA, INC.". I'll begin outlining it in the next article in this series.

". . . If Alaska, Inc. would do what many believe it might . . . isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth?"

FACING UP TO THE FUTURE

Part Four of a Five-Part Series

by

Governor Jay S. Hammond

"Alaska, Inc." - One Possible Solution

The "Alaska, Inc." proposal is not something which the public can or should accept without examination. It will only come about if the public concludes it provides the best, perhaps the only, means by which we can possibly shift now to an appropriate "pay as you go system" before it is too late. It will come about not because we politicians have told the public it should, but because the public concludes, as have I, that it may be the only way to assure that at least a portion of our non-renewable resource wealth is returned in some discernible benefit form to Alaskans both here now and in the future.

However, the only way it's likely to happen is if the people demand it. Otherwise, expect business as usual. Save for that small percentage of non-recurring resource wealth which must by constitutional mandate go into the permanent fund, inevitably ever greater amounts of our non-recurring wealth will be used to fund state government spending before most politicians would dream of offending the electorate by suggesting new taxes.

Therein lies the most compelling arguments in behalf of dispersing dividends to citizen shareholders in "Alaska, Inc.". We are blessed as no other state has been; we can afford to try something different. In fact, it may be we cannot afford not to.

The basic question as to how we use our income from investment of our resource inheritance wealth is this: Do you believe as I that all Alaskans should share equally in at least a portion of that income? If you do, "Alaska, Inc." may be the only means by which this can be done.

The "Alaska, Inc." bill we are introducing will be a blueprint for discussion. It should not be acted on this year. I submit it to provide merely something to build upon or be torn asunder. It incorporates features and procedures designed to ease administrative costs; reduce fraud; provides no inducement for persons to come to Alaska; permits options which reduce the federal tax bite; permits us to shift to appropriate tax schedules without undue cost to most Alaskans now here.

It obligates but a minor portion of the income earned from permanent fund investments. The great bulk of such income can still be used for expanding government. Hopefully, however, once the public is conditioned to the "Alaska, Inc." concept, there would be ever greater restraints placed upon those who would spend monies from depleting non-renewable resources. I would hope that ultimately 100 percent of such revenues were placed into the permanent fund. However, we cannot do that in one jump.

It will take a long time to wean ourselves away from siphoning "nest egg" inheritance oil dollars into state salaries and services. However, even the modest amounts of money committed under present law to the permanent fund should at least start to turn down the tap.

The blueprint bill which we will introduce provides that a person who has been physically present in Alaska during the majority of each of five years would be eligible to receive a dividend check for a share of earnings derived from investments of permanent fund oil money. Shareholders would make application by signing an affidavit attached to state income tax forms. That affidavit would attest, under penalty of losing all future benefits for perjury, that one had met the qualifications which, along with physical presence, required that one be registered to vote. There will be an option to defer receiver dividends for those who find that under such deferral they could reduce the federal tax bite. Persons 65 years of age who qualified would initially receive two shares. Subject to the effective date of the legislation, for each subsequent five years during which an individual met the qualifications, an additional share would be conveyed. Children, upon achieving the age of 18 and otherwise meeting eligibility requirements, would receive one share for each accumulative five year period subsequent to the date of the act.

Possibly we should provide that those imposing costs on the state should have the dividends used to defray those costs. For example, we might

charge room and board of those housed in our correctional facilities.

There are some of course who's earned income is such that state dividends could be largely offset by federal income taxes. An option to defer receipt of dividends until retirement age or some such time could go a long way to offset the federal tax bite. A tax audit option also should be considered.

Since oil royalties and lease bonuses make up but a portion of revenues derived from oil, there will still be a significant amount of oil revenues from severance taxes available for spending through general fund appropriations, just as now. Under a constitutional amendment establishing the permanent fund, only 25 percent of just lease bonuses and royalties would have to go into the permament fund. If leases bonuses and royalties made up 50 percent of the annual income to the state from oil, that means that only one-eighth of our annual income from oil would be placed into the permanent fund. In turn, under our "Alaska, Inc." proposal, but one-half the earnings from permanent fund investments, or one-sixteenth of the potential earnings from our oil wealth, would be dispersed in dividends to qualified Alaskans. If "Alaska, Inc." would do what many believe it might insofar as suppressing government growth to the level people would permit themselves to be taxed; creating public pressures to place additional depleting non-renewable resource wealth into the permanent fund; assuring that all Alaskans received some discernible benefit from their share of our resource wealth and that those flocking to Alaska in the

future really paid their way rather than requiring the state to subsidize their presence; if it even possibly could do these, isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth? or, should we permit it to go the way of the $900 million instead?

While the initial dividends to be paid Alaskan shareholders might be modest, by increasing the amount of oil wealth within the permanent fund or the percentage allocated to dividends. Those dividends could be significant. They could more than offset the additional costs to most Alaskans now here of appropriate taxes to which we must begin to shift if we ever hope to start "paying as we go" for government—or not going!

". . . The more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to 'pay our way'."

FACING UP TO THE FUTURE

Part Five of a Five-Part Series

by

Governor Jay S. Hammond

In Defense of "Alaska, Inc."

Of course, there have been objections raised to the "Alaska, Inc." concept. I was reluctant to float it out because I knew it would be vulnerable politically. Yet, the more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to "pay our way".

Among the main objections I have heard raised is the suggestion that to pay dividends directly to Alaskan shareholders would pander to the public's "greed". But even if such would be the case, would it not be refreshing to have the public's so-called "greed" working to suppress the growth of government and state budgets to counter special interest "greed"? Of course, one man's presumed "need" becomes the other fellow's "greed". Regardless of the terminology, it would be interesting to have the modifying influence of the public's "greed" or "need" countering that of special interests or the pork barrel process. Another objection has been that such a program would create pressure from the public to exploit our resources at a less than prudent pace. But those pressures could not be worse than the pressures we are faced with now. It would be much easier to

resist public pressures to lease out all our oil lands as quickly as possible simply to achieve a larger dividend than it is under the present circumstances to resist putting up new oil leases each time the growth of government demands an increase in revenues. Such was the case when I took over this administration. Faced with a $200 million shortfall, I had little choice but to cast around for some immediate revenues. Obviously, I could not double the income tax. The only thing I could assuredly do was to find another oil province to lease and hope we could raise enough money. Thus, I was almost compelled to put up the Beaufort Sea leases simply to meet the state's payroll, despite the fact the time was not the most auspicious nor the price potentially top dollar. That's a lousy way to be forced to do business. However, unless we shift to funding government from appropriate tax dollars it's only a matter of time before this governor or the next will be forced to start selling lands to pay off the help.

Some have suggested that if you believe that all Alaskans should share equally in our non-renewable resource wealth, perhaps we should simply sell it all and disperse shares directly to Alaskans rather than placing that wealth into a permanent fund. I disagree most emphatically. That wealth does not belong to simply those of this generation. It belongs to Alaskans now and in the future.

Some have said the program would be difficult to administer and would lead to fraud and litigation. By using an affidavit attached to one s income

tax return, we not only will increase the number of income tax filings but simplify the process of application. Moreover, it is unlikely that many will be inclined to cheat if they are made aware that if by so doing they would foreclose the opportunity to ever again participate in the program. Since initially all who qualified would receive but one modest share, it is unlikely there'd be much inducement for an individual to jeopardize his potential long-term earnings by perjuring himself. An additional safeguard could be structured into the act by simply requiring that applicants must submit, upon demand, evidence supporting their contended qualifications. Such evidence might consist of affidavits from two prospective shareholders who, if found to have perjured themselves, would also lose forevermore prospective benefits. Procedures such as these would certainly cut down on the potential for abuse.

While dispensing dividend checks to Alaskans may seem unusual, if one thinks about it, no matter how we use State monies, they are dispersed in "dividends" from a gigantic people's owned business corporation we could call "Alaska, Inc." If we use the money to cut taxes, a "dividend" is granted taxpayers. Use it to expand services; recipients of these services receive a "dividend". If we use it for municipal revenue sharing, "dividends" are conveyed to municipal dwellers.

While some investment earnings from "nest egg" wealth in the Permanent Fund could and will no doubt be used for the above purposes, all such "dividends" are <u>selectively</u> dispersed. What about the individual who

lives outside a municipality? Or who makes too little income to pay taxes? Or who receives no welfare benefits and few, if any, State services? Does not he also deserve a "dividend" from that wealth which belongs to all Alaskans? Perhaps the only way he can ever expect to see a share of that wealth is if he actually receives a dividend check. Perhaps we should take a page from the Native Land Claims Act. The Natives foresaw that the only way some of their corporate shareholders might see any part of their wealth was to distribute a portion in the form of a direct dividend check. However, they are distributing a portion of their capital nest egg wealth. I propose something far more modest: a distribution not of the "nest egg" wealth itself but a part of its earnings.

It seems to me that no matter how we use the income from our "nest egg" wealth, a major objective should be to see that at least a portion of it is distributed equitably. Should someone come forth with a more equitable means of assuring that all Alaskans can have a "piece of the action" than direct dividend checks, I welcome that information. To date nobody has.

Some say municipal revenue sharing's the way we should go. I don't think most Alaskans agree. However, there's an easy way to find out. Let people exercise local option. Should they elect to have all dividends go to the municipality rather than to themselves, so be it. However, I suspect most would like to have a chance to decide for themselves how

they would spend at least a small part of their wealth rather than leave all of such decisions up to elected officials.

Polls have shown that confidence in the way public monies are spent is inversely proportionate to the distance you remove those monies from the public's control. Thus, the public has least confidence that the federal government spends their money wisely. Somewhat more confidence in state government; and far more in local government since they at least have those who will spend it within their arms length. "However, if you really want my dollars spent wisely," says the average citizen, "let me say where they are spent." I think it's high time we listened.

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

May 28, 1977

Representative Clark Gruening
Chairman
House Special Committee on
the Alaska Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Dear Representative Gruening:

I am pleased by your offer of cooperation and your suggestions for coordination of energy and effort on the Permanent Fund. This is an excellent opportunity for the executive and legislative branches to work together on what is unquestionably one of the most important issues facing Alaskans.

I have designated the Division of Policy Development and Planning as the coordinating agency for this project. The division will (1) maintain close contact with the legislative committees and their work; (2) pull together data from executive agencies which are only peripherally involved with issues which concern the Permanent Fund; (3) act as a clearinghouse for specific work requests for executive agencies from the legislative committees; (4) act as a source of information for regular progress reports on legislative action during the interim; (5) generally coordinate between the various departments which will be designated as lead agencies for specific projects; for example, the Department of Natural Resources, for renewable resources questions, and the Department of Revenue for investment implementation and structures; and (6) coordinate with the Growth Policy Council and the Public Forum on the public participation process which has been proposed.

I look forward to working with you and your committee on this project.

Sincerely,

Jay S. Hammond
Governor

Alaska State Legislature

Representative
CLARK GRUENING
940 Tyonek Drive
Anchorage, Alaska
99501

907-274-2446

Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

Copy

PF - Correspondence

May 23, 1977

The Honorable Jay Hammond
Governor of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Hammond:

The need for an integrated approach by the executive and the legislature to implement the Permanent Fund is becoming obvious. Cooperation is desirable to avoid needless duplication and to ensure that the Permanent Fund does not fall victim to partisan politics or feuding between branches or agencies of state government.

While several of the executive agencies will be involved with individual Permanent Fund issues (structures, distribution of income, citizen participation, economic analyses, etc.), it would be extremely valuable to have one agency or individual within the Governor's office designated as the Permanent Fund policy and planning coordinator.

With certain departments such as Revenue, Natural Resources and the Division of Policy Development and Planning, the legislature would have direct liason. For the other agencies the coordinator could (1) maintain close contact with the legislative committees and their work; (2) pull together data from executive agencies which are only peripherally involved with issues which concern the Permanent Fund; (3) act as a clearinghouse for specific work requests for executive agencies from the legislative committees; and (4) act as your source of information for regular progress reports on legislative action during the interim. The legislative committees also plan to designate staff members as coordinators, to ensure the closest possible cooperation between the two branches.

The members of the House Permanent Fund committee (and probably Senate members as well) are interested in using the Alaska Public Forum to obtain public participation in the decisions the Legislature will be making as to the objectives and alternative structures for the Permanent Fund. In cooperation with members of the Growth Policy Council and all other involved members of the executive branch, the legislature would formulate the relevant policy questions on how the Permanent Fund, the Renewable Resources Fund and disposal of income from these funds fit into the larger question of management of public wealth.

In the final implementation of the Permanent Fund, cooperation will ensure that no substantial divisions in intent and direction will occur. This coordination between branches should involve regular meetings between executive and legislative staff members in order that information be exchanged in time for the particular needs and deadlines of each group involved. This is particularly crucial in matters of citizen participation, so that the public is aware that their government is working on the Permanent Fund, rather than a public perception that each agency and committee is pursuing its own objectives separately.

The role of the Permanent Fund in the wise management of public wealth is the most important issue this legislature will face next session. Our work on this issue can be a model for future executive and legislative cooperation.

Sincerely,

Representative Clark Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

CG/br

JAY S. HAMMOND
GOVERNOR

Clipping Pull out - Sample

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July, 1977

MAILER MEMORANDUM NO. 77-4

FROM: Charles H. Meacham, Director
International Fisheries and External Affairs

On the personal invitation of Governor Hammond the U. S. State Department Ocean Affairs Advisory Committee, Fisheries Section, will hold its 1977 summer meeting in Kodiak, Alaska, on July 6 and 7.

In extending the invitation, Governor Hammond said, "We welcome the opportunity to show this prestigious committee, and the U. S. fishing industry Alaska's dynamic fisheries potential. This committee is a direct line to State Department officials responsible for negotiating fisheries treaties and is of vital importance to Alaska. An opportunity to observe first-hand the Western Alaska salmon industry in full operation will be a valuable experience for the members of the committee, while illustrating Alaska's special need for adequate fisheries protection."

The U. S. State Department delegation will be headed by Assistant Secretary Patsy Mink accompanied by Deputy Assistant Secretary for Oceans and Fisheries Affairs John Negroponte.

Enclosures:

U.S. Observers Start Work on Foreign Vessels, U. S. Maritime Monthly, May, 1977
Tanner Crab Sales Decline in Japan, ibid
Japan Paying High Prices for Alaska Red Salmon, ibid
Law of the Sea, Southeast Alaska Emprie, June 27, 1977
Alaska Fishermen Double Crab Take, ibid
Japanese Fishing Boat Leaves Sitka After Citation, ibid, April 11, 1977
Whaling Commission Slashes the Quotas, ibid, June 24, 1977
Pollock Roe Prices Double, The Fisherman, May 6, 1977
Dogfish Operation for Poles Approved, ibid
China Warns Tokyo, Seoul on Sea Pact, The Japan Times Weekly, April 30, 1977
Taiyo Fishery Goes Up in Corp. Earners' List, ibid, June 4, 1977
Fishery Talks Suspended, ibid, April 23, 1977

New Fees Proposed for Foreign Vessels, Fishing Gazette, April, 1977
Fish Processor to Expand Kodiak Operation, The Anchorage Times, May 19, 1977
Sablefish Prices Peak on Japanese Markets, Western Fisheries, April, 1977
Trade Agreement Includes Fisheries, ibid
Argentina Wants Japan Immigrants, The Japan Times, May 9, 1977
Japanese Group Wins Argentine Fishing Deal, ibid, May 18, 1977
Central, Metropolitan Governments Take Action on Soaring Fish Prices, ibid, May 21, 1977
Podgorny Receives Diet Mission, ibid, April 22, 1977
Fishery Cities are Hardest Hit by Soviet-Proposed Quota Cuts, ibid, May 27, 1977
Companies are Hotly Competing in Fish Habitat Development, ibid
Japan Formally Accepts Quota Proposed by Russia on Salmon, ibid, April 22, 1977
Gov't Approves Bill for 200-Mile Zone, ibid
Quota Agreement Reached; Signing to Proceed Today, ibid, May 27, 1977
Soviets Seize Japanese Boat, ibid
Eager Fishermen Head for Grounds off Aleutians, ibid, May 13, 1977
International Fishing in New Era, ibid, May 30, 1977
Fishermen Told to Adjust Boats, ibid
Silver Salmon Flourish in Warm Inland Sea, ibid
Fishery Talks Over, ibid
Japan Demands Larger Hauls From Soviet 200-Mile Zone, ibid, May 26, 1977
Diet to Get Fishery Pact Legislation This Week, ibid
Basic Territorial Issue Policy Reflected in Interim Pact, ibid, May 29, 1977

U. S. Maritime Monthly

May, 1977

U.S. Observers Start Work On Foreign Vessels

The first of an estimated 160 United States observers have been placed on foreign fishing vessels that are permitted to fish within the 200-mile fishery conservation zone.

Under the terms of permits issued under the Fishery Conservation and Management Act of 1976, observers are placed on foreign fishing vessels to collect biological data, information on their catch, information on the types of gear used, and information on the fishing effort of the vessels. In addition, they will monitor compliance with the regulations and terms of the fishing permit.

Observer trips will cost between $2,000 and $10,000, including all direct and management overhead support costs of the Department of Commerce, Coast Guard, Navy, and Customs Service. These costs will be paid by the foreign nations which have observers on board their ships.

U.S. observers will board the ships either before they leave their home ports, from Coast Guard vessels at sea, or when the foreign ships enter U.S. ports to pick up the observers.

Tanner Crab Sales Decline In Japan

The sale in Japan of imported snow (tanner) crab from Alaska has recently dipped below the level for the same season last year in spite of the low prices (reportedly $.16-$.48 per pound) less than a year ago. The wholesale prices at Tokyo Central Wholesale Market in early March were reported to be $1.93/lb. for size "4L", $1.69/lb. for size "3L", $1.45/lb. for size "2L". Informed sources attributed the declining sale of snow crab to excessive imports which so far have totaled 4,000 tons.

Southeast Alaska Empire, Juneau, Alaska, Monday, June 27, 1977

Law Of The Sea

UNITED NATIONS, N.Y. (AP) - U.N. delegates agree that the sixth session of the U.N. Conference on the Law of the Sea is nearing a climax.

They predict that over the Fourth of July weekend an effort will be made to produce the third highly tentative text in as many years for a general treaty on all aspects of sea law.

The document seems likely to be called "the composite text." It will succeed the "revised single negotiating text" of 1976 which replaced the "single negotiating text" of 1975.

"We've reached a critical stage," U.S. delegate Elliot Richardson told The Associated Press.

Southeast Alaska Empire, Juneau, Alaska, Monday, June 27, 1977

Alaska Fishermen Double Crab Take

ANCHORAGE (AP) — Alaska fishermen have more than doubled last year's Bering Sea tanner crab catch and gained a foothold in the sea's eastern crab fishery.

State Department of Fish and Game biologist Jack Lechner of Kodiak told the North Pacific Fisheries Management Council on Saturday that the 1977 harvest probably will reach 50.5 million pounds, compared with 22.3 million pounds last year and 5 million in 1975.

Last winter Kodiak fishermen outlined expansion plans and appealed to the council to cut back the Japanese quota in favor of the Alaska fleet.

The council is required under the U.S. 200-mile fisheries zone law to make available to foreign fishermen those stocks which are not utilized by American fishermen. The panel opted to wait and see what the Alaska fleet could do this season.

"I'm delighted at what Alaskan fishermen have accomplished," said council member Charles Meacham after the report from Lechner.

Council Chairman Elmer Rasmuson said congratulations also should be extended to processors "who have risen to the occasion by processing this big harvest."

Meacham said expansion of the domestic effort means the council logically can recommend a cut in the foreign quota next year. The law states that the foreign take in any fishery can be cut back or eliminated if the domestic fleet and processors demonstrate the ability and willingness to harvest the resource

THE JAPAN TIMES WEEKLY,

April 30, 1977

China Warns Tokyo, Seoul On Sea Pact

China lodged a formal protest with the Japanese Government last week over the Japan-South Korea continental shelf development agreement now before the Diet for ratification, it was learned Sunday.

The protest was filed orally by Sung Wen, first secretary at the Chinese Embassy, when he met Takashi Tajima, chief of the Foreign Ministry's China division, at the Foreign Ministry, to be briefed on Japan's proposed 200-mile fishing zone, Tajima said Sunday.

Sung told Tajima the agreement violates the sovereignty of China and warned that if Japan and South Korea "arbitrarily" develop the area covered by the agreement, the two nations must bear the responsibility for any consequences arising out of the development.

The division of the continental shelf in the East China Sea must be decided in consultation with China, Sung said.

The protest is similar in content to an announcement by China immediately after Japan and South Korea signed the agreement in January 1974. A similar statement was conveyed to the Japanese Embassy in Peking by the Chinese Foreign Ministry last week.

Southeast Alaska Empire, Juneau, Alaska, Monday, April 11, 1977

Japanese Fishing Boat Leaves Sitka After Citation

A Japanese fishing vessel cited Thursday for violating America's 200-mile fishing limit was allowed to leave Sitka over the weekend, an official of the National Marine Fisheries Service in Juneau reported this morning.

The fishing vessel, the 165-foot "Tenyo Maru No. 25," had been cited Thursday by the Coast Guard when the boat arrived in Sitka after having failed to notify the Coast Guard that it had entered the U.S. fisheries zone. Federal law requires foreign fishing vessels to notify U.S. officials within 24 hours before they begin fishing in American waters.

Fred Maldonado, a Coast Guard spokesman in Juneau, Friday said the boat had failed to make such a notification and reportedly had been seen fishing for several days before arriving in port at Sitka.

Harry Rietze, regional director of the National Marine Fisheries Service in Juneau, this morning said his agency will process all the evidence obtained by the Coast Guard in its investigation which concluded over the weekend and then bring civil charges against the craft.

Rietze said the citing of the vessel marked the fifth administrative-civil issued citation by the government in Alaska since the 200-mile limit went into effect March 1.

He explained the failure of the craft to notify authorities of its commencement of fishing in American waters, even though the craft was fully licensed in every other way, is being treated as a serious violation of the act.

"It's very important that we take action since we don't want to allow foreign vessels to establish the practice of not checking in with us when they enter our territory. If foreign boats fail to check in, it could destroy our bookkeeping system and hurt the entire act."

"We'll be very insistent that all boats notify us when they enter our waters," Rietze said.

Maldonado this morning reported the Thursday incident marked the 53rd boarding of a foreign fishing vessel by the Coast Guard since March 1—31 Japanese, 21 Soviet and one South Korean boat being checked. Overall, seven of the boats have been found in violation of the new law, two of the boats escaping with written warnings.

Rietze this morning said that court charges formally would be filed against the first violator cited under the act later this week.

Maldonado said Friday each day of fishing is considered a separate violation under the 200-mile act and the vessel's owners could be fined up to $25,000 for each violation.

Southeast Alaska Empire, Juneau, Alaska, Friday, June 24, 1977

Whaling Commission Slashes The Quotas

CANBERRA, Australia (AP) — The International Whaling Commission today slashed whale quotas an average of 15 per cent for next year and drastically reduced the number that can be taken in the North Pacific.

The ruling angered Japanese and Soviet delegates to the commission, who said the reduction in the North Pacific threatened to ruin their large whaling industries.

The commission reduced the total sperm whale catch in the North Pacific from this year's 7,200 to 763. The bryde's whale quota was dropped from 1,000 to 623 and minke whales from 541 to 400 in the North Pacific.

However, the commission promised to reconsider North Pacific quotas before next season. The commission said its scientific committee will hold a special meeting in November to review the North Pacific sperm whale stocks.

Depending on the findings, the commission could call a special full meeting to discuss quota changes, officials said.

THE JAPAN TIMES WEEKLY, Saturday, June 4, 1977

Taiyo Fishery Goes Up In Corp. Earners' List

Taiyo Fishery Co. has moved up to the ninth place from the 10th in terms of income among the top 10 Japanese firms closing accounts in January.

According to figures reported to the National Tax Administration Agency, Taiyo Fisheries' sales totaled ¥481,400 million, up 5.6 per cent over the previous year. Its declared income rose 34.9 per cent to ¥2,694 million.

Taiyo officials ascribed this to the sales of nine ships, including whalers, last year at some ¥3.9 billion.

Kirin Brewery Co. and Sekisui Prefab Homes, Ltd. retained the first and second places.

The agency also announced 59 companies, capitalized at more than ¥500 million, in nine industries reported total sales of ¥3,459.4 billion, up 12.1 per cent, and total income of ¥110.6 billion, up 22.9 per cent.

Taxes assessed on them totaled ¥38.7 billion, up 35 per cent.

Income increased for eight industries, including food, textile, paper-pulp and chemical, but decreased for the real estate industry.

Fish Industry Thrives

Thanks to higher fish prices, five major Japanese fish wholesalers listed on the Tokyo and Osaka stock exchanges have reported their best-ever sales in the last business year ended in March.

Leading the five was Chuo Gyorui Co., whose sales totaled ¥161,634 million, up 16.4 per cent, current profits ¥1,433 million, up 24.7 per cent, and after-tax profits ¥694 million, up 29 per cent.

Daito Gyorui K.K. reported an increased of 67.6 per cent in after-tax profits, Tsukiji Uoichiba Co. 48.7 per cent, Osaka Uoichiba Co. 32 per cent and Toto Suisan Co. 12 per cent.

Daito Gyorui and Osaka Uoichiba increased their dividend payments by 3 per cent (¥1.50) to 15 per cent (¥7.50), commemorating their 30th anniversaries.

May, 1977

U.S. MARITIME MONTHLY

Japan Paying High Prices For Alaska Red Salmon

Frozen red salmon imports from Alaska began to sell briskly in Japan, and the latest wholesale prices quoted at the Tokyo Central Market reportedly were running between $2.01-$2.10 per pound for size between six and nine pounds and up between $2.24-$2.40 per pound from earlier this year.

So far, about 500 tons of frozen red salmon have been imported from Alaska to Japan in 1977.

THE FISHERMAN — MAY 6, 1977

Pollock roe prices double

TOKYO — Prices of Alaska pollock roe in Japan have virtually doubled since last year. Latest wholesale prices at the Tokyo Central Market are given as 1,600 - [illegible] yen per kilogram ($2.58 - $2.[illegible] per pound) for grade A, 1,30[illegible] yen per kilogram ($2.10 - $2.[illegible] per pound) for grade B, and [illegible] yen per kilogram ($1.61 per pound) for grade C, an increase of 80 to 100 percent over the same period last year.

THE JAPAN TIMES WEEKLY

Saturday, April 23, 1977

Press Comments Summarized

Fishery Talks Suspended

The Japanese-Soviet fishery negotiations in Moscow have been suspended. They were fishery negotiations in name, but in substance territorial negotiations. The Soviet insistence might prevail if the negotiations were continued, and the suspension was inevitable. Before the resumption of the negotiations, the Government must review past negotiations and make sound preparations for the forthcoming negotiations. It cannot be denied that there was an optimistic view on the part of the Japanese Government. The Russians have border questions with European countries and China. We wonder if the Japanese Government had tried to side-step the territorial issue by using ambiguous expressions. The Russians did not yield on their stand that the four disputed northern islands are their territory. Lack of unity within the Japanese Government was conspicuous. A conflict of views between the foreign and the agriculture-forestry ministries was reported when the negotiations reached a climax. Needless to say, relief measures for the fishermen affected must be taken promptly. We earnestly hope the Soviet Government will understand the Japanese people's fervent wishes for reversion of the northern territory and take a broader perspective for the two nations' goodwill and friendship. — Yomiuri Shimbun



Washington Bulletin

By Donald Whitaker

New Fees Proposed for Foreign Vessels

A schedule of fees to be paid by foreign vessels and foreign nations fishing within 200 nautical miles of the U.S. coasts has been proposed by the National Oceanic and Atmospheric Administration (NOAA).

The proposed schedule provides that each foreign vessel will be charged a fixed annual access fee of $1.00 per gross registered ton, not to exceed $5,000 per vessel. In addition, each foreign nation with fishing vessels in the zone will be charged a fee of 3.5 percent of the total dockside value of the pounds of fish allocated to the nation. The value will be determined by the price received by U.S. fishermen for the species in the U.S.; if there is no U.S. market, an average foreign dockside price will be used.

The Department of Commerce agency estimates that about 1,400 foreign fishing vessels with an average size of 1,100 gross tons are expected to apply for fishing privileges off the United States. They are expected to be permitted to catch about two million metric tons of fish, with a dockside value of about $553 million, in 1977.

Revenue from the fees would thus amount to about $2 million from the access fees and about $19 million from the dockside value fees assessed against the foreign nations. In addition, up to $750,000 may be collected from the foreign vessels for the cost of U.S. observers on 20 percent of the vessels.

In sum, the U.S. would thus recover about 40 percent of the cost incurred in permitting foreign vessels to fish within the 200-mile zone.

The total annual cost of research, administration, enforcement and other aspects of managing the 200-mile zone is estimated to be about $92 million. The value of fish taken by foreign fishermen is about 60 percent—$553 million—of the total value of the combined U.S. and foreign catch of $920 million. Thus, according to the National Marine Fisheries Service (NMFS), about 60 percent of the total cost of the program, $55 million, can be attributed to foreign fishing.

NMFS also estimates that about $70 million of the total $92 million required to manage the zone would be needed even if foreign fishing were totally excluded from the zone, owing to the need for stock assessment and enforcement activities.

United States commercial fishery landings for 1976 are forecast to be 5.2 billion pounds—the largest in 10 years—according to the National Marine Fisheries Service. This represents a seven percent increase over 1975.

The record dockside value, exceeding $1 billion, is due to a steady increase in foodfish catches and to generally rising prices.

NMFS says that total quantities of domestic tuna processed by California canneries are running at least 10 percent ahead of 1975, as are those of domestic fish at canneries in Puerto Rico (Puerto Rico data are not included in the 5.2 billion-pound total catch).

Landings of fish used for processing into meal and oil also appear to be above the 1975 levels. Increased production of Atlantic and Gulf of Mexico menhaden will offset a decline in California anchovy. Heavier-than-expected production of menhaden and anchovies in December could make 1976 the best year for such industrial fish since the record year of 1962.

The chief declines will be in clams and blue crabs. Resource problems with the surf clam now restrict Atlantic Clam landings which are expected to be down by a third from last year. Total Atlantic and Gulf of Mexico blue crab production will be off by about 25 percent, but fairly large resource fluctuations are normal in this fishery.

As a consequence of the U.S. extended domestic jurisdiction, and in keeping with the intent of the Act, the President has decided that the United States would withdraw from the International Convention for the Northwest Atlantic Fisheries (ICNAF) on December 31, 1976.

The United States has been an active member of ICNAF since its inception 26 years ago. The Convention has made significant contributions to fisheries conservation in the Northwest Atlantic and the United States has benefited from decisions taken by its members.

The scientific research and management of fisheries in the area, which have been carried out under ICNAF, are outstanding examples of the benefits which can be achieved through international cooperation. The President has therefore concluded that as the United States implements its legislation, it should take into account the management proposals developed at the last meeting of ICNAF in developing its 1977 Management Plans.

Fish Processor To Expand Kodiak Operation

New England Fish Co., which long has been active in fish processing in the state, plans to expand its Kodiak Island processing facility to a $3.3 million plant for the processing of bottomfish caught by U.S. fisherman in the Gulf of Alaska.

C. R. Rogers, president of the Seattle-headquartered corporation, also said a new office has been created within the company to develop additional Asian export markets for bottomfish which will not be utilized by consumers in the United States.

A. J. Petrie has been named to head the new office.

The new Kodiak facility will be one of several the company plans to install in the Pacific Northwest to process under-utilized species, Rogers said. The plant, which is expected to be open late in September, will be capable of processing 30 million pounds of landed fish.

Spurring construction of the plant is a $150,000 guarantee provided by the State of Alaska against first-year market losses and a matching $150,000 from the U.S. Economic Development Administration for fishermen and plant employee training programs.

Filleting equipment, considered the best in the world, has been ordered from Germany for the new facility which is expected to have a value of $3.3 million, including associated equipment.

New England presently is seeking vessels capable of fishing in the North Pacific for the new plant, Rogers said. He invited inquiries from fishermen to the local and regional facilities of the company.

Company officials said its actions signal the beginning of a new U.S. fisheries industry in the North Pacific. They said for the first time U.S. fishermen will catch and U.S. plants will process pollock and other bottomfish for use by the American seafood industry and for export abroad.

Prior to this time, virtually all such species from the Bering Sea and the Gulf of Alaska — nearly five billion pounds in 1974 — were caught and processed by foreign interests. A substantial portion, however, was exported back to the United States, contributing thereby to the total annual U.S. balance of payments seafood deficit of $1.8 million (1976 figure), the company officials noted.

Rogers said the company's decision to move into bottomfish is the direct result of the new 200-mile fishery zone.

"Prior to the law, when foreign interests were decimating the stocks of all fish species off the U.S. coasts, the investment of capital in processing plants for species under-utilized by the U.S. would have been attended by enormous risk," Rogers said. "Who was to guarantee that the species would be there even long enough to amortize the investment in a plant?"

C. O. Perkins, vice president, also noted that the long-term prospects are good for the new U.S. fisheries in the North Pacific.

"American fishermen and processors are a long way off today from utilizing the total ocean protein sources in the North Pacific and Bering Sea.

"By 1985 Americans should be able to harvest six billion pounds of seafood there, when stocks are fully replenished, with a wholesale value of a billion dollars. We could help turn the seafood foreign exchange situation completely around."

For the last several months, U.S. processors, led by New England Fish Co., have been embroiled in a controversy surrounding an application by Korean interests for a permit to buy pollock on the high seas from Alaska fishermen for Korean factory ships.

The Korean proposal, which delayed a decision by New England to move into bottomfish, received a set back April 27 when the North Pacific Fishery Management Council, meeting here, recommended by a vote of nine to seven to deny the application for a permit for the project.

"The support we have received from the council, the congressmen and from fishermen and other processors convinced us to go forward with our plans," Rogers said.

Sablefish prices peak on Japanese markets

Prices of Sablefish in Japan rose sharply since the turn of the new year, and in late January reached 430/kg yen ($1,354/short ton) for medium size, and 390/kg yen ($1,223/short ton) for small size. The recent sharp gain in price for Sablefish is attributed to the general lapse in shipment of northern-water bottom fish. Informed sources are predicting further rises in price of Sablefish and other northern-water bottom fish in February and March.

Trade agreement includes fisheries

A new Italian-Tunisian fishing agreement was ratified recently by the Tunisian National Assembly. The agreement will permit Italian trawlers to fish within Tunisia's Territorial Sea for a three year period in exchange for Italian loans and a promise to import 20,000 tons of Tunisian olive oil.

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6 THE FISHERMAN — MAY 6, 1977

Dogfish operation for Poles approved

OTTAWA — Approval of a Polish proposal to catch and process dogfish off the British Columbia coast this year was announced last week by federal fisheries minister Romeo LeBlanc.

The operation will involve two Polish factory trawlers fishing on high concentrations of dogfish during the summer months on an experimental basis.

"We see several advantages to this proposal" LeBlanc said. "The most immediate advantage is that it will help reduce the large concentrations of dogfish which interfere with commercial and sport fishing and prey on such valuable commercial species as herring, salmon and crab."

In the longer term, he said he hoped to see establishment of a domestic fishery for dogfish after Canadians have acquired the necessary techniques.

Fisheries Service staff and fishing industry observers will be placed on the Polish vessels not only to ensure compliance with Canadian regulations but also to learn the techniques of catching and processing dogfish from the Polish fishermen.

LeBlanc noted that dogfish had been heavily fished in the forties for the extraction of vitamin A from the livers, but with development of synthetic vitamins, commercial dogfish catches had become insignificant.

Various federal subsidy programs over the years had been unsuccessful in establishing a dogfish industry in the province, he added.

THE JAPAN TIMES, Monday May 9, 1977 P.2

Argentina Wants Japan Immigrants

BUENOS AIRES (Kyodo) — Argentine President Jorge R. Videla has said his country will welcome Japanese fishermen as immigrants in Argentina.

This was disclosed Saturday by former Japanese Foreign Minister Zentaro Kosaka, who had met with Videla, Emilio Massera, commander of the Argentine Navy, and other Argentine leaders.

When Kosaka explained a Japanese Government idea to send idled Japanese fishermen to Argentina as fishery emigrants for possible fishing operations in waters off Patagonia, the Argentine leaders expressed positive support for the idea.

According to Kosaka, the plan is being considered by Japanese Government officials as a relief measure for Japanese fishermen who might lose their jobs or be forced to reduce their operations as a result of the establishment of 200-mile fishery zones by foreign countries.

Argentina has been seeking Japanese cooperation in its efforts to develop a fishing industry, and it recently invited Japan to take part in an international bid for experimental fishing operations in waters off Patagonia.

A consortium of five leading Japanese fishing companies has submitted a tender, and Kosaka apparently gained the impression here that the Japanese bid will be accepted.

Kosaka also revealed to reporters that the Argentine Government has asked Japan to undertake feasibility studies for construction of three trans-Andes railroads between Argentina and Chile and a port on the Atlantic coast of Argentina.

THE JAPAN TIMES, WEDNESDAY, MAY 18, 1977 P.5

Japanese Group Wins Argentine Fishing Deal

BUENOS AIRES (Kyodo) — The Argentine Government Monday night notified a consortium of five Japanese fishing companies of its tentative decision to grant it permission to conduct exploratory fishing operations for one year in waters off Patagonia.

The Japanese group — consisting of Taiyo Fishery Co., Nippon Suisan Kaisha, Nichiro Gyogyo Kaisha, Kyokuyo Hogei Co. and Hoko Suisan Co. — had taken part in an international bidding together with seven competitors from six other nations.

Only two foreign enterprises were to be granted the permission to catch up to 100,000 tons each of fish on an experimental basis in the waters in a bidding for the preferential right to establish fishing ventures in Argentina.

The Argentine Government will formally announce the results of the tender by July 15. The Japanese consortium thus passed the preliminary screening, but which of the six other countries — South Korea, Britain, West Germany, Portugal, Bulgaria and Poland — passed the screening besides Japan was not immediately known.

Conditions attached to the tender are: dispatching of two fishing vessels for experimental operations and one oceanographic survey ship, a feasibility study with regard to construction of related ground facilities to promote fishery industry such as ports and processing plants, low-interest, long-term loans for the Argentine Government's plan to build a fishing survey vessel.

THE JAPAN TIMES, SATURDAY, MAY 21, 1977 P.2

Central, Metropolitan Governments Take Action on Soaring Fish Prices

A series of actions to check soaring fish prices have been taken by both the central and Tokyo Metropolitan governments.

Construction Minister Shiro Hasegawa, who is serving as acting Agriculture-Forestry Minister during the absence of Zenko Suzuki, and Tadashi Kuranari, director general of the Economic Planning Agency, called on the leaders of 14 major fishery and trading companies to release their fish stocks and refrain from raising fish prices.

The Cabinet Ministers made the request in a meeting Thursday night with the companies' leaders.

Fishery Agency officials Friday solicited reports from 10 leading fishery and trading companies on their fish stocks and shipments.

Following the solicitation of the reports at the agency, 20 agency officials investigated the factories and cold-storage facilities of the companies in an effort to find if there was any hoarding of fish.

The Transport Ministry announced Friday night that it would investigate 318 cold storage facilities throughout the country in an attempt to find the cause of the recent sharp rise in fish prices.

It is the second time that the ministry has decided to take such an action in the postwar period. The ministry took the first such action in 1974, when the hoarding of daily necessities was rampant in the wake of the "oil crisis" late in 1973.

The storage places are located mostly in Tokyo, Osaka, Kobe, Fukuoka and Kushiro (Hokkaido), the ministry said.

The investigations would be carried out through the ministry's regional bureaus, it said.

The officials of the Tokyo Metropolitan Government, meanwhile, visited 16 major fishery and trading companies Thursday to urge them to report on their fish stocks.

They called on the firms to submit their reports by Wednesday. After examining the reports, the Tokyo Government will question the officials of the companies, according to an official.

THE JAPAN TIMES, FRIDAY, APRIL 22, 1977 P.4

Podgorny Receives Diet Mission

MOSCOW (Kyodo) — Nikolai Podgorny, president of the Presidium of the Supreme Soviet, Thursday afternoon recieved a 15-member suprapartisan Japanese Diet mission visiting here to help expedite the Japan-Soviet fishery talks.

The contents of the meeting were not known immediately. The meeting held at short notice was regarded as a gesture of Moscow to placate the rising anti-Soviet sentiment in Japan over the Soviet Union's stand on the fishery issue tangled with the territorial issue.

Russian authorities informed the Diet mission Thursday morning, when its members were packing up to return home, that Podgorny was ready to receive it.

The group arrived here Monday, hoping to see any of the top three Soviet leaders — Podgorny, General Secretary Leonid Brezhnev or Premier Alexei Kosygin — to explain Japan's position on the fishery issue.

Its members had talks with Soviet Fisheries Minister A.A. Ishkov and other officials on Monday and Wednesday. It planned to leave Moscow Thursday morning because it had been unable to meet any of the top three leaders who had been reported too busy.

Fishery Cities Are Hardest Hit By Soviet-Proposed Quota Cuts

The Soviet proposal for large reductions in Japan's fish catch quotas has raised a grave concern among fishery cities as it would deal a heavy blow to their fish processing industries.

The Soviet proposal, made in the current fish quota talks now under way in Moscow, calls for a 90 per cent reduction in Japan's Alaska pollack catch quota, for instance.

To be hit particularly hard would be Kushiro and Wakkanai in Hokkaido and Hachinohe, Aomori Prefecture, all heavily dependent on the processing of Alaska pollack into kamaboko (fish cake).

The three cities are the bases for fishing and processing Alaska pollack and have 150 to 200 factories employing from 4,000 to 8,000 men and women.

Mayor Tatsuo Hamamori of Wakkanai said that the Soviet proposal had serious implication for his city especially because it came after the Soviet imposed a total ban on herring fishing in March this year.

If the quota reductions were enforced as proposed by the Soviet Union, unemployment in his city would rise steeply because 40 per cent of its population are dependent on fishing and fish processing, he said.

The Hokkaido Prefectural Government and the Wakkanai municipal administration have decided to offer about ¥1 billion in financial aid to fishermen and fish precessing businesses but this would be not much of help, the mayor said.

Mayer Tetsuo Yamaguchi of Kushiro said that his city would be driven into the worst conceivable situation because about 80 per cent of Kushiro's Alaska pollack hauls comes from areas within the Russian 200-mile zone.

Yamaguchi said that Kushiro's fishery industry would be dealt literally a fatal blow.

He said that his municipal government had extended to fishermen and fish processing business ¥1.5 billion in emergency loans.

Yamaguchi said that this was not sufficient to help the affected people to tide over difficulties since a large number of fishing boats would be idled as a result of the proposed quota reductions.

The mayor said that he would send a delegation of municipal officials and assemblymen to Tokyo to demand full compensation for fishermen forcibly idled.

Mayor Saijiro Akiyama of Hachinohe also noted the need to increase emergency loans to fishermen and fish processing businesses in his city.

He said that most of the financial aids coming from the state to Aomori Prefectural Government had been provided to his city but he would further step up efforts in winning more state aid for the time being.

More Special Loans

The Fishery Agency Thursday set at ¥10.3 billion the amount of special loans for May to operators of some 500 fishing boats which were forced to idle at ports as a result of the Japan-Soviet Union fishery talks.

These loans follow the ¥15 billion of special loans extended at the end of April.

The interest rate for the special loans is 3 per cent, the same rate for special loans to residents in an area hit by a natural calamity of great intensity.

Since the rate is 6.5 per cent lower than the usual rate of [illegible] per cent for loans to fishermen, the Government is going to pay the difference.

About ¥30 million will be sent to one pelagic trawler and about ¥15 million to one herring boat.



Dealers participate in a salmon auction after two small fishing boats unloaded 525 kilograms of salmon at a port in Kushiro, Hokkaido, Thursday for the first time since Japan and the Soviet Union initiated an interim fishery agreement earlier this week.

Companies Are Hotly Competing In Fish Habitat Development

YOKOHAMA — Construction and other companies are now hotly competing with each other in developing artificial fish habitats for increasing coastal fish resources.

The competition was touched off by the Government's decision to invest a total of ¥200 billion over seven years to expand coastal fishery resources in the 200-mile fishery zone era.

Of the total spendings, about ¥75 billion was earmarked for subsidizing the costs to develop artificial fish habitats.

A number of companies engaged in manufacturing construction material and ocean development started development work immediately after the investment decision was made in March last year.

Fish habitats developed by these makers vary both in shape and materials from a [illegible] to a house-like plastic model.

Since last year, about 30 artificial fish habitats developed by five makers have been sunken in the Sagami Bay near here for experiment with full support from local fishermen.

Officials of the Fishery Agency have recently inspected the fish habitats to checking whether fish like living in them and whether they are strong enough not to be washed away by tides.

Artificial fish habitats weigh from 20 to 70 tons each and cost about ¥1 million each on the average.

Developers of large scale fish habitats are eligible for state subsidies equivalent to 60 per cent of their development costs.

The agency expects that local governments, particularly hit hard by dwindling pelagic fish [illegible], will increasingly turn to artificial fish habitats in the years ahead.

THE JAPAN TIMES, FRIDAY, APRIL 22, 1977 P.1

Japan Formally Accepts Quota Proposed by Russia on Salmon

MOSCOW (Kyodo) – Japan formerly accepted Thursday a Soviet proposed salmon catch quota of 62,000 tons outside the Soviet Union's 200-mile exclusive fishing zone this year.

The two countries also agreed that the Soviet fishing boats this year will not catch salmon on open seas. Last year, Russia was entitled to a quota of 5,000 tons in open seas, although it hauled none.

The agreement, which virtually ended salmon fishing negotiations between the two countries, will be initialed Monday by Iwao Arakatsu, chief Japanese negotiator, and Ivan Nikonorov, who heads the Soviet delegation. Formal signing is expected in Tokyo on April 28.

It was also agreed during Thursday's negotiations that Soviet inspectors will board Japanese patrol boats as before for joint inspection of Japanese fishing operations in Zone B (waters south of 45 degrees N latitude).

The Soviet Union had been demanding that Russian patrol vessels do the inspection.

Nikonorov told the Japanese negotiators he planned to arrive in Tokyo Wednesday for the signing.

Talks in Moscow will continue Friday to adjust details, including how long a period Japanese salmon fishing should be allowed this year.

The problems yet to be settled include a Soviet demand for a reduction of Japanese fishing vessels to operate in the northwestern Pacific covered by the bilateral fishery treaty.

The agreement on Japan's salmon catch quota came after Agriculture Forestry Minister Zenko Suzuki instructed the Japanese negotiators in Moscow to accept the Soviet offer of 62,000 tons.

The Soviet Union proposed a 62,000-ton salmon catch quota, 5,000 tons more than the original proposal, during informal negotiations Wednesday in Moscow between Russian and Japanese officials.

It was, however, far short of Japan's demand for 87,000 tons.

The quota is to be applied to Zone B, which lies outside Soviet 200-mile waters and where smaller Japanese fishing vessels can operate without surveilance by Russian patrol boats.

At the news, more and more fishing boats were gathering Thursday at Kushiro Port to prepare for their operations to catch salmon. About 30 small vessels were ready at the port to go to the salmon fishing grounds, according to the association.

THE JAPAN TIMES, FRIDAY, APRIL 22, 1977 P.1 & 4

Gov't Approves Bill For 200-Mile Zone

The Government formally approved a bill designed to set up a 200-mile fishing zone off Japan's coasts at a Cabinet meeting Thursday, and immediately submitted it to the Diet for approval.

The bill has been hurriedly prepared in a bid to give Japan a better bargaining position vis-a-vis the Soviet Union, which has already established its own 200-mile zone, in the currently stalled fishery talks.

The bill is expected to be cleared by the Diet in time for the resumption of the Japan-Soviet fishery talks in Moscow early next month.

The House of Representatives Agriculture, Forestry and Fishery Committee will begin debate on the bill today, along with the bill to expand Japan's territorial waters to 12 miles which is already before the Diet.

The heads of all the five opposition parties pledged their cooperation in passing the bills quickly through the Diet when they met Prime Minister Takeo Fukuda Monday.

The territorial waters bill is expected to clear the Lower House Tuesday, according to a Tory-opposition agreement.

If the 200-mile zone bill becomes law, Japan will become the 46th country in the world to establish such an exclusive zone.

The 21-article bill specifies that if Japan's 200-mile zone overlaps with that of a foreign country, an intermediate line between that of the foreign country will be drawn up or a line agreed upon by both countries will be demarcated.

The bill sets a fine of up to ¥10 million for offenders.

In the case fishing boats of foreign countries operate in the Japanese zone, they must obtain the permission of the Japanese Government and pay fishing fees.

As an exception, however, the bill includes stipulations which excludes fishing boats of China, South Korea and North Korea from application of the 200-mile zone since the three countries still have not established such zones of their own.

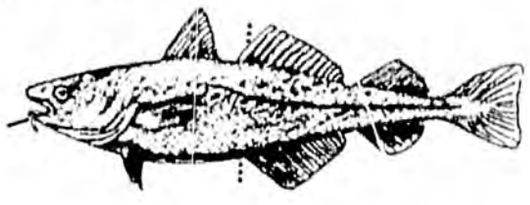
Foreign Minister Ichiro Hatoyama and Agriculture-Forestry Minister Zenko Suzuki confirmed Japan's position regarding this exception again in their separate press conferences after the Cabinet meeting.

The demarcation of the 200-mile zone will be made through Government ordinances.

The Government plans to include waters off the four disputed northern islands of Kunashiri, Etorofu, Shikotan and Habomai off eastern Hokkaido in the Japanese zone.

The bill also bans operation by foreign fishing boats in international straits where territorial sea limits will be frozen at three miles even after the territorial waters are expanded to 12 miles.

PACIFIC COD



THE JAPAN TIMES, FRIDAY, MAY 27, 1977 P.1

Quota Agreement Reached; Signing to Proceed Today

MOSCOW (Kyodo) — Japan and the Soviet Union reached a broad agreement Thursday afternoon on Japan's fish catch quotas within the Soviet 200-mile fishery zone for this year.

As a result, the formal signing of the bilateral interim fishery agreement will be held in Moscow Friday morning.

The agreement was reached between Japanese Agriculture-Forestry Minister Zenko Suzuki and Soviet Fisheries Minister A. A. Ishkov in a meeting from 5 p.m. Thursday.

Emerging from the 30-minute meeting with Ishkov, Suzuki told newsmen that more work by experts would be done Thursday night to make final adjustments on quotas by species of fish on the basis of the broad agreement reached between him and Ishkov.

The agreement was made possible when the Soviet Union agreed to slightly increase the initially proposed quota of 455,000 tons for Japan, June-December this year under the interim fishery pact.

Japan had been demanding that the quotas be increased substantially and more areas be opened up to Japanese fishermen within the Soviet 200-mile zone.

The Suzuki-Ishkov meeting followed two rounds of unsuccessful working-level negotiations between Makoto Okayasu, director general of Japan's Fishery Agency, and Georgy Zhygalov, Soviet deputy fisheries minister, earlier in the day.

Makoto Okayasu, director general of Japan's Fishery Agency, attended the Suzuki-Ishkov talks.

During the preceeding two meetings Thursday, Okayasu negotiated with Georgy Zhygalov, Soviet deputy fisheries minister, on Japan's demand that fish catch quotas be expanded nearly to the level of Japan's past fishing records and that more areas in the Soviet fishery zone be opened to Japanese fishing operations.

The Japan-Soviet talks on the quotas were however deadlocked because of the uncompromising attitude of the Soviets.

According to Fisheries Ministry sources, the formal signing of the bilateral interim fishery agreement, originally scheduled for Thursday night, was postponed until Friday due to the delay in the quota talks.

Japan and the Soviet Union initialed the interim pact under which Japanese fishing boats will be allowed to operate within the Soviet 200-mile zone Tuesday after three months of talks.

Moscow imposed a total ban on Japanese fishing for salmon and herring inside the Soviet fishery zone this year.

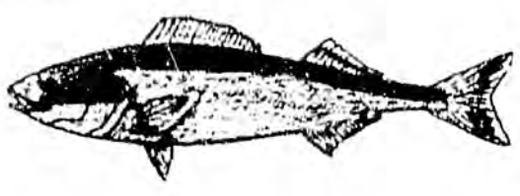
Soviets Seize Japanese Boat

SAPPORO (Kyodo) — A Japanese fishing boat with five men aboard was captured by Soviet authorities in waters off Kunashiri Island east of Hokkaido Thursday morning, according to a report reaching the Nemuro Maritime Safety Office.

The 9.9-ton Watoku Maru which left Nemuro Port early Thursday morning was captured while fishing at a point about four miles off the island at about 7 a.m., according to the report.

It is the second time this year that a Japanese fishing vessel has been captured by a Soviet patrol boat in the particular sea area.

SABLEFISH



Eager Fishermen Head for Grounds Off Aleutians

KUSHIRO, Hokkaido (Kyodo) — About 30 pelagic trawlers which have been idling due to the delay in the Soviet-Japan fishery talks left mist shrouded Kushiro Port Thursday morning fishing grounds around the Aleutian Islands within the U.S. 200-mile economic zone.

Fishing crews from Hokkaido, Tohoku and Hokuriku looked fairly happy although strict U.S. Coast Guard vigilance against violations of the U.S.-Japan Fishery Agreement obviously foremost in their minds.

Because of the Soviet Union's establishment of a 200-mile zone, the fishing boats have been idling for about one and a half months since April.

The quota allowed for Japanese pelagic trawlers under the U.S.-Japan agreement is 85,000 tons — half of last year's catch. One pelagic trawler can catch up to 549 tons of fish.

Many fishermen complained that the quota may make fishing unprofitable. They fear that they may be fired after the current fishing operation ends.

Masayuki Saito, 41, chief fisherman of the 350-ton Yamasan Maru No. 81 from Wakkanai, who has been working aboard a pelagic trawler for more than 10 years, said, "This year, we have to care more about preventing agreement violations than fishing itself."

THE JAPAN TIMES, FRIDAY, MAY 13, 1977 P.2

THE JAPAN TIMES,
Monday, May 30, 1977

International Fishing in New Era

The Japan-Soviet Interim Fishery Agreement signed by the two chief negotiators in Moscow Friday brought to an end three months of arduous bargaining for both sides over Japanese fishing in Soviet waters. With only internal procedures left to be completed in each of the signatories, the agreement is expected to go into effect shortly.

What the new accord means, in effect, is a drastic reduction in the amounts of fish Japanese fishermen can catch in the Soviet-claimed 200-mile zone, which had formerly been a key source of fish supply for Japan.

Despite this, we must note that the negotiations did chalk up a major achievement — the separation of the territorial question from fishery issues. In the very last phase of the negotiations, as a matter of fact, a Soviet proposal to alter the wording of articles caused a flurry of excitement in Japan. The final Soviet proposal in this regard was to delete one word, "other," from an article in the draft agreement. Because this revision appeared to have a significant impact on the fishery-territory question, the Japanese negotiators and Government leaders scrupulously studied all the possible implications and ramifications of that semantic proposal before acceding to the Soviet request.

According to this fishery accord, the total annual catch for Japanese fishermen has been seriously reduced from the previous figures. Whereas in 1975, for instance, Japanese fishermen hauled about 713,000 tons during the June-December period, the quota for the same period of this year is only 455,000 tons.

There are many other forms of restriction. The kinds of fish and the number of fishing boats to enter the Soviet zone will be specified by the Moscow Government. Formerly, such restrictions applied only to salmon, crab and sea snail. Now, all the fishes are subject to such restrictions.

The same is true with regard to fishing areas. Previously, this type of restriction applied only to salmon, herring, crab and sea snail. Under the terms of the recently signed agreement, however, Japanese fishing boats can enter only seven areas designated by the Soviet Government within the 200-mile zone.

And likewise with catch quotas. Formerly, quotas were established only for salmon, herring, crab and sea snail. But now precise tonnage maximums are set for 14 kinds of fish and another category to cover all other forms of marine life by area. All these figures add up to 455,000 tons.

For Alaska pollack, for instance, the quota is 100,000 tons, which is allocated by such areas as the Pacific side of the Kurils (51,300 tons), the Okhotsk side of the Kurils (7,300 tons), east of Sakhalin (35,000 tons) and the Sea of Japan (6,300 tons). What these meticulously prescribed restrictions mean is a far cry from the days when 10,000 Japanese fishing boats hauled in 1.7 million tons of fish from the northern waters.

In reviewing the process and conclusion of the fishery talks with the Soviet Union, we cannot but note that we are indeed in a new era — that of the 200-mile fishery zone. And this requires our adjustment to new conditions — and to new concepts.

Until early this year, Japanese concerned with ocean fishing had the vague feeling that even though most nations are claiming 200-mile fishing zones, we should be able to manage because these other nations have not been fishing as much we have.

Our experience with Russia, however, has compelled these people to drastically revise their attitudes. One thing that has become clear is that the concept of "past record" — how much we did catch in each year — is not a viable criterion for determining how much we can catch in the future.

One of the new concepts in the new age is a kind of "parity idea," by which all the nations, regardless of the disparity in their fish catch in the past, should fish the same amounts in one another's waters. The formula is seen at work in the European Communities' demand on the Soviet Union to halve its fish hauls in the European waters. And the Soviet Union seems to have applied the same philosophy to negotiations with Japan.

The very idea of 200-mile zone, claimed by nations over the high seas adjacent to their territorial waters, represents the same concept. Plainly put, it may be something like "I can't fish in the very ethical mackerel that doesn't mean that someone else who can should be allowed to fish in our territory."

Thus, the old Japanese argument that "maritime resources are a common asset of mankind" is hardly tenable in this age of "resources nationalism."

The problem then is what we must do to readjust ourselves to the requirements of this new age. One possibility is joint venture, which has proven effective in other areas of long-range activities — such as manufacturing and commerce. Ways must be found by which Japan can offer her superior fishing technology to a country which though without the technology, has natural resources not yet developed to the maximal point.

Another possibility is the purchase of fish caught in the waters of two different countries — which was reportedly proposed during the Moscow negotiations by Japanese Agriculture Forestry Minister Zenko Suzuki.

These, of course, cannot be the sole answer to the enormous problem we now face. No effort must be spared in developing fishing resources in our own waters where no international complications are likely to occur.

Fishermen Told To Adjust Boats

The Fishery Agency has ordered local fishermen to cut this year the total number of crab-fishing boats by 57 and sea-snail-catching boats by seven below their levels of last year, it was learned Sunday.

The reduction in fishing operations in the northwestern Pacific was ordered in accordance with the regulations set under the Japan-Soviet interim fishery accord concluded last week.

These fishing boats usually depart for fishing grounds off the eastern coast of Sakhalin in mid-June. Last year, 121 crab-fishing and 34 sea-snail fishing vessels operated there.

As a result of the recent Russo-Japanese fishery talks, however, Japan's catch quota of crabs was set at 5,300 tons for this year, a sharp 61.7 per cent decrease from 1976.

In addition, Japanese hauling of tanner crabs in the western part of the Bering Sea and king crabs in the Pacific waters off the Kurils are totally banned this year.

Under the bilateral fishery accord, Japan's quota of sea snails in waters east of Sakhalin was increased by 35 per cent, to 3,500 tons, above the 1976 hauls.

But Japanese fishermen are allowed to catch sea snails only in the waters south of 50 degrees N.L., where the resources of the species are not at undant.

The fishery agency has already ordered local fishermen to sharply reduce the number of their salmon-fishing boats to meet the requirements of the Russo-Japanese accord.

Silver Salmon Flourish In Warm Inland Sea

OSAKA — Necessity is the mother of invention, say Seto Inland Sea fishermen who have helped compensate themselves for salmon lost to the Soviet Union's 200-mile fishing zone by successfully propagating silver salmon in the warm waters off Shikoku.

Experiments conducted by the Kagawa Prefecture Fishing Co-operatives during the winter months, when water temperatures are lower, have proven that the silver salmon can adjust to its new habitat.

Seto Inland Sea salmon recently made their first appearance on the market, and fish breeders in the area, whose primary work is in raising yellowtail, are now looking to salmon as a valuable secondary source of income.

Kagawa fishermen imported fertilized salmon eggs from Alaska last December, and after hatching them in Hokkaido, stocked 100,000 baby salmon off Shodo Island and in other offshore preserves.

They found that in half a year the fish had grown in weight from 120 grams to one kilogram and had doubled in length from 20 to 40 centimeters.

The loss rate was even smaller than with yellowtail and by feeding them with plankton crustacea in the last month before beginning the harvest the fish developed a natural pink coloring.

The catches are now being sent primarily to the Kanto and Tohoku districts, but the fishing cooperatives are also now holding tasting sessions among local housewives and cooks in the hope of expanding the regional market in the future.

In the bred salmon's first appearance at the Tsukiji Central Fish Market in Tokyo, it sold for a relatively low ¥1,000 to ¥1,200 a kilogram, but fishery officials expressed confidence that, in the future, they will be raising one million fish a year to help offset losses from foreign 200-mile restrictions.

Press Comments

Fishery Talks Over

The long and hard Japanese-Soviet negotiations on the interim fishery agreement have ended at last. The finally agreed upon Japanese catch quotas are 500,000 tons for the March-December period. The figure means a 45 per cent reduction compared with the actual hauls in the corresponding period of 1976. The agreement dealt a shock to the quarters engaged in fishing in the northern Pacific. Not only a reduction in the number of boats and the scale of operations but also the discontinuation and change of jobs have now become a pressing problem for the Japanese fishermen affected. The Japanese people in general will also be affected in varying degrees. A decrease in the absolute volume of fish hauls will certainly push up fish prices. Japan seems to have made two errors in conducting the bargaining with the Russians. First, Japan had failed to acquire an adequate understanding of the Soviet Union. In other words, Japan had a too optimistic view about the Russians' position on the northern territorial problem. Second is that Japan's understanding of the significance of the "200-mile era" is superficial. It is true that the worldwide trends toward such an era had been touched off by the Third World countries' strong consciousness of independence and "resources nationalism." But it is not the Third World that has made the 200-mile era an established fact and is now trying to create a new order on the basis of that establishment. It is the big power countries that have been capitalizing on the new trend generated by the Third World. Leading off the trend now is the U.S. Under the present circumstances, where the big power nations are trying to establish a new order for the oceans of the world, fish has the possibility of becoming a "strategic material," as are cereals, oil and nuclear energy. Japan's inadequate realization of this fact seems to have led to the bitter result in the recent fishery negotiations. — Asahi Shimbun

THE JAPAN TIMES, THURSDAY, MAY 26, 1977 P.1

Japan Demands Larger Hauls From Soviet 200-Mile Zone

MOSCOW (Kyodo) — Japanese negotiators made a strong demand Wednesday that the Soviet-proposed fish catch quotas for Japanese fishermen within the Soviet 200-mile zone be largely increased.

The Soviet Union offered Tuesday night to set Japan's quotas in the Soviet zone at 455,000 tons for the second half of this year — a 36 per cent cut from Japan's hauls taken during the same period in 1975.

At Wednesday's negotiations, the Japanese side heard detailed explanation of the Soviet proposal concerning the catch quotas, species of fish to be caught and areas where Japanese fishermen will be allowed to fish.

The proposed quota, described by Japanese sources as too small, is for the period from the time of concluding the bilateral interim fishery pact initialed earlier in the day to the end of this year.

The offer was made following the initialing of the agreement between Susumu Matsubara, minister at the Japanese Embassy here, and P.A. Moiseyev, deputy director of the Soviet Ocean Fishery and Oceanography Research Institute.

The quota, if applied retroactively to the period beginning April 1, when Japanese fishing in the newly created Soviet fishery zone was suspended, would amount to 700,000 tons, however.

The Japanese negotiators are studying the Soviet proposal. Observers predicted that Japan will propose an increase in the quota.

The Soviet-proposed catch quota covers 17 species of fish, including Alaska pollack, cuttlefish, flatfish and sea snails, according to informed sources.

Salmon and herring fishing will be banned, however.

The Soviet Union has proposed expanded restricted zones for Alaska pollack and sea snails and crab fishing.

Japanese Agriculture-Forestry Minister Zenko Suzuki said that the drastic cut in the catch quota would develop into a serious social problem in Japan because it means that considerable number of fishermen would lose their jobs.

He indicated he would urge the Soviet side to increase the quota at the next round of talks Wednesday.

The 455,000-ton quota represents a decrease of 36.2 per cent from the actual catch volume in the waters concerned for the corresponding period of 1975.

Under the proposal, the Soviet 200-mile zone in the northwestern Pacific is divided into seven sections, and the catch volume according to species was indicated for each of the sections.

Agriculture-Forestry Minister Suzuki was planning to meet his Soviet counterpart, Fisheries Minister A.A. Ishkov, Wednesday and seek Soviet concession on the volume and the restricted waters.

Suzuki was pressed for time as Ishkov told him Tuesday night that he wanted all negotiations to be concluded so that the interim pact could be signed by 10 p.m. Thursday (4 a.m. Friday JST) because he will be leaving Moscow on a trip Friday.

Meanwhile, the two countries Tuesday signed a protocol of another agreement on Japanese salmon fishing operations in waters outside the Soviet 200-mile zone.

Under the protocol, Japan's salmon catch quota in northwestern Pacific waters was set at 62,000 tons for this year.

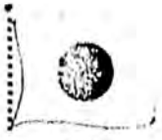
The protocol was signed by Iwao Arakatsu and Ivan Nikonorov, chief Japanese and Soviet negotiators at the salmon fishing talks.

Besides setting Japan's catch quota at 62,000 tons, the protocol limits the fishing areas outside the Soviet 200-mile zone.

The quota for waters in the classified "A" zone, or in the waters north of 45 degrees North Latitude, was set at 29,500 tons and that for the waters in the "B" zone, or the waters south of 45 degrees North Latitude, at 32,500 tons.

The season for the "A" zone, where boats led by factory ships and medium-sized boats are allowed to operate, will end Aug. 10 and that for the "B" zone, excluding the Sea of Japan, on June 30, according to the protocol.

The initialing of the interim pact and the signing of the protocol Tuesday night brought an end to the protracted negotiations that had been conducted in Moscow and Tokyo for three months.





U.S.S.R.

THE JAPAN TIMES, THURSDAY, MAY 26, 1977 P.1

Diet to Get Fishery Pact Legislation This Week

Chief Cabinet Secretary Sunao Sonoda said Wednesday a Government bill seeking Diet approval of ratification of the Japan-Soviet interim agreement on Japanese fishing in the Soviet 200-mile fishery zone would be presented to the Diet Friday or Saturday.

In his statement on the pact initialed in Moscow Tuesday, Sonoda said the Government had followed its basic policy to maintain Japan's traditional fishing interests in the northern Pacific waters and not to prejudice its position on the Japan-Soviet peace treaty talks.

He later told reporters Japan's draft proposal for another interim fishery accord with the Soviet Union, designed to control Soviet fishing in Japan's 200-mile fishery zone, would be presented to Moscow in mid-June.

The two countries would then start negotiations for the proposed pact, he explained. Agreement to this effect was reached between Japanese Agriculture-Forestry Minister Zenko Suzuki and Soviet Fisheries Minister A.A. Ishkov in Moscow Tuesday night, he said.

The Chief Cabinet Secretary Wednesday sought the cooperation of the heads of both Houses of the Diet for prompt action on the bill when the legislature receives it.

Opposition Raises Doubts

Opposition parties Wednesday raised doubts that the Japan-Soviet interim fishery agreement might jeopardize Japan's claim to the four islands off Hokkaido in dispute between the two countries.

While welcoming the provisions of the pact that permit Japanese fishing in the 200-mile Soviet zone, the Japan Socialist Party regretted that it fails to mention the territorial issue. The pact would result in recognizing Soviet rule over the disputed islands, the JSP said.

THE JAPAN TIMES, SUNDAY, MAY 29, 1977 P.1

Basic Territorial Issue Policy Reflected in Interim Pact: Suzuki

Agriculture-Forestry Minister Zenko Suzuki said Saturday the Government's basic policy of separating the fishery issue from the territorial issue with the Soviet Union was clearly reflected in the Japan-Soviet interim fishery agreement negotiated by him.

Meeting reporters upon his return to Tokyo from Moscow, Suzuki admitted the outcome of the Tokyo-Moscow fishery talks was "unsatisfactory" in terms of catch quotas.

The fishery negotiations over 80-odd days had rough going because they became tangled with the territorial issue over the four Soviet-held islands off Hokkaido, he explained.

Suzuki and other members of the Japanese delegation to the fishery talks in Moscow returned to Tokyo International Airport at about 11:30 a.m.

He told reporters he had made it clear to Soviet Fisheries Minister A.A. Ishkov Japan would not allow Soviet fishing vessels to operate within Japan's territorial waters which are to be extended from three to 12 miles in July.

Japan's position on this point is reflected in Article 2 of the interim fishery pact signed in Moscow Friday, Suzuki said.

Asked about the impact of the agreement on the territorial issue, Suzuki said the provisions of Article 8 of the pact will not adversely affect future talks over the territorial issue in the view of the Japanese Government.

The article reads that "No provision of this agreement shall be construed in such a way as to prejudice the positions or views of the government of either country on various problems of the law of the sea under consideration at the third U.N. Conference on the Law of the Sea and also on various problems concerning mutual relations."

The last clause implies Tokyo's claim to the disputed islands, according to explanations offered by Government officials.

Moscow banned Japanese salmon fishing in the 200-mile Soviet zone on the basis of the principle that salmon bred in rivers of a country belong to that country even while in the sea, Suzuki said.

The Japanese catch quota of 455,000 tons in the Soviet zone for the latter half of this year and the seven fishing areas open to Japan under the pact are for only this year, and separate agreements would be needed for the future, Suzuki said.

Suzuki said new negotiations would be started between Tokyo and Moscow in mid-June to conclude another agreement to control Soviet fishing in Japan's 200-mile offshore fishing zone.

The forthcoming talks would not progress unless the Soviet Union recognized the waters to be covered by Japan's 200-mile zone and, therefore, Japan's position on the disputed islands would be clearly mentioned in the new pact, he explained.

'No Alternative'

Tomoyoshi Kamenaga, chairman of the Japan Fisheries Association, told a general meeting of the association Saturday that the outcome of the latest Japan-Soviet fishery negotiation is unsatisfactory but his group has no alternative but to accept it.

He said the fishing industry should make concerted efforts to overcome difficulties expected in the upcoming fishery negotiations with South Korea and safeguard fishermen's interests.

THE JAPAN TIMES, SUNDAY, MAY 29, 1977 P.12

Future of Fishery Pacts

Japan's catch quota for this year allowing for Japanese fishermen to operate within the Soviet Union's 200-mile zone has been reduced by nearly 40 per cent from last year's. This is a heavy blow to Japan's fishing operations in the northern waters. The Government, in view of its bitter experience in the fishery negotiations with the Soviet Union, will have to make preparations for the forthcoming negotiations with the United States and the Soviet Union for long-term fishery pacts as well as those with other nations. This nation has been able to secure quotas for salmon for this year, but both the United States and the Soviet Union are likely to stiffen their stand on next year's quotas. At present, the Soviet Union is negotiating with the European Community on fishery operations. Depending upon the outcome of these negotiations, the Russians may shut out Japanese fishermen from their coastal waters from next year. At any rate, this nation is now compelled to rely on its coastal fishing operations. As pointed out in the recently published white paper on fishery, Japan's coastal fishing grounds have been damaged by industrial waste and other pollutants. Here we also see the Government's delay in coping with the situation. — Mainichi Shimbun

At long last the Japanese-Soviet fishery negotiations are over. Japan's catch quota fixed for this year within the Soviet Union's 200-mile zone is far from satisfactory. This is a brutal blow to Japan's fishing operations in the northern waters, which used to yield about ¥300 billion worth of fish a year and employed 110,000 fishermen. But we cannot blame the Soviet Union for all this. The United States also fixes catch quotas for its fishermen first and then allocates the rest to foreigners, who are required to pay fishing fees. The Soviet Union, which gives great importance to fish as an animal protein source, has been shut out from the coastal waters of the United States and the European Community, and the Russians are trying to increase their catches in their own coastal zone to make up for their losses in the American and European zones. The cold reality of the era of 200-mile zones is that past fishing records do not apply. On this occasion of the completion of the Japanese-Soviet fishery negotiations, we should fully realize that this nation needs to formulate a food policy to cope with the situation and to restructure its fishery policy — Tokyo Shimbun

STATE of ALASKA

MEMORANDUM

OFFICE OF THE GOVERNOR

TO: The Honorable Sterling Gallagher
Commissioner
Department of Revenue

DATE : July 25, 1977

FROM: Ron Lind
Division of Budget and Management
Office of the Governor

SUBJECT:

Jay S. Hammond
Governor

As we have discussed, a high priority issue of this Administration is the need to switch the financing of State operations from a non-recurring (particularly, oil dependent) basis to recurring revenue sources. There are several possible strategies for accomplishing this objective. I would appreciate your participation proposing and evaluating the pros, cons, and probabilities for success of various methods.

As an early step in this analytical process, my Division of Policy Development and Planning, after discussions with your agencies, commissioned a short report by the Institute of Social and Economic Research. This report outlines possible approaches to "fiscal planning" for the state.

I am forwarding copies of this paper for your information. Please comment. I would also like to receive recommendations you wish to offer regarding possible solutions to the long-term fiscal problem, as well as a delineation of specific steps which will be necessary to begin the shift in financing base.

JSH/dp

Q: Are not all revenues nonrecurring?
A: what are recurring revenues — even the personal income tax takes a percentage from oil production, transportation etc activities roughly equivalent to that oil provides for the whole state budget

PRACTICAL ISSUES IN LONG TERM FISCAL PLANNING FOR ALASKA

by

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Institute of Social and Economic Research

Anchorage Fairbanks Juneau

April, 1977

Prepared under contract to the State of Alaska
Division of Policy Development and Planning

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PRACTICAL ISSUES IN LONG TERM FISCAL PLANNING FOR ALASKA

1. Introduction

There are several practical issues which can be raised with respect to long term fiscal planning for the state of Alaska. These problems are related to the level of analysis, the time frame over which one is doing the planning, and certain constraints which data availability may impose upon the process. Of course, these problems are not unique to Alaska, but the pace of economic and population growth, lack of social and economic data and infrastructure, and the amount of funds the state expects to receive from oil and gas activities will mean that the traditional problems in planning will be exacerbated.

The level of analysis will determine the choice of planning tools to a greater extent than might be imagined. For economic impact issues of the most general kind, it may be sufficient to forecast independently the total level of State expenditures planned for each year, introduce this planned series into a few simple equations describing population, income, and employment growth, and have a fairly accurate overview of the impact. For questions of much greater complexity, such as the different impacts of specific

percentages of the Permanent Fund to be spent for specific types of projects, a detailed econometric model might be needed. The complexity of the question will have definite implications for the level of complexity of the analysis, and the effort which might be needed to produce the answer.

The time frame of the analysis will also affect the type and detail of analysis done on a specific question. Suppose, for example, that one wished to know the effect on the rate of growth of education expenditures of an increase in the rate at which migration to Alaska included children of school age. If the time frame of analysis were one to five years, the major effects could probably be modeled by adding students into the base of the current school finance laws. However, since in a longer run period of ten to twenty years, a more general relationship between numbers of students and the expenditures per student could tend to dominate and even cause changes in specific funding formulas, general funding assumptions might be more accurate than the current formulas.

Finally, the rate of growth of the Alaskan economy and the scarcity of certain social and economic elements, such as multiple transport modes between points and local availability of some goods and services normal for the

United States, makes it extremely difficult to project past economic and government relationships into the future. This is compounded by lack of reliable data and indicators of business and government activity in many areas; and by the fact that Alaska is facing a situation in which its economy is maturing at the same time that the traditional spending constraints imposed on the state government for most of the historical period by lack of an adequate tax base will soon be removed. The lack of a traditional industrial and transportation base, along with weather and cost problems in Alaskan business, makes data from other states of limited use. Yet, data compromises may have to be made, especially to answer the more complex and difficult modeling questions regarding future Alaskan growth in response to government fiscal policy. Ultimately, the choice of the form of analysis will depend both on the objectives of the analysis and the quality of the supporting data.

There are a series of long term fiscal policy questions or options which will affect Alaskan state government fiscal planning over the foreseeable future. Among these are: whether the State wishes to increase or decrease its dependence on oil revenues, or its dependence on revenues

resulting from taxes on recurrent economic activity; whether to provide the equivalent of the most modern health, communication, transportation, and education services to all Alaskans; whether to increase the size, stability, and complexity of the State's economy; and whether to minimize the tax burden on the average Alaskan. To reach any of these fiscal goals or any other fiscal goal, however, it will be desirable for the planners to restate the goal in increasingly precise terms, as is done with one goal in the following section. Following this, it will be desirable to deal with a large range of specific issues related to both revenues and expenditures of state government in Alaska. The purpose of this paper will be to identify several of these specific issues as they relate to the budget process and to the specific goal of releasing the State from dependence on oil revenues as the largest source of funding for the operating budget.

I have chosen to organize the issues in Alaskan fiscal planning around a number of specific subject areas, for analytical convenience. In actually attempting to complete any long term fiscal plan, the planner will have to deal with several of these specific issues simultaneously. However, by classifying them according to subject areas, I hope to encourage a more organized approach to the bewildering

number of factors which have to be taken into account. In each case, I will attempt to identify the issues, suggest some methodologies for dealing with them, tell where I feel the data gaps lie, and discuss some strategies for dealing with these gaps. Where necessary, further studies are outlined. In each case, I will try to use examples which deal with the specific objective of long term State fiscal independence from oil and gas.

2. Objectives and Goals of the Fiscal Plan

In any fiscal planning process, the State administration should define its general fiscal objectives as operational goals so that the planning staff can tell whether the objective is being met. While this may seem an obvious point, it is not necessarily easy to come up with a specific set of goals, both of which will fulfill the long term objective, and which will permit the fiscal planning staff to empirically determine whether or not the goal is being met. For example, if the objective of "fiscal independence from oil" is not stated as a more precise goal, such as "no funds from oil property taxes, bonuses, severance taxes, or royalties are to be used to finance current general fund expenditures," the staff is left to conclude that maybe these funds could be used for ten percent of current expenditures and that

this would constitute "independence." Obviously, the path to such a goal could be much different than the goal actually intended, if literally no dependence is desired. In any case, it is desirable to define the goal operationally, as is demonstrated in the following example.

a. Example of Defining a Fiscal Objective

The State of Alaska currently depends on oil and gas taxes, bonuses, and royalties to fund 60 to 70 percent of the general fund budget of FY 1978.[1] Since oil and gas deposits are finite, this source of money is limited, and the State is faced with the problem of how to move from a dependence on this single unreplenishable source of funding to sources based exclusively on continuing State economic activity, without substantially reducing services, disrupting the growth of the Alaskan economy, or saddling the populace with a large tax burden in the short run. Besides the term "exclusively," this statement of the fiscal goal has four basic elements which raise specific questions of definition:

1. How soon is the State to be independent of oil revenue?

2. What exactly are the prohibitions on reduction of government services? What constitutes "substantial" reduction?

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[1]Alaska Office of the Governor, Division of Budget and Management, Executive Budget Fiscal Year 1977-1978, p. 9.

3. What sort of disruption of the Alaskan economy is not tolerable?

4. What defines an onerous tax burden?

The answer to the first question is critical to the overall strategy, since if the State were to save all its oil revenues next year rather than spend any on its operating budget, either large increases would be required in effective tax rates on personal and business income, or there would have to be large cuts in government services, or both. At the other extreme, since it can be reasonably supposed that not all the oil and gas in place on State lands has been found, it is not necessarily true that the State will have no more oil revenues after current sources run out. While other choices are available, I recommend that experiments be done with at least two arbitrary dates of "independence"--for example, one 10 years hence and one 25 years hence. Substantial oil revenue seems assured for at least 10 years, so Alaska would probably not have to worry about draconian measures over a much shorter period. Conversely, 25 years is probably past the outer plausibility limit on projections of such crucial factors as population growth, so a 25-year projection is useful if we want to discuss independence from oil revenues only in the "long run."

The second operational term whose meaning the State must examine is "substantial reduction in services." While it is possible that the citizens of Alaska would never accept a reduction in the overall level of government service each receives, it is not clear that this translates into a prohibition against reductions in real expenditures per capita for at least some programs. Neither does it translate into any particular rule on the rate of increase in total real expenditures in either total or per capita terms. However, three useful and plausible assumptions concerning expenditures are: constant per capita real expenditures on each expenditure category, a low fixed growth rate in total real expenditures, and the historic experience in growth of expenditures per capita by category. The first case essentially "freezes" spending at current levels, the second case would show the effect of a relatively conservative government expenditure guidelines policy like that being currently attempted, and the third suggests a "no controls" situation.

The third aspect of the policy of becoming independent of oil and gas as a source of current revenues is that of impacts of the policy on Alaska's economy. A state administration would probably not wish to pursue policies leading

to actual massive and persistent reductions in total employment, for example, because of the high political and human costs of doing so. However, the policies which the State may pursue to get to the goal of independence from oil revenue in the long run might, theoretically, reduce the rate of growth of the economy to such an extent as to frustrate the achievement of the goal of independence. This could occur either because of an attempt to reach the goal too fast by confiscatory tax rates on the current tax base and by holding down State spending in Alaska to too great an extent; or failure could occur because the government spent too much and taxed too little. Without trying to prejudge the issue, I can recommend that the State adopt some basic guidelines for "intolerable" results, such as: no decreases in total employment lasting more than one year, no decreases in per capita real disposable income persisting beyond one year, or some critical growth rate which is considered too low to support the long term increase in population.

Finally, it is necessary to define an "onerous tax burden." This could be done by reason of its economic effects, or by some (necessarily arbitrary) standard of fairness, such as the average or highest effective tax rates for certain taxes in other states. Since any policies

undertaken to reach the goal of independence from oil revenues have implications for the feasible tax rates on non-petroleum sources, some standards must appear against which tax effects are to be measured. As an example, one can specify that the average effective tax rates for any tax on personal income and on the activities of the nonpetroleum sectors of the economy not exceed the highest average effective tax rate for a similar tax in any other state.

As can be seen from the example, even if no other sources of variation existed, definition of the goal itself could lead to many equally interesting cases which would have to be evaluated. There are, however, many other issues to examine in the context of a fiscal plan. Discussion of these follows.

3. Issues Related to the Size of Budget and Growth in Expenditures

It is useful to think of the State government as taking one of two approaches to fiscal management. It can either take what I shall call an "expenditure-oriented" approach--that is, try to determine what expenditures will be demanded by the people of the State over the forecast period and devote most of its effort to looking for sources of funds for those expenditures--or, it can take a "revenue-oriented

approach," in which forecasts are made of state revenues and the State's budgeted expenditures are made to fit to the revenues available. In neither case can the State pick its path of future expenditures with impunity, since level of available revenues will always potentially constrain the choice of the level of expenditures. Secondly, some expenditures are not within the discretion of the budget staff. This is important, since the economic effects of the budget (and, therefore, some future revenues) depend not only on discretionary expenditures but on other expenditures which are not part of those sections of the budget over which any single administration and legislature have control. Alaska has relatively few state expenditures which do not go through the appropriations process, but overall flexibility in spending is somewhat limited in many cases. A strictly "expenditure-oriented" approach may get into trouble because of unanticipated economic effects of those expenditures which affect revenues, and a "revenue-oriented" approach may get into trouble because some expenditures cannot be tailored to the available revenues. Therefore, fiscal planning needs to include elements of both strategies.

a. Size of the Budget Generally

For Alaska to carry out either strategy or a mixture of them, a series of distinctions have to be made with respect to the size of budgets and the growth in expenditures. In the first place, the capital budget in any year contains within it implicit obligations for future operating budgets. Highways, for example, must be maintained once built, if they are to continue to provide service (and debt service will continue in any case). This relationship between capital and operating budgets is likely to increase in importance in the future as the capital stock ages, especially if the State embarks on a large capital construction program, using oil and gas revenues to supply either part or all of the necessary funds.

However, I am aware of no studies in existence or planned which investigate the relationship between capital and operating expenditures. If the State elects to pay cash on a large capital construction program, it may be left without a source of earned interest income. In such a case, the construction program may itself have to generate enough long run funds to pay for maintenance. If the State elects to guarantee construction bonds with its oil money, then the public projects built and interest on the invested oil money backing the bonds may have to supply enough funds

to pay for maintenance and coverage of debt, plus repayment of principal. Either way, the future demand for operating budget expenditures will increase as a result of current State capital budget expenditures, and this relationship needs to be examined.

One possible strategy to determine the relationship would be to use State Public Works and Highways financial records to determine 1) capital cost and 2) subsequent levels of maintenance expenditures of a large group of capital projects. If a standard time profile of operating expenditures can be established by comparison of projects (with maintenance expenditures as a proportion of capital expenditures explained by one or two parameters), then the overall capital budget can be related to subsequent operating expenditures.

Whether or not the relationship between the capital and operating budget can be established, it is still important to make a distinction between the two, since they influence the Alaskan economy (hence, future revenues and expenditures) somewhat differently. For one thing, the operating budget is quite labor intensive. The many services ordinarily supplied in the budget are usually personal services of some sort. Furthermore, a fairly high

many state employees were also not state residents immediately prior to their employment w/the state

percentage of the government operating expenses represents salaries paid to Alaska residents. The capital budget on the other hand sometimes represents construction expenditures which end up either as purchases from materials suppliers outside of Alaska or as wages and salaries of construction workers who are not state residents. As such, they represent a leakage of spending power from the Alaskan economy. Since the resultant effects of a dollar of these two kinds of expenditures are much different, it is important to distinguish between them in planning total expenditures and examining effects.

b. Expenditures Not Under Staff Control

Some expenditures are obligated by formulas written into the statutes (such as the Teachers' Retirement System or the Public School Foundation Program), or by the acceptance of Federal programs requiring state matching funds. These expenditures usually grow right along with the size of the client population, or with the increases and decreases in Federal funding. In long run fiscal planning, it appears worthwhile to compile a time series on each formula expenditure, and to attempt to forecast the demand these functions will place on state revenues over the forecast period. These obligated expenditures represent a minimum amount of revenues which must be available in each year, and

4. The Budget Through 1985

   a. Overview by category
   b. Overview by object
   c. Detail by groups of programs

5. Policy Experiments with the Budget

6. Appendices

   a. Definitions of variables and constants
   b. Estimated equations and results
   c. Annotated data listing

7. References

V. Budget

Total estimated cost of the project is approximately $35,000. It is anticipated that Man-in-the-Arctic Program work on fiscal modeling in closely related areas will have significant impact on reducing the total cost of the project to the figure cited here.

restrict the ability of the State to influence the Alaskan economy by switching expenditures from one expenditure category to another. Similar projections ought to be made for State expenditures which lie entirely outside the State budget, such as the Trust and Agency Funds, the Enterprise Funds, and the State corporate entities like the Alaska State Housing Authority. As was stated at the outset, however, the exact form of this projection would depend on whether it is relatively short range, where present formula factors might be important, or whether the projection is long range, and depends upon more general relationships.

It is unclear at this time what the relevant explanatory variables would be in all cases. However, Foundation program expenditures are well explained by the size of school age population, and similar variables might be found for other formula programs. In projecting budget expenditures, it will be useful to forecast formula State expenditures separately.

c. Strategies for an Expenditures Approach to the Budget

More generally, if the State primarily takes an "expenditures approach" to budget projection, it may be necessary to forecast either explicitly or implicitly the

demand for government services. In general, it will not be sufficient to extrapolate past trends in total expenditures, since, for example, the mix of total expenditures has been changing rapidly from transportation toward expenditures on health, social services, and education. While expenditures for both transportation and social services have been increasing, the two categories are controlled by different demand relationships, so the change in mix alters the rate of growth of the total. At the very least, it will be necessary to extrapolate each major expenditure category separately. However, it will probably be more useful in the long run to search for explanatory variables for each major expenditure category. Both Department of Revenue and ISER have initiated work in this area (see the attached working paper by Scott on education), but much more remains to be done.

There appear to be three obvious alternatives for using the expenditure projection information. One method is to project the series some distance into the future based on extrapolation of each category or on exogenous assumptions concerning the underlying demand relationships, and to compare the expenditures for each year with revenue projections made independently. This method would be the easiest to do,

but would ignore the expenditures' effects on the rate of growth, and on revenues. It could only be used for rough comparisons. A second method would be to project a series of expenditures based on extrapolation of each category or on assumptions concerning the underlying demand relationships, and enter these exogenously into an econometric model such as the ISER statewide model, or Department of Revenue's adaptation of the model. This method would imply that the State has some plan of expenditures which is invariant with the effects of the expenditures. However, it would show the effect of such expenditures on total revenue. A third method would be to make expenditures truly endogenous in an econometric model, "determined" by specified relationships inside the model as is currently done in the Department of Revenue adaptation of the ISER econometric model, and feeding back into the model (through wages and salaries, for example), as in the ISER version. It is not necessary that State government expenditures be completely endogenous, by the way. ISER is currently experimenting with including both an endogenous and an exogenous component to expenditures, and there is no mechanical reason why it could not be done.

The principal practical difficulty, as I see it, is the scarcity of instrument or explanatory variables available

to project "demand" for government expenditures. While one would ideally like to take into account changes in program offerings, shadow prices for services, and changes in the tastes and structure of the community client populations, only population by age and sex, employment, payrolls, gross product, and personal income are available as general instrument variables and proxies. As a result, it is usually only possible to estimate reduced form "expenditure" equations rather than true "demand" relationships.

For some expenditures such as those of the State Ferry System, it may be necessary to estimate future expenditures using both State and national data--the relationship between State population and system data on ridership, and the (exogenous to the model) relationship of the U.S. economy to ridership, for example. Whether studies of this detail are attempted will obviously depend on the presumed importance of the endogenous part of the expenditure projection.

d. Appropriations as a Proxy for Expenditures

Another issue which is related to the general size of the budget and the rate of expenditure growth is a data problem. The fact is that budget expenditures from a given year's appropriations in a given fiscal year do not correspond to actual expenditures during that fiscal year, spending

which may be funds from the previous, current, or coming fiscal year budget, or any of several successive capital budgets. It is not surprising, therefore, that total operations budget expenditures for any given fiscal year are usually smaller than the corresponding total operating expenditures in that year (as defined by The Annual Financial Report from the Department of Administration, Division of Finance), or that operating budget plus capital budget appropriations generally exceed total cash expenditures. Ideally, one would like to have actual expenditures functionally related to planned appropriations, and economic impacts related to actual expenditures. With a few exceptions, the eventual operating expenditures in any one year in the past have been within ten percent of original budget total appropriations. It seems reasonable, therefore, since there appear to be no particular instrument variables which explain the difference between actual expenditures and prior appropriations, to use operating budget appropriations directly to explain economic impacts of this portion of State spending.

Capital expenditures are more difficult. The basic components of capital expenditures are General Fund highway construction expenditures, non-highway "general fund"[2]

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[2]As this term is used by the Division of Finance, not as the Division of Budget and Management uses the term.

capital expenditures, and Capital Project Funds (general obligation bond) capital expenditures. Highways expenditures are not obviously predictable from appropriations, since highways expenditures are dependent on highways expenditures timing as well as the total size and timing of appropriations. Since Capital Project Fund capital expenditures depend upon biennial general election approval of general obligation bonds, rate of bond sales, and expenditures out of the bond sales (which depend in turn on the desired finish date of each project and the required construction time), capital projects expenditures funded by general obligation bonds are not predictable from appropriations, either. In general, causation seems to run the other way: expenditures are directly related to the demand for capital goods services, and appropriations are fitted to the requirements for the expenditures program and the economics of the bond markets. A way to econometrically model State capital expenditures is to develop demand indicators for services, capital depreciation, and carrying capacity of the capital stock, and try a few capital replacement rules from outside the model. For example, in hospital construction there are acceptable hospital use to hospital bed ratios. A possible rule is that hospital capacity be provided at such a rate that the acceptable

bed use ratios not be violated at any time over a specified time period, and that if they are, that hospital capacity be augmented by some specified number at prevailing construction costs. In addition, any hospital would be replaced at specified intervals, and real facilities upgrading expenditures per capita could follow historical trends, so that total hospital construction expenditure in any year would be (exogenous) new construction costs, plus (endogenous) capital replacement costs, plus (endogenous) facilities upgrading costs. School construction, university construction, airports, and highways all lend themselves to similar treatment, although demand and capacity measures are different in each case. Ferry construction is done out of state, so it should not be a part of capital expenditures for economic impact purposes, although it is part of total expenditures for budget purposes.

To summarize, it is necessary to project as closely as possible actual expenditures in any one fiscal year to find the impact on the State economy. It is probably a satisfactory substitute to use appropriations as a proxy for expenditures in demand relationships for operating expenditures. However, it is unsatisfactory to use appropriations or appropriations plus bond sales to do this for capital expenditures, and another method is suggested.

If, however, this is considered too complex a methodology, the obvious alternative is to simply prepare a limited number of capital budgets outside the econometric model, and introduce the bond sales, expenditures, and general fund capital appropriations into the model as exogenous series.

4. Issues Related to Revenue Estimation

The State could take a primarily revenue-oriented approach to fiscal modeling. One way to do this would be to make a "first pass" estimate of revenues from recurrent (non-petroleum) sources for a series of future years; establish a schedule of recurrent expenditures (initially larger than non-petroleum revenues) which would permit, for example, some target annual growth rate for the unexpended balance of oil and gas revenues, including both the Permanent Fund and General Fund; and then introduce the exogenous expenditures series into an econometric model to see the projected revenue results of the policy, given the expenditures. By successive adjustments of the expenditures, a target growth rate of unexpended petroleum revenues could be achieved without ever making expenditures a function of revenue, under a wide variety of assumptions concerning the rate of development in the petroleum sector.

While the technique does not inherently provide "guidelines" for expenditures, in the same sense that modeling the demand for government expenditures does, the "supply" of government expenditures exogenously introduced into the model in each year can be compared to a model-generated "demand" values in the same year, and adjustments made to successive exogenous expenditures series to reduce the disparity between "supply" and "demand" values. As alternative strategies, the gaps between desired and demanded expenditures could simply be left as they come out of the experiment and analyzed for differences in government services delivered, or changes introduced on the revenue side to reduce differences between "demand" and "supply."

It is not recommended that an extensive search be conducted with models for "the best" solution, given the constraints on use of oil revenues imposed from outside the model. Probably a wide variety of explicit policies will result in approximately the same long run average growth rate in the unexpended balance of oil and gas revenues, while yielding much different results as to timing of expenditures and their distribution among the major functions of government. Instead, the best use of the econometric model would be to help define some rough

limits of expenditure policy, beyond which a proposed expenditure pattern would result in the violation of one or more target revenue rules.

If the State wishes to take a revenues approach without explicitly accounting for the feedback effect of State expenditures upon the growth rate of the economy as a whole and upon recurrent revenues, it risks facing in the future a circumstance where induced growth brought about by State expenditures policies has so increased the size and altered structure of the Alaskan economy that both revenue and expenditures estimates are gross underestimates. In such a circumstance, hindsight probably would reveal that the State could have achieved independence from non-recurring oil and gas revenues as a source of funds for current expenditures at an earlier date with lower population and economic growth rates. Failing to account for the feedback loop is equivalent to saying either that total government expenditures are totally unrelated to government expenditures on wages and salaries in Alaska (which must then be forecast exogenously), since total government expenditures do not affect the determination of how much is spent for wages and salaries; or it says that government spending has an impact multiplier of zero, since neither larger nor smaller government expenditures alters the rate of growth.

There are three separate issues which relate to the State fiscal planners' ability to project recurrent revenues using econometric models. These are the problem of aggregate data, the problem of sensitivity of revenues to changes in the type of revenue base, and the problem of changes in the structure of the Alaskan economy.

a. Use of Aggregate Data

The issue of aggregate data is essentially the same one as came up earlier in the paper with respect to the scarcity of explanatory variables which determine demand for government services. We know that total tax collections are a function of both the taxable base, be it income or property or gross sales, and the effective rate structure. In order to predict increases in total personal income tax collections, for example, it is not sufficient to know how much aggregate income in the State increased; it is also necessary, given the progressive rate structure, to predict total incomes of persons in each rate class, or equivalently, the average effective rate on total income.[3] The detailed information is not

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[3]ISER is currently working on a model which projects the "distribution of income" on the basis of an average wage rate in each of 11 major occupational categories, with changes in the distribution being caused by changes in the occupational mix. However, even this model will prove of only limited use for estimating income tax collections when the distribution of income for each occupation shifts along with average income for that occupation. We still would have to use aggregate estimated effective rates for each occupation.

currently available to model this kind of change in the tax structure, however, so this tax must be modeled on an aggregate basis, using alternative assumptions concerning the average effective rate, if necessary. Similar problems apply to all taxes with anything but a proportional rate structure with respect to its tax base. This is a problem that can only be solved by improved data, and can only be partially avoided by clever use of modeling techniques.

b. Sensitivity to the Revenue Base

The second issue is that the calculation of total State revenues will probably be sensitive to different variables during different parts of the forecast period. Recurrent revenue estimates are currently very sensitive to the average effective tax rates on personal and corporate income, since these constitute the bulk of non-petroleum revenues. However, estimates for future years are likely to be increasingly sensitive to the rate of return on unexpended oil revenues in the General Fund and the Permanent Fund. The higher the target rate of growth of these funds, and the higher the early rate of return, the more important it will be to account for the expenditures and revenues sides of fiscal policy simultaneously, because the greater will be the interaction of expenditures and revenues policy. Also, because in this case fewer

petroleum dollars are available to fund current expenditures in the early years, fiscal planners may have to worry about ways to change the effective personal and corporate tax rates to generate enough revenue, which may throw all the projections off the true value. Perhaps the only creative way to deal with this issue is to run sensitivity tests on the model or other method of projection, to see if it has any important effects on policy.

c. Effect of Structural Changes

The third issue is that changes in the structure of the Alaskan economy, particularly changes which result in unanticipated changes in the tax base, will reduce the usefulness of any formal modeling technique which depends upon past history of economic growth to forecast future economic growth and State revenues. For example, large expansion of Alaskan manufacturing of finished goods for export has not been a past feature of growth. However, if such growth were to occur as a result of radically changed economics of energy in industry, or if the State's fiscal policy were successful in inducing large growth of manufacturing in the future, there might well be increases in gross receipts, property, and corporate income taxes that no model or simple projection could anticipate.

(Econometric models do satisfactorily handle "evolutionary" changes in the level of secondary business activity related to local increases in population and major industrial demand.)

Any change of this type in the entire structure of the economy can be handled best by introducing outside the model a side analysis, where effects of State policy on the attracting of industry are analyzed. If, based on this analysis, it appears the structure of Alaska's economy will change drastically, the fiscal planner will probably want to take explicit account of the change in his revenue projections, either by adding blocks of corporate, property, and sales taxes explicitly; or by exogenously introducing primary manufacturing production and employment series into his econometric model in the way petroleum mining and transportation is currently done in ISER's MAP models.

It may have occurred to the reader that at sufficiently high level of complex intermediate economic activity in manufacturing, the technique of input-output analysis may prove useful for analysis of the ultimate revenue impacts. This is probably true, except that I-O is not well adapted to even evolutionary changes in the structural coefficients of the I-O matrix, and it is not well adapted to time series policy analysis, a separate run being required for each year over which the fiscal planner wants to simulate

policy. Finally, the same type of assumptions are necessary to introduce non-existent industries into I-O matrices as into econometric models, even though the specific data requirements are somewhat different. Little seems to be gained by using I-O at this time.

5. Issues Related to the Permanent Fund and Its Use

There are four general issues related to the management of the Permanent Fund, as it affects long range fiscal planning for the State. These four management issues must either actually be resolved or assumptions made with respect to them in order to do anything about expenditure policy. Since management of this fund is not part of the regular revenue and budgeting process of the State, fiscal planners may have to accept some aspects of its management as exogenous to their planning process. Stated as questions, the issues are as follows: What rate or rates of return will be earned on the Permanent Fund balance? At what rate and by what criteria will payments into the Fund take place? What will be the actual permitted uses of Permanent Fund principal? What will be the actual permitted uses of Permanent Fund interest?

a. Rate of Return

The rate or rates of return which the Permanent Fund earns are obviously crucial to any planning process, whether the Permanent Fund interest is transferred to the General Fund and used to pay for goods and services purchased by the State, or whether it is permitted to accumulate, increasing the size of either the General Fund balance or Permanent Fund balance. Yet, the rate is not easily predicted since rates of return vary across classes of securities according to their riskiness, taxability, and maturity date, since the rates of return on each type of security vary over time, and since there is some pressure to invest in Alaskan lending institutions and investment projects quite apart from liquidity and rate of return considerations. Some effort must be made to project a plausible rate of return, but the greater the extent to which criteria other than liquidity and risk come into plan, the more difficult this task will be. In view of the many uncertainties involved, a variety of rates should probably be assumed, to test the sensitivity of revenues to the rate of return.

b. Rate of Fund Accumulation

Quite apart from rate of return issues, there is the question of how fast money will be paid into the Permanent

Fund, with its resultant effects on the rate at which the Fund grows. This would be particularly important if the State chooses a target rate of growth for the Fund. Whether or not fiscal planners have some say in the rate of mineral leasing, amounts received for lease bonuses, royalties, property taxes, and production taxes will depend at least partly on markets for mineral products outside of Alaska. Since it is not possible for the State to force the workings of these markets to accommodate State fiscal plans, the plans will have to accommodate currently unforeseen events in these markets.

Fortunately, there are some tools available to aid in these projections. The State Division of Minerals and Energy Management has conducted studies of oil leasing policy using computer programs which demonstrate expected impact of future fields on State revenues. ISER has a program called SCENARIO which will aggregate year by year oil and gas income from several fields in different stages of development, given a specific leasing policy, prices of oil and gas, and assumed successes in exploration. The State Legislative Affairs Agency can project the effect on State revenues of any change in taxation policy on total tax collections from existing State fields. Alternatively, fiscal planners could simply assume some

illustrative time paths of the various oil and gas revenues to see how the fiscal plan is affected.

c. Uses of Fund Principal

The third issue with respect to the Permanent Fund is the permitted uses of Fund principal. It was shown above that this may affect the earned rate of return on the Fund. However, if the principal of the Fund is invested inside the State of Alaska or on projects to encourage Alaskan exports (such as a pipeline or LNG tanker fleet) by accepting rates of return on these projects that, while profitable for the State, are below private market rates, then unpredictable economic growth would occur in Alaska which may not be conveniently analyzed by any existing impact or forecasting model. To the extent that the State does not invest Permanent Fund principal in Alaskan projects, or to the extent that it accepts only market rates of return and merely substitutes for private capital, the rate of Alaskan economic growth will not be substantially affected, although the rate of return on the Fund might be.

The temptation to assume that Permanent Fund principal is not invested in Alaska at subsidized rates is overwhelming, considering all the modeling complexities raised

by the alternative. However, in the event that subsidized Alaskan investment must be taken into account, assumptions will have to be made or analysis done concerning the amount, timing, type of business growth that will occur as a result of subsidized lending rates, since future tax revenues and endogenous state expenditures may be affected. Default and repayment rates on the type of loans involved will also have to be considered, since this will affect the rate of return on the Fund.

d. Uses of Fund Interest

The final issue to be considered here is the uses which are assumed to be made of the interest on the Permanent Fund. Several possibilities emerge, including: transferring all of the interest to the General Fund, with no further restrictions on its use; transferring only part of interest to the General Fund for a specified period of years, in order to save the rest in the Permanent Fund to augment the rate of increase and move up the day of fiscal independence; paying part or all of the interest earned as "dividends" to Alaskans, perhaps on the model of stock dividends, or on the model of a negative income tax; or some combination of the above. Currently, there are so many proposals for use of Permanent Fund interest that no single assumption regarding its use seems justifiable.

Two approaches to the problem appear useful. One would be to proceed, as has been recommended in several other cases, with several alternative assumptions which span the range of possible uses of the Fund interest, to check the sensitivity of resulting revenues and expenditure paths.

The other approach is to statistically "search" for a "best" policy. For example, set up some hypothetical fiscal series, such as an expenditure-determined rate of withdrawals from the General Fund, and an endogenous rate of non-petroleum revenues additions to the General Fund, the remainder of revenues to be provided by Permanent Fund interest. Then, employing a social welfare criterion such as "maximize present value of per capita payments from the Permanent Fund to Alaska, Inc., over time," an optimal control model could be used to yield the time path of permitted withdrawals for direct payments to individuals which maximized this social welfare measure, subject to the cited fiscal constraints. The series of Alaska, Inc., payments thus introduced into the economy as incomes of persons could be added to the economic model as a series of exogenous payments to personal income, and the parent econometric model resimulated to note the effects. Several runs of the optimal control model subject

to the same social welfare criteria, but with different preferred paths of expenditures, would yield a family of "best" Alaska, Inc., expenditures, subject to the given constraints. By changing the constraints and the criteria, one could check the economic effects of different "optimal" paths, and different "optimality" criteria. The preferred strategies for use of Permanent Fund interest could be found by comparing simulated economic effects of the path of expenditures which maximized each criterion, or by combining these strategies in various ways. The essential difference from the simpler expedient of using intuition to generate the assumed levels and uses of interest payments is that each program of payments in the case where the optimal control model is used maximizes some social welfare criterion and, therefore, has some claim of "optimality."

In summary of this section, whether fiscal planning involves choosing a series of expenditure paths, and adapting Permanent Fund policies to those expenditures, or whether fiscal planning involves picking certain Permanent Fund criteria and adapting expenditure policies to these criteria, it will still be necessary to make certain assumptions about the policy parameters applying to the Permanent Fund, and there are a few tools available to

make consistent use of these assumptions, and which will aid the fiscal planning process.

6. Issues Related to Economic Impact

Throughout this paper to this point, I have discussed fiscal planning policy in terms of its economic impacts. Although some of what is said here has been anticipated in what has been written in previous sections, it is worthwhile to briefly discuss two important issues that will have to be faced in any fiscal planning done for the State of Alaska. One of these is that the aims of a given fiscal policy can probably not be restricted to a single criterion of success, such as the level of disposable personal income per capita, or the number of jobs created, or the rate of spending of oil revenues. The State's goals are inherently multidimensional. The other is that it is not sufficient to look at only the aggregate measures, such as total spending or employment or personal incomes earned. Fiscal planners must be concerned with the distribution of benefits and costs of policy between groups and over time.

a. Multiple Dimensions of Impact

The existence of the first issue, that fiscal planners must examine at once several dimensions of policy, implies that there ought to be consistent treatment of the

assumptions the planner wishes to make with respect to the State economy and fiscal structure in a single, unified, general equilibrium framework. While it is theoretically possible to do fiscal analysis in a partial equilibrium framework, holding a proposed path of expenditures and the structure of the economy constant and successively computing its effect on revenues, employment, output, etc., in each year, it is much more convenient and sensible to link an expenditure model with specified structural impacts to a model whose structure evolves naturally and which structure accounts for hard-to-trace general equilibrium effects of one variable on another through time. A dynamic expenditures model linked to an econometric model seems the best way to accomplish both the goals of simultaneous accounting for multiple effects of policy and of allowing for a natural growth path in the Alaskan economy.

b. Aspects of Impact Not Handled by Models

The second issue is not conveniently handled by even a relatively sophisticated econometric model such as the ISER MAP models. The problem is that while these models can, given appropriate assumptions, trace out in some detail the aggregate effects of a given fiscal policy over time, the most important effects may occur at an individual

and small group level beyond the analytical ability of the model. For example, suppose that a run of an augmented MAP model showed that by spending only half of Permanent Fund interest and allowing it to accumulate, state income and other recurring taxes and interest on the Permanent Fund could take over all recurring expenditures reasonably anticipated by 1995, and that this policy would result in a 50 percent increase in employment. The criteria should be expanded to include the distribution of benefits and costs. If, for example, this achievement of fiscal independence from oil by 1995 can only be had by reducing real expenditures per capita by 50 percent between 1978 and 1985, the desirability of the goal might be called into question. Beyond that, even if total expenditures for government functions were not reduced, reductions for some functions and offsetting expansions of others might have distributional consequences about which the models are silent, but which would lead to rejection of the policy if they were known.

Aware of this problem, and similar general problems with distributional issues, ISER staff have begun the modeling of demand and supply of occupation classes, and of distribution of income based on average compensation of occupational classes in Alaska. However, completion

of this effort is about one year away, and does not include distribution of government expenditures in any case. Precise knowledge of benefits and costs will depend on individual program analysis. At the more general decision level, the fiscal planner will have to depend on a combination aggregate measure of economic and fiscal impact, and on informed judgment guided by model outputs.

7. Summary

This paper has organized a series of issues with respect to long term fiscal planning in Alaska into four areas: issues related to forecasting the size of state budgets and effect of state spending policy on the economy and on revenues; issues relating to the forecasting growth of revenues, whether used to meet a given series of state expenditures or adopted as criteria to regulate expenditures policy; issues related to the role the Permanent Fund plays in the future financing of Alaskan government services; and finally, a short section on two issues relating to generating and interpretation of forecast results. Where I have been aware of convenient methods of handling these issues in some useful and creative way, I have briefly described how the method might be applied to resolve the issue. Where I have felt that several alternatives

existed, I tried to suggest what these are. Obviously, however, the solutions or methodologies selected will depend upon what the State administration determines its goals are with respect to fiscal planning, where goals are really more precise and defined ways of stating more general objectives.

While I have applied the methodologies in a general way to one possible goal of fiscal policy, stated in rather limited terms, I do not mean to suggest that this is anything more than an example of "how it might be done." Definition of the goals leading to the general fiscal objectives will undoubtedly be a shared executive-planner responsibility where the author has no special expertise. I hope, however, that I have demonstrated that one of the benefits of the planning exercise outlined in this paper is that the questions to be answered by the plan become much clearer, no matter by what process they are finally resolved.

APPENDIX A

Model of Education Expenditures

The MAP State Education Expenditures Model

Progress Report

Institute of Social and Economic Research
Anchorage Fairbanks Juneau

October 4, 1976

Introduction

This model is the first in a series designed to improve MAP program capabilities to project the consequences of state government expenditures policies in Alaska. This model (EDMOD) is not an attempt to forecast the future, both because it requires the input of several exogenous data series which themselves cannot be forecast precisely, and because the structure of the model depends upon historic relationships which may not hold true in the future. Moreover, the model projects education expenditures for a period in which state revenues are expected to be abundant, while the historical data come from a period when the state's funds were relatively scarce.

Because of these problems, the model was built with two primary considerations in mind concerning the level of state education expenditures in the future. First, the model should provide some distinction between expenditures which are primarily discretionary in nature, and those which may be mandated by increases in population and past trends in expenditures per pupil. (Ideally, one would like to explain the trend in expenditures per pupil, but it has not proved possible with the data available to separate past movements in expenditures per pupil into demand and supply components.) This projection of past relationships into the future has value in the budget planning process, and can be used to demonstrate the importance of differences in assumptions concerning the exogenous variables and

parameters of the model in the forecasting of future expenditures. Second, since the state may be the future recipient of large amounts of discretionary income, it is also important for the model to allow departures from past trends in expenditures at the discretion of the researcher, and to offer some basic measures of the effectiveness of the discretionary spending decision in altering the level of government services in education.

A decision was made early in the development of this model to temporarily set aside the problem of capital spending for education, both because the relevant determinants of demand for capital spending would be less easy to isolate than those for operations spending, and because the measures of capital services are a profound conceptual and data problem. (In contrast, the ratio of professionals or teachers per student is a recognized, though admittedly crude measure of educational "services".) Also, because of the importance of state operations expenditures for wages and salaries in inducing state economic growth, it was felt that the initial payoff would be highest in modelling operations expenditures.

To generate business-as-usual expenditures, the model estimates the levels of enrollment in the various state school systems and in the Native BIA schools based on predicted population from the MAP population model. (A model listing is shown in Appendix A.) These enrollments are combined with the historical spending-to-enrollment relationships to estimate state operations spending on primary and

secondary education, excluding debt service and capital outlays. A provision has been made in the model to accommodate consolidation of the BIA attendees into the state schools by the use of a variable constant. Primary and secondary education expenditures are combined with state expenditures for the University of Alaska and for a "miscellaneous" category (the state library system and public television are major components) to estimate total state government operating expenditures for education.

Local school district operating expenditures are estimated in much the same fashion as total state operating expenditures, with state funds transferred to district schools being estimated based on enrollment, local funds being estimated from personal income, and federal funds being supplied exogenously. These three components are added together as an estimate of local potential operations spending, actually being an estimate of revenues available for operations spending on education, and the sum is used to estimate actual spending, to which it bears a strong historical relationship. (Local districts have historically been limited in their spending capacity by the level of transfers from the state and federal governments, and by the tax effort which has been made locally.) The moving proportion of available revenues spent by school districts on wages and salaries of professionals is computed, and this district schools proportion is multiplied times total operations expenditures in the state for all primary and secondary education to estimate the number of

education professionals and professional/student ratios for the forecast period.

The basic model has been modified for this report to permit the state to make additional discretionary transfers to local school districts, signified by the variable EXEDS. Theoretically, it is possible to alter the model in several ways with exogenous variables--e.g, to permit a higher local tax effort, an exogenous component could be added to EDFINL, the local funds variable. In addition, it is possible to test the sensitivity of state expenditures and services delivered to changes in the basic assumptions underlying the model, such as enrollment/population ratios. Finally, the model is designed to either operate as an independent model using exogenous data supplied by the MAP model, or to be integrated into the structure of the MAP econometric and population models, and to interact with them.

The Data

The data used to develop EDMOD came from four major sources in Alaska state government, and from one federal source. As a result, there are data incompatibility problems which have to some extent determined the possible structures the model could take. The enrollment data (actually, Average Daily Membership, which is the average enrollment figure used to determine state aid) are reported by the

schools to the State Department of Education, and appear in their Annual Report. A consistent series is available from FY 1963 through FY 1975. Also appearing in the Annual Report are the sources of funds used by local district schools, a broken series which is not reported in FY 1971 or before FY 1966. Actual expenditures of local districts come from this source, also, as does the proxy variable for reported expenditures by local districts on professionals (instruction plus administration expense), and the number of full-time equivalent professionals working for the districts. More detail is available in some years on how this number of professionals breaks down into teachers, administrators, and others, but the series is so severely broken that, for example, there is only one year in which both instructional services expenditures and the number of teachers are both reported. Therefore, all professional employment was used as a measure of service. The reporting system has now been changed, so no consistent series on expenditures is available after FY 1974.

The historical series in the state Budget Document (Supplement, in later years) are the main source for state government expenditures for the University of Alaska, state expenditures for district and state-operated rural and military base schools, and state expenditures for miscellaneous educational purposes. The numbers reported in this source form an unbroken series from FY 1963 to FY 1975 (with the exception of miscellaneous, which is unbroken only since FY 1964), but corresponding figures reported by the Department of Education

(e.g., the amount transferred from the state to its district schools under the Foundation Program, which dominates such transfers) do not equal each other. Nor does the total expenditure figure for education reported in the Budget Document equal that reported in the state's official Annual Financial Report from the Department of Administration Division of Finance. Part of the discrepancy comes from differences in reporting dates and accounting conventions, especially concerning the treatment of encumbrances at the end of the fiscal year, but may not account for all the difference.

The source of personal income (PI) was a combination of the wages and salaries data reported by the State Department of Labor, and of other sources of personal income as reported by the U. S. Department of Commerce, Bureau of Economic Analysis. The wages and salaries data reported for corresponding categories by the state and federal sources do not match, and since state employment figures were used, the federal payroll figures were adjusted to the state totals.

There is no good count of population by ethnic group prior to the 1970 Census of Population which can be used as a guideline to build a detailed population model. Consequently, the detailed breakdown of population by ethnic group and age group generated by the MAP population model and used by this model is only available for a five-year period, 1970 to 1975. This causes some problems. The ratios on school enrollments to population 1970-75 indicate that

variance in the equation is high, but it was left to stand for this report. Total expenditures by the University (EUA) was forecast exogenously.

Estimation of the Equations

The complete results of the estimation of the stochastic structural equations of EDMOD appear in Appendix B. This section will briefly describe the results of the regression analysis to date.

Initially, the decision was made to run the equations with ordinary least squares (OLS), treating each equation independently. As in other MAP research, the researcher is faced with the problem of extremely short data series, combined with a relatively large number of explanatory variables and a scarcity of variables which permit identification of individual equations. These considerations combine to exclude as impractical the use of two-stage least squares (2SLS) or indirect least squares techniques. In any case, the test of the model is not the structural elegance of the single equations comprising it, but the model's ability to give intuitively satisfactory projections which meet consistency tests. The OLS results were of high quality, though not consistently so. A major internal test was passed in every case--the explanatory variable was highly significant in every case, and the explanatory power of the equations was generally high. In the two cases where corrected multiple correlation coefficient

(CRSQ) was less than 0.80, additional effort will be made to improve the fit of the equation to the historical data. However, it should be pointed out that reestimation of the local expenditures equation 16 has thus far produced worse results.

An additional comment seems worthwhile on two other issues--the apparent arbitrary choice of the range of the regression equations, and the low values of the Durbin-Watson statistic in three of the equations. The overall MAP approach has been consistently to use as much data as is available and possible to use in estimating structural equations. In this case, the choice of range was not affected by data outliers; rather, it was dictated by missing data. The Durbin-Watson statistic seems to indicate first-order serial correlation in three of the equations, which could affect the efficiency of the equation estimated. However, this is probably not a problem in these cases even if serial correlation exists, since the null hypothesis (coefficient CiB=0) is so overwhelmingly rejected. In any case, the coefficient is not biased by the serial correlation problem if it exists, so the estimates in the forecast period will not be changed, even though the degree of confidence which can safely be placed in them may be reduced. However, since the simulation model of which these equations are a part will likely be affected even more by other larger sources of bias and loss of efficiency, worry over this source seems an inefficient use of research time.

Simulations and Results

The model described above was used for two simulation experiments over the period 1976 to 1990. In the first experiment, the past relationships between variables were projected into the future in a "growth as usual" case based on non-Native civilian population data from an earlier run of the MAP econometric model A7 (accelerated growth at a wellhead oil price of $7 per barrel), with Native population growth proceeding at the rate which prevailed between 1970 and 1975, and with military population constant at the 1975 level. In the second experiment, the variables remained the same, except that the state was assumed to spend an extra $100 million per year in the form of operating subsidies to the district schools. The results are summarized in Tables 1, 2, 3, and 4 and are described briefly below.

Table 1 shows the base case simulation enrollments. Since enrollment figures for district schools and state-operated rural schools are fixed proportions of civilian non-Native population growth, the increase in ADMD (district school membership) and ADMS (state rural school membership) reflects the population growth associated with petroleum development in the A7 case. Military population is assumed constant, so membership in base schools (ADMB) also remains constant. Enrollment in district schools doubles between 1976 and 1990, while rural school districts slightly more than double their enrollment.

Table 1

GROWTH-AS-USUAL CASE, A7 SCENARIO
SCHOOL ENROLLMENT VARIABLES

(Thousands of Students)

	ADMD	ADMB	ADMS	ENRN	ENRU
1976	75.817	6.91	7.8976	4.68867	22.1688
1977	78.8054	6.91	8.2089	4.71661	23.8313
1978	78.7363	6.91	8.2017	4.74516	25.6187
1979	80.879	6.91	8.4249	4.77351	27.5402
1980	86.759	6.91	9.0374	4.80228	29.6055
1981	92.9566	6.91	9.683	4.83105	31.826
1982	98.8531	6.91	10.2972	4.86003	34.213
1983	105.846	6.91	11.0256	4.88922	36.779
1984	112.537	6.91	11.7226	4.91862	39.5374
1985	119.132	6.91	12.4096	4.94802	42.5077
1986	126.164	6.91	13.1421	4.97763	45.6905
1987	133.488	6.91	13.905	5.00766	49.1171
1988	141.352	6.90994	14.7242	5.03749	52.801
1989	149.727	6.91	15.5966	5.06793	56.761
1990	158.346	6.91	16.4944	5.09838	61.0182

Key: ADMD = District Schools, Average Daily Membership
ADMB = Base Schools, Average Daily Membership
ADMS = State Rural Schools, Average Daily Membership
ENRN = Native BIA Schools, Potential Enrollment
ENRU = University of Alaska, Potential Enrollment

Native potential enrollment increases, but a combination of low net population growth and the fact that many Natives attend district or state-operated rural schools keep enrollment increases to only about 10 percent of the 1976 base. This may even actually overstate the case, since with recent increases in local statutory control in the state-operated rural schools, and probable increased levels of funding to all state schools, the BIA alternative will likely appear less attractive than in the past. The attendance at the University of Alaska (all campuses: ENRU) more than triples, from a 1975 base of about 18,500 to a 1990 enrollment of just over 61,000. The decision to attend school is probably much more an economic one for the potential college student than for the potential primary or secondary student, since the college student directly bears part of the cost as tuition and fees, and this latter enrollment could be markedly affected by changes in the cost and value of education to the student. However, if past trends prevail, the potential for enrollment growth is very large. Even so, the expenditures "required" by trends in past relationships may be less than would be predicted by extrapolating the past proportion of the state budget to the new era.

Table 2 reports the expenditure data for the base case. As can be seen from the table, all categories of state spending for education grow substantially between 1976 and 1990. While spending on primary and secondary education grows some twelve times over the 1976 level between 1976 and 1990, and miscellaneous spending grows 3.4 times

Table 2

EXPENDITURES BY CATEGORY, GROWTH-AS-USUAL

(Millions of Dollars)

	EEDS96A	EEDS98A	EEDMSCS	EEDUAS
1976	105.205	143.348	53.3155	36.8301
1977	117.665	162.545	60.0638	39.2354
1978	117.366	162.082	62.3724	41.7982
1979	126.854	176.9	66.6725	44.5284
1980	155.432	222.53	75.4293	47.4365
1981	189.802	279.149	84.7299	50.535
1982	226.791	341.937	93.8396	53.8357
1983	276.416	428.787	104.481	57.3522
1984	330.093	525.681	114.725	61.0981
1985	389.264	635.604	124.708	65.0888
1986	459.571	769.943	135.005	69.3403
1987	541.13	930.289	145.404	73.8691
1988	638.672	1127.65	156.274	78.6941
1989	754.484	1369.	167.638	83.834
1990	887.2	1653.8	179.203	89.3097

	EEDGFS	EEDL99
1976	233.493	131.41
1977	261.844	144.763
1978	266.252	145.739
1979	288.101	156.981
1980	345.395	187.412
1981	414.414	222.629
1982	489.612	260.131
1983	590.619	310.745
1984	701.504	365.325
1985	825.401	425.093
1986	974.268	495.607
1987	1149.56	576.904
1988	1362.62	673.602
1989	1620.47	787.833
1990	1922.31	918.215

Key:

EEDS96A = Total State Transfers to Local School Districts

EEDS98A = Total State Operating Expenditures for Primary and Secondary Education

EEDMSCS = Total State Miscellaneous Education Operating Expenditures

EEDUAS = Total State Transfers to the University of Alaska

EEDGFS = Total State General Fund Operating Expenditures for Education

EEDL99 = Total Local School Distric Operating Expenditures

over the period, transfers to the University of Alaska grow only about 2.4 times, less than the projected rate of increase in student population. This suggests that higher education may be a future area within education where the state may wish to increase funding, relative to past trends. For example, if state transfers to the University of Alaska bore the same proportion of total education operations spending in 1990 as in 1976, the University would receive $303.2 million in 1990, not $89.3 million. If real spending per University student were constant (allowing for an average annual inflation rate of 5 percent), then 1990 transfers to the University in this case would be $200.7 million.

Table 3 shows the difference between estimated total spending on education projected by using past proportions of total state spending by function and spending on education projected with the same exogenous data, using past enrollment trends. As the table shows, the difference is quite large in most years. Initially, the difference is a little over $200 million, peaks at nearly $600 million, and then declines rapidly.

Table 4 reports the result of the second experiment, which took the same exogenous data as in the growth-as-usual case, but added $100 million per year to the operating revenues which the state provides to the local school districts, and which, it is assumed, are spent in the same manner as other operating subsidies.

Table 3

TOTAL EDUCATION EXPENDITURES

PROJECTED PAST BUDGET PROPORTION VS.
"REQUIRED" BY ENROLLMENT TRENDS

(Millions of Dollars)

	Past Budget Proportions	"Required" Total Expenditures*	"Required" Operating Expenditures	Projected, Less "Required"
1976	485.8	276.6	233.5	209.2
77	521.7	310.1	261.8	211.6
78	472.2	315.5	266.3	156.7
79	595.2	341.3	288.1	253.9
80	757.2	409.2	345.4	348.0
81	841.1	490.9	414.4	350.2
82	1051.5	580.0	489.6	471.5
83	1242.6	699.6	590.6	543.0
84	1413.6	831.0	701.5	582.6
85	1574.5	977.8	825.4	596.7
86	1738.5	1154.2	974.3	584.3
87	1882.7	1361.8	1149.6	520.9
88	2026.1	1614.1	1362.6	412.0
89	2181.0	1919.6	1620.5	261.4
90	2332.3	2277.2	1922.3	55.1

*Based on the ratio of state general fund operations expenditures for education to all state expenditures for education, as reported in the State of Alaska Annual Financial Report. Ratio = 1.1846.

Table 4

PROFESSIONAL EMPLOYMENT IN EDUCATION, NUMBER OF PROFESSIONAL EMPLOYEES PER STUDENT, AND DEPARTMENT OF EDUCATION DIRECT PLUS INDIRECT EXPENDITURES PER STUDENT

Case 1: Growth as Usual

	PROF	PROFPS	EEDPSS
1976	5.36903	0.059245	2.17009
1977	5.71125	0.060807	2.37009
1978	5.71704	0.060918	2.39167
1979	5.98123	0.062166	2.53157
1980	6.71111	0.065343	2.90107
1981	7.5297	0.068733	3.32158
1982	8.36341	0.072061	3.75474
1983	9.42601	0.07615	4.30814
1984	10.5142	0.080158	4.88228
1985	11.6539	0.084173	5.49153
1986	12.942	0.088512	6.18911
1987	14.3643	0.093092	6.9713
1988	15.9836	0.098067	7.87751
1989	17.8132	0.103425	8.92178
1990	19.8097	0.108994	10.0852

Case 2: State to Local Exogenous Transfer = $100 million per year

	PROF	PROFPS	EEDPSS
1976	6.39216	0.070534	3.27354
1977	6.67535	0.071072	3.43477
1978	6.68116	0.071191	3.45723
1979	6.90402	0.071757	3.57092
1980	7.53046	0.07332	3.87472
1981	8.25086	0.075316	4.23441
1982	9.00032	0.077549	4.61636
1983	9.97393	0.080577	5.11601
1984	10.9871	0.083763	5.64465
1985	12.0613	0.087116	6.2138
1986	13.2879	0.090878	6.87303
1987	14.654	0.094969	7.61938
1988	16.2205	0.099521	8.49106
1989	18.0015	0.104518	9.50239
1990	19.9547	0.109792	10.6355

Key: PROF = Professionals Employed in Primary and Secondary Education, in Thousands
PROFPS = Professionals Per Student
EEDPSS = State Expenditures for Primary, Secondary, and General Education, Per Student, in Thousands of Dollars Per Student.

How much of a difference would this additional discretionary spending make? Table 4 shows that since the number of pupils is assumed to be independent of the level of the subsidy (i.e., good schools do not in themselves attract large numbers of additional primary and secondary students to Alaska), the difference in spending per student declines from over $1,100 per student in 1976 to $550 per student in 1990. The additional $100 million initially translates into about 1,000 additional professionals if schools spend these funds in the normal manner, i.e. not concentrating it only on teacher salaries. It also reduces the student-to-professional ratio from 16.9 to 14.2, a difference of not quite 16 percent. However, by the end of the period, $100 million per year makes virtually no difference in this ratio. Enrollment growth, increasing labor costs, and inflation combine to reduce the effect of the $100 million to almost no difference in "service".

Conclusion

The education expenditures model in this report is for demonstration and is not the final version. Additional work may remain to be done on several of the equations which, while they give intuitively satisfactory results for the projection period, have not been subjected to the full range of tests, and could be improved. The problems of integrating this model with the MAP econometric and population models

remain, as does that of satisfactorily projecting capital spending in education. Some district education data is reported on a regional basis, and this awaits coordination with regional population models, if regional local expenditures for education are to be projected. The model should be taken for what it is: an initial attempt, not a completed effort.

EDMOD

Appendix A

Symbol Declarations and Equations

The model whose results are given in this progress report is reported below. The definitions of variables and parameters appear at the end of this Appendix, in alphabetical order. The values of the parameters and coefficients appear in Appendix B.

SYMBOL DECLARATIONS:

ENDOGENOUS:

ADMB ADMD ADMS EDFINL EEDL99 EEDMSCS EEDS96 EEDS98
EEDUAS ENRN ENRU ESCHPROF FOUNPROF

DEFINITION:

ADMN ADM97 ADM98 EEDGFS EEDL EEDL98 EEDPSS EEDS96A
EEDS98A EED99S PROF PROFEX PROFPS

EXOGENOUS:

EDFINF EUA EXEDS NPOP519 PI POPC519 POPM519 TPOP
TPOP1524 TPOP519 DUM1 DUM2

COEFFICIENT:

C10A C10B C12A C12B C13A C13B C14A C14B C6A
C6B C7A C7B C8A C8B C8C C8D C9A C9B

PARAMETER:

CADM1 CADM2 CADM3 CADM4 CADM5 K

EQUATIONS:

```
 1:  ADMD == CADM1*POPC519
 2:  ADMS == CADM2*POPC519
 3:  ADMB == CADM3*(TPOP519-NPOP519-POPC519-POPM519)
 4:  ADM97 == ADMD+ADMS
 5:  ENRN == CADM4*NPOP519
 6:  ADMN == K*ENRN
 7:  ADM98 == ADM97+ADMB+(1-K)*ENRN
 8:  ENRU == CADM5*TPOP1524
 9:  LOG(EEDS96) = C6A+C6B*LOG(ADMD)
10:  EEDS96A == EEDS96+EXEDS
11:  LOG(EEDS98) = C7A+C7B*LOG(ADM98)
12:  EEDS98A == EEDS98+EXEDS
13:  EEDMSCS = C8A+C8B*TPOP+C8C*DUM1+C8D*DUM2
14:  LOG(EEDUAS) = C9A+C9B*LOG(ENRU)
15:  EEDGFS == EEDS98A+EEDMSCS+EEDUAS
16:  LOG(EDFINL) = C10A+C10B*LOG(PI)
17:  EEDPSS == (EEDS98A+EEDMSCS)/ADM98
18:  EED99S == EEDS98A+EEDMSCS+EUA
19:  EEDL == EEDS98A+EDFINL+EDFINF
20:  EEDL98 == EEDS96A+EDFINL+EDFINF
21:  EEDL99 = C12A+C12B*EEDL98
22:  ESCHPROF = C13A+C13B*EEDL99
23:  LOG(FOUNPROF) = C14A+C14B*LOG(ESCHPROF)
24:  PROFEX == FOUNPROF/EEDL98
25:  PROF == PROFEX*EEDL
26:  PROFPS == PROF/ADM98
```

Definitions of Variables:

ADMB = Average Daily Membership in Base Schools (Thousands)

ADMD = Average Daily Membership in District Schools (Thousands)

ADMN = Average Daily Membership in Native (BIA) Schools (Thousands)

ADMS = Average Daily Membership in State-Operated Rural Schools (Thousands)

CADM1 = Ratio of ADMD to POPC519, for School Year 1974-75

CADM2 = Ratio of ADMS to POPC519, for School Year 1974-75

CADM3 = Ratio of ADMB to Military Dependent Population, for School Year 1974-75

CADM4 = Ratio of ENRN to NPOP519, for School Year 1974-75

CADM5 = Ratio of ENRU to TPOP1524, for School Year 1974-75

EDFINF = Federally Supplied Operating Funds of Local School Districts (Millions)

EDFINL = Locally Supplied Operating Funds of Local School Districts (Millions)

EEDL = Estimated Total Operating Expenditures for Primary and Secondary Education (Millions)

EEDL98 = Estimated Total Operating Expenditures for Primary and Secondary Education by Local Districts (Millions)

EEDL99 = Actual Total Operating Expenditures for Primary and Secondary Education by Local Districts (Millions)

EEDGFS = Total State General Fund Operating Expenditures for Education (Millions)

EEDMSCS = Total State Miscellaneous Operating Expenditures for Education (Millions)

EEDPSS = Total State Operating Expenditures for Primary and Secondary Education, Per Student (Thousands)

EEDS96 = Total Demand-Induced Operating Expenditures for Primary and Secondary Education by Local Districts (Millions)

Definitions of Variables (Continued):

EEDS98 = Total State Demand-Induced Operating Expenditures for Primary and Secondary Education (Millions)

EEDUAS = Total State Operating Funds Transferred to the University of Alaska (Millions)

EED99S = Total Operating Expenditures for Education by the State and University (Millions)

ENRN = Potential Enrollment in Native (BIA) Schools (Thousands)

ENRU = Potential University of Alaska Enrollment, All Campuses (Thousands)

ESCHPROF = Expenditures for Instruction and Administration, by District Schools (Millions)

EUA = Total Operating Expenditures of the University of Alaska (Millions)

EXEDS = Exogenous State Transfer of Funds to Local Districts (Millions)

FOUNPROF = Total Professional Personnel Hired by Local Districts (Thousands)

K = Proportion of Potential Native School Enrollment Attending BIA Schools

PI = Personal Income (Millions)

NPOP519 = Native Population 5-19 Years of Age (Thousands)

POPC519 = Civilian Population 5-19 Years of Age (Thousands)

POPM519 = Military Population 5-19 Years of Age (All 15-19) (Thousands)

PROF = Total Primary and Secondary Education Professionals (Thousands)

PROFEX = Ratio of Professionals Hired per $1000 of Operating Expense, District Schools

PROFPS = Ratio of Professional Personnel per Student, All Schools

TPOP = Total State Population

TPOP1524 = Total State Population, 15-24 Years of Age

EDMOD

Appendix B

Estimated Values and Regression Statistics for Stochastic Equations

Key:

NOB = Number of Observations

NOVAR = Number of Explanatory Variables (Including the Constant)

RANGE = Time Series of Observations (Includes End Dates)

RSQ = Multiple Correlation Coefficient

CRSQ = RSQ, Corrected for Degrees of Freedom

SER = Standard Error of the Residuals

SSR = Sum of Squared Residuals

F = Snedecor "F" Statistic of Significance

DW = Durbin-Watson Statistic of First-Order Serial Correlation of Errors

COEF = Regression Coefficient (The A-coefficient is always the constant)

STER = Standard Error of the Coefficient

T-STAT = Student "t" Statistic of Significance

9: LOG(EEDS96) = C6A+C6B*LOG(ADMD)

NOB = 13 NOVAR = 2
RANGE = 1963 TO 1975
RSQ = 0.91428 CRSQ = 0.90649 F(1/11) = 117.332
SER = 0.2224 SSR = 0.544 DW(0) = 0.64

COEF	VALUE	ST ER	T-STAT
C6A	-7.87517	1.06519	-7.39323
C6B	2.89514	0.26728	10.83200

11: LOG(EEDS98) = C7A+C7B*LOG(ADM98)

NOB = 13 NOVAR = 2
RANGE = 1963 TO 1975
RSQ = 0.9259 CRSQ = 0.91916 F(1/11) = 137.438
SER = 0.1948 SSR = 0.417 DW(0) = 0.58

COEF	VALUE	ST ER	T-STAT
C7A	-10.87220	1.27174	-8.54907
C7B	3.51419	0.29976	11.72330

13: EEDMSCS = C8A+C8B*TPOP+C8C*DUM1+C8D*DUM2

NOB = 12 NOVAR = 4
RANGE = 1964 TO 1975
RSQ = 0.92175 CRSQ = 0.8924 F(3/8) = 31.410
SER = 5.3373 SSR = 227.898 DW(0) = 1.00

COEF	VALUE	ST ER	T-STAT
C8A	-85.07490	24.60170	-3.45809
C8B	0.32589	0.09048	3.60164
C8C	8.55669	6.37211	1.34324
C8D	-22.24140	6.19347	-3.59113

14: LOG(EEDUAS) = C9A+C9B*LOG(ENRU)

NOB = 13 NOVAR = 2
RANGE = 1963 TO 1975
RSQ = 0.92607 CRSQ = 0.91935 F(1/11) = 137.787
SER = 0.1812 SSR = 0.361 DW(0) = 1.59

COEF	VALUE	ST ER	T-STAT
C9A	0.89536	0.14213	6.29977
C9B	0.87487	0.07453	11.73820

16: LOG(EDFINL) = C10A+C10B*LOG(PI)

NOB = 9 NOVAR = 2
RANGE = 1966 TO 1970, 1972 TO 1975
RSQ = 0.67839 CRSQ = 0.63245 F(1/7) = 14.766
SER = 0.1927 SSR = 0.260 DW(1) = 1.86

COEF	VALUE	ST ER	T-STAT
C10A	-1.93336	1.27570	-1.51545
C10B	0.67178	0.17483	3.84254

21: EEDL99 = C12A+C12B*EEDL98

NOB = 8 NOVAR = 2
RANGE = 1966 TO 1969, 1972 TO 1975
RSQ = 0.99055 CRSQ = 0.98897 F(1/6) = 628.858
SER = 4.1371 SSR = 102.692 DW(1) = 2.65

COEF	VALUE	ST ER	T-STAT
C12A	-4.11577	3.50147	-1.17544
C12B	0.94426	0.03765	25.07700

22: ESCHPROF = C13A+C13B*EEDL99

NOB = 7 NOVAR = 2
RANGE = 1966 TO 1969, 1972 TO 1974
RSQ = 0.9557 CRSQ = 0.98283 F(1/5) = 344.547
SER = 2.9571 SSR = 43.723 DW(1) = 1.51

COEF	VALUE	ST ER	T-STAT
C13A	3.23779	2.59664	1.24692
C13B	0.64289	0.03463	18.56190

23: LOG(FOU.PROF) = C14A+C14B*LOG(ESCHPROF)

NOB = 10 NOVAR = 2
RANGE = 1963 TO 1969, 1972 TO 1974
RSQ = 0.97604 CRSQ = 0.97305 F(1/8) = 325.957
SER = 0.0490 SSR = 1.920E-02 DW(1) = 0.52

COEF	VALUE	ST ER	T-STAT
C14A	-0.80588	0.09820	-8.20667
C14B	0.50308	0.02786	18.05430

Constant Values:

K = 1.0 CADM1 = 0.96 CADM2 = 0.10 CADM3 = 0.50 CADM4 = 0.21
CADM5 = 0.18

Exogenous Data Supplied on Endogenous Series:

ESCHPROF: 1975 = 100.0

APPENDIX B

Proposal for Expenditures Modeling

Revised Draft
April 12, 1977

PROPOSAL FOR EXPENDITURES MODELING PROGRAM

I. Introduction

The accompanying paper on practical issues in long term fiscal planning for Alaska provides a general rationale for an expenditure modeling effort linked to an econometric model of Alaska's economy, in that there is currently no sophisticated budget planning model in Alaska's state government which projects future demand for current government expenditure programs, and which has an expenditures "feedback" loop that takes into account the effect of altered expenditures paths on subsequent revenues and demand for expenditures.

The feature of demand for expenditures modeling is valuable, since it may point out discrepancies between planned or projected expenditures and those expenditures which would have resulted from extending current levels and trends in government services. Second, the feedback loop may be particularly important for certain expenditures policies which could result in high levels of immigration. Preliminary MAP studies with a cruder model indicate, for example, that use of oil revenues to roll back the state personal income tax is counterproductive, in that half of the initial gains in disposable real personal income are eroded by population increases.

Similar effects could exist in many other fiscal areas, and it is important that these be examined in planning fiscal policy. Third, detailed expenditures modeling lends itself to estimation of measurable effects of those expenditures in terms of services delivered. This would enhance the value of the effort, since regardless of eventual expenditures policies decided, at least some of the resulting effects on services can be projected.

II. Proposed Project

I.S.E.R. proposes to do a comprehensive, detailed five-year state expenditures planning study for the use of the Division of Policy Development and Planning, Division of Budget and Management, and other state agencies which the governor or his representative may direct. The study in its finished form will be compatible with (and will draw from) I.S.E.R.'s statewide long run econometric model, and with long run modeling efforts currently proposed by I.S.E.R. for contract with the state's Legislative Affairs Agency. At a minimum, the detailed expenditures study will provide the following:

a. Detailed projection of demand for budget expenditures by subcategories of the nine major functional categories of expenditure in the state operating budget through 1985. This will be a more detailed modeling effort than that contemplated in the Legislative Affairs proposal, and is aimed at systematically projecting the current programs into the future to test their implications for state budgets.

b. Study of a number of alternatives for budget expenditures through 1985 to demonstrate the sensitivity of the budget to various assumptions concerning individual programs.

c. Projections of state expenditures by object by year by budget category.

d. The impact of transferring variable proportions of interest to the General Fund and to other projects, including direct distribution to persons.

e. Projections of some limited measures of government service availability.

f. Relationships between budget expenditures and total economic impacts.

g. Separate treatment of special funds, state enterprises, and formula spending programs.

In addition, I.S.E.R. will attempt to model two other capabilities which are valuable, though far less tractible to produce:

h. The projected demand for capital expenditures.

i. The relationship between capital expenditures and subsequent continuing expenditures.

The proposed project will involve model development and a series of applications to study the future of the state budget in detail. The State will have an additional option either to purchase the use of Institute resources for additional use of the model, or to pay for the subsequent conversion of the model from TROLL software environment in which the model will be developed, to a form compatible with the State's computer in Juneau. The final product will consist of a copy of the model listing, regression results,

annotated data listing, and the applied budget study, to be delivered to the Division of Policy Development and Planning 120 days after the contract is signed.

III. Data

Though additional clarification of data definitions and additional limited aid in data compilation may be requested from Division of Budget and Management, Department of Revenue, and Division of Employment Security, I.S.E.R. staff currently has in hand nearly all the data anticipated as usable for the modeling effort. Little extra collection effort is anticipated. The primary sources will be the state's Executive Budgets (title varies), Revenue Sources, Annual Financial Reports, and miscellaneous sources such as the U.S. Department of Commerce, State Division of Employment Security, and State Departments of Labor and Public Works. The data is of uneven quality, particularly before 1965, but is usable for the present project.

IV. Outline of the Study

1. Introduction and Executive Overview of the Budget Through 1985

2. Data Problems and Solutions

3. Estimation of the Equations, to Include:

   a. Choice of variables
   b. Choice of functional form
   c. Results of estimation and adjustments

SCOMM

#18.9

02-0018 (Rev. 10/79)

STATE
of ALASKA

MEMORANDUM

TO: Senator Clem Tillion

DATE: April 17, 1979

FILE NO:

TELEPHONE NO:

FROM: Governor Hammond

SUBJECT: Permanent Fund Legislation; Loan Programs

The following are my bottom line concerns regarding permanent fund enabling legislation and reorganization of the loan programs. I will be flexible regarding details and other aspects of the legislation, but I hope to see the following principles incorporated into any permanent fund legislation which arrives on my desk.

Permanent Fund

1. The permanent fund should be managed as an inviolable trust fund. This means that these funds should be invested in a safe, secure manner to provide a relatively certain flow of income. The principal of the permanent fund may not be used as a guarantee for any debt nor may the fund be used to guarantee debt of its own.

2. 50% of income return to general fund and 50% of income for specific programs as designated by the legislature, such as guarantees for hydro projects, guarantees for state loans, dividends to Alaskans (Ak., Inc.), provided that at a minimum of 25% of earnings would be returned to Alaskans.

3. Investment of permanent fund principal should be based on a list of eligible investments identified as appropriate with respect to risk level and return to the fund.

4. All permanent fund investments should yield a market rate of return.

5. Fund managers should be limited to operating within the guidelines specified in enabling legislation. They are not to be responsible for designing or implementing social or economic policy outside of their specific mandate.

6. No reorganization of state government for loan programs.

7. Increase contribution rate of 50% of bonuses and royalties, at a minimum.

8.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K–STATE CAPITOL
JUNEAU, ALASKA 99811

March 21, 1979

The Honorable Brian Rogers
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Re: HJR 23, proposing a constitutional amendment re permanent fund

Dear Representative Rogers:

You have asked whether it is necessary for the effective date clause of a constitutional amendment to be made a part of the proposition to be voted on by the electorate.

The short answer is no.

The pertinent provision of the constitution reads as follows:

> Amendments to this constitution may be proposed by a two-thirds vote of each house of the legislature . . . . Unless otherwise provided in the amendment, it becomes effective thirty days after certification of the election returns by the lieutenant governor.

Alaska Const., art. XIII, § 1.

As originally introduced, the provisions on amendment and revision of the constitution did not include any language on the effective date of an amendment. 6 MINUTES, Alaska Constitutional Convention, App. V, p. 25 (1956) (hereinafter, MINUTES). It was added by way of amendment, with the following explanation:

> [O]n line 8, we added the words, 'Unless otherwise provided in the amendment, it becomes effective . . . .' We want to make it [a constitutional amendment] effective 30 days later,

> but we have not changed the intent, because the legislature, if it so desires, can designate the effective date . . . . We just wanted to put in a cautionary note there if the legislature should happen to forget when it became effective.

5 MINUTES 3425.

The constitution has a related provision in the article on the legislative branch. It reads as follows:

> Laws passed by the legislature become effective ninety days after enactment. The legislature may, by two-thirds of the membership of each house, provide for another effective date.

Alaska Const., art. II, § 18.

The spokesman quoted above probably had it in mind when he said that the provision on amendments "now conforms" to other provisions of the constitution. 5 MINUTES 3425.

While it can be argued that the phrase "in the amendment" means that the effective date must be a literal part of the actual amendment to the constitution, we think that goes too far and that it serves no useful purpose. We think the better view is that the convention used the word "amendment" in the sentence at hand to mean the bill or resolution on which the legislature would act in proposing to amend the constitution.

The convention routinely referred to the papers before it which contained proposals to alter the language of the proposed articles it was considering as amendments. Thus, HJR 23 can itself be thought of as a proposed constitutional amendment -- which it is -- and the effective date is provided in it just as was contemplated by the convention. This particular use of language is common, particularly where, as here, there was no established procedure or mechanism for proposing amendments at the time the constitution was drafted. Not having an established mechanism to which they could refer, the framers simply used the word "amendment" in an inclusive sense.

Moreover, a convention which prided itself on its lean and spare language and which avoided the excessive verbiage of its nineteenth century counterparts with a passion, could hardly have intended to clutter up its own document with effective date clauses of only transitory significance. The only possible purpose of making an effective date clause a part of the actual amendment itself would be to have a popular vote on it. That purpose is negated, however, by the testimony of the spokesman quoted above, in which he says, "the legislature, if it so desires, can designate the effective date of the amendment . . . ." 5 MINUTES 3425.

Accordingly, we can see no constitutional intent to require that the effective date be incorporated into the actual language of an amendment and conclude that it suffices that the clause is included in the resolution.

You have also asked whether a section should be added which contains directions for placing the proposed amendment on the ballot. This is the format used in the Legislative Drafting Manual, Appendix XIII. Because the standard section has no legal effect and merely restates a directive contained in article XIII, section 1, of the Alaska Constitution, we have considered recommending its deletion from the format to the Revisor of Statutes. However, we have not yet done so, and the omission of the standard section was simply an oversight. We would in no way object to its insertion as a section 3.

Your inquiry has caused us to review the resolution in its entirety. In doing so, we have discovered that the title -- which stems from an original working draft of a somewhat different proposal -- is overbroad. We recommend that the word "finance" be deleted and that the words "the permanent fund" be inserted in its place.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By: Rodger W. Pegues
Assistant Attorney General

RWP/pjg

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 14, 1980

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

Dear Representative Malone:

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

1. Provide benefits to all Alaskans from the earnings of their resource wealth.

2. Encourage greater contributions to the Permanent Fund.

3. Set in place a dividend dispersal system which most economists believe better meets the objectives of an A.G.S.O.C.

4. Not serve to narrow our already too narrow tax base.

5. Confine benefits to Alaskans.

6. Be less vulnerable to federal "tax bites".

7. Serve as less a magnet to attract persons to come up here.

8. Equitably impact both rich and poor.

9. Retain the taxpayer's one remaining tie with, and consequent concern for, government growth: How much it costs them.

10. Far less likely reduce federal revenue sharing to the State.

11. By contrast maximize favorable impact upon the State's economy by keeping a far larger portion of the money to fund the program here in Alaska.

12. Likely satisfy both the tax reduction and A.G.S.O.C. initiatives.

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

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

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

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

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

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

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

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

Sincerely,

Jay S. Hammond
Governor

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

Testimony on Permanent Fund
Offered by Frances Ulmer
March 17, 1979

Mr. Chairman, members of the Committee,

Thank you for this opportunity for the Administration to testify on HJR 23 and HB 277. HJR 23 is a proposed constitutional amendment to increase the permanent fund contribution rate from 25% to 75% and from 25% to 100% for bonuses. It would also provide for 100% of the revenues received from the sale of land not otherwise pledged to be placed in the permanent fund. While the increase would not become effective until July 1, 1981, we seek timely action by the legislature to insure that the amendment can appear as a ballot proposition at the next general election. HB 277 is the Governor's proposed enabling legislation for the permanent fund. It also incorporates the proposed increased contribution levels.

During the election, the Governor repeatedly expressed his long-standing concern for the state's dangerous dependence on non-recurring revenues to finance ongoing state government. After the election, he announced that correcting this situation would be his top legislative priority for the 1979 legislative session. To initiate this task, the Governor asked the Division of Policy Development and Planning to review the various spending limitation proposals which have appeared across the nation and assess their appropriateness for Alaska. While the Governor recognizes the many real needs for government services in Alaska and understands the problems associated with limiting state spending per se, he is committed to holding down the rate of budget growth to give our recurring revenue sources a chance to catch up to our spending requirements. The Governor is committed to avoiding what, as you have heard in testimony before this committee and elsewhere, is a very real potential for fiscal disaster in this state. Simply stated, we are far too dependent on a single, rapidly depleting revenue source - oil.

Our analysis revealed that spending limitations are generally complex, inflexible, and difficult and expensive to implement. Our recommendation, which was adopted by the Governor, was that Alaska already has a superior mechanism for achieving the same goal - increased contributions to the permanent fund. Increased contributions to 75% would allow a moderate increase in spending level, but at the same time, make a larger portion of our non-recurring revenues unavailable for financing ongoing state spending and thereby reduce the unacceptable rate of budget growth made possible, in the past, by such revenues. Such increased contributions would also improve our ratio of recurring to non-recurring revenues by tripling the earnings potential of the fund.

Let me speak briefly at this point about our proposals for permanent fund earnings. Under HB 277, one-half of the earnings would be returned to the general fund to supplant non-recurring revenues with a recurring revenue source for ongoing state government. The other half would be returned to the public in the form of tax credits. The tax credit proposal is contained in HB 99 which was referred to the House Judiciary Committee. The Governor is convinced that such a mechanism which would link Alaska's citizens directly to the fund, by distribution of earnings, is the best way to guarantee successful fund performance.

Can we afford a 75% contribution rate? The increase would not go into effect until FY 1982, at which time additional revenues will begin flowing into the treasury due to termination of the reserves tax pay-back. Analysis of the state's fiscal picture for the next several years indicates that a 75% contribution rate leaves room for budget levels to move upward with inflation and population, yet would remove surplus funds from the temptation to spend and create unacceptably high budget growth. I do not have specific numbers with me today on revenue projections or budget projections, but I would refer you to Ron Lehr of Budget and Management, and Vince Wright of the Department of Revenue for additional information.

In this year of increased fiscal awareness and responsibility, I urge you to look favorably on this method to hold down the growth in state spending. This is essential if we are to allow our recurring revenue sources to begin to pick up a larger percent of the tab. We must begin now to put state spending on a sounder financial footing.

HB 277 is the Governor's proposal for the use and management of the permanent fund. In his transmittal letter the Governor stated:

> I am convinced that the 25 percent dedication must be considered to be a trust fund and be invested accordingly. That means that the existing law providing for its safe investment in the money market is quite adequate for the management of those funds. A repeal of the subsection transferring funds is all that is required. No other change is contemplated. This is a straight, money-market program of investment, an investment trust, pure and simple...
>
> The bill I propose is essentially conservative. It is based on the premise that the permanent fund is first and foremost a trust fund and that in its management we

> must learn to walk before we can run... the mechanism to expand its use, [and here the Governor refers to contributions in excess of 25%] to use it as a development bank for economic diversification is included, and when the need for such a use is demonstrated, and such a use would be prudent, it will be available for that purpose.

Before continuing with a discussion of the development investment mechanism for the additional 50%, I would like to ask Peter Bushre of the Department of Revenue to share with you some testimony about the meaning of the trust concept, and the rationale used in selecting management by Treasury instead of a special corporation.

I would like to speak briefly about the Governor's belief that contributions to the Fund in excess of the first 25% should be used to meet legitimate capital demand in Alaska which is not otherwise being satisfied by the private market. By "legitimate" we mean capital gaps which may exist in Alaska due to market imperfections or inefficiencies in the private capital markets.

The Governor feels that the permanent fund, due to its special status as repository of the state's non-recurring mineral wealth, should be managed most carefully and prudently. Therefore, he feels that any economic intervention to be achieved using the fund should flow through a highly visible development bank structure predicated on using this capital resource to correct documented inefficiencies in the state's capital markets.

To date, there have been only two state sponsored studies on the question of the existence of capital gaps in the Alaskan economy, one by Dr. Tussing and one by Arthur D. Little. As Dr. Tussing testified, his study found evidence of a capital gap only in rural Alaska, and even there the lack of economic activity was due to more factors than simply a lack of credit. He concluded, and I quote:

> ...it appears that most attempts of the permanent fund to serve as a development bank for Alaska would duplicate functions that private financial institutions (backed up in many cases by other governmental assistance programs, e.g. FHA, Farmer's Home, VA, etc.) perform or are capable of performing adequately. At this stage in my investigation, I have been able to identify only one function in which a new public financing source might

> function better than the current machinery of the private capital market, and that is in provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas.

The other report was ADL's "Economic Development in Alaska: A Sectoral Analysis." In it's section on the role of the permanent fund, the report included that:

> The permanent fund clearly has the potential to play a major role in Alaska's economic development. Although there are many outside forces which will shape the direction of Alaska's economy, the state will be able to foster industrial development by decision on such matters as provision of transportation infrastructure, and taxes, and will be able to mitigate the adverse impacts of growth by providing public services, housing, and the like: the Fund can stimulate development by providing equity capital, long-term loans, or debt guarantees for new business.
>
> However, based on the economic research reported here, we believe that the majority of the funds available for economic development should be held while long-term opportunities are studied in detail. More immediate capital needs can be identified and met, such as mortgage financing of additions to the fishing fleet. Equity investments and loans for larger projects will more prudently follow detailed study of specific proposals or possible developments, including financial plans, markets available, and non-financial impacts...
>
> As discussed above, market forces and overall economic development trends beyond the state's control will to some extent perpetuate cyclicality and other negative economic fluctuations in Alaska. Further, the availability of capital will not, of itself, be a significant attractor of new industry, particularly large national or international firms. It is more likely that Permanent Fund financing for new business will go to smaller, local firms or entrepreneurs who are unable to raise money from out-of-state institutions and whose requirements exceed the lending ability of local banks (in amount or term).

Neither of these studies were conclusive - they did not include detailed analyses to identify capital gaps or document actual situations where creditworthy projects could not obtain financing. Therefore, the Governor's proposal structures a development banking mechanism which requires the identification of such capital gaps in advance of the

commitment of any funds, and provides for amendment of the bank's enabling legislation by temporary act to allow investment when such situations have been discovered and documented to the Governor and the legislature.

The mechanism we are proposing is the establishment of an Alaska Permanent Fund Corporation to do an annual capital market assessment and to report to the Governor and the legislature where the permanent fund can provide capital to creditworthy projects which would not otherwise receive financing. If no capital gaps are uncovered, the corporation is limited to a list of secure investments for the additional contributions until such time as capital gaps are identified. If capital gaps are identified, the legislature can expand the list of eligible investments to permit investment in the identified areas (not on a per project basis, but by economic sector). We feel that these features properly place responsibility on elected officials to make the policy decisions, while leaving the analytical tasks and actual investment decisions to the corporation's management, where they properly belong. Some have proposed the Alberta Heritage Trust as an example of how elected officials could participate in the policy development process. However, the Alaskan situation is different from Alberta's parliamentary system. Because of the separation of powers provisions of the Alaska Constitution, the legislature would be unable to set the policies and priorities of a development bank except through statutory enactment. Therefore, the process we are proposing represents the only way for the legislature to maintain an active policy making role for the permanent fund while ensuring the corporation's ability to implement that policy in an independent, businesslike manner.

The bill includes several operating principles, the most important of which is that the corporation must earn a market rate of interest on all of its investments. As with the Alberta Heritage Trust, any subsidies must be appropriated by the legislature from the general fund to make up the difference between the subsidized rate and the market rate. The Governor believes that, ultimately, maximization of income and its distribution to citizens in the form of tax credits is the most equitable way of benefiting Alaskans while preserving permanent fund principal to accrue such benefits in perpetuity. Other key features of the bill are outlined in the information package enclosed with this testimony (including "The Alaska Permanent Fund: A Decision Guide", a section by section summary of SB 226/HB 277, and a memo dated 2/23/79 describing in some detail the policy guidelines which formed the basis of the bill).

An important provision in the bill which I would like to draw to your attention is a mechanism for guaranteeing power development projects. Section .060 enables the corporation to guarantee the debt of power projects recommended by the Alaska Power Authority. This provision recognizes Alaska's need for power development and is intended to assist and stimulate that development. However, because such a guarantee is dependent on the income stream of the Fund which would otherwise be distributed as tax credits or public services, the bill requires the corporation to obtain Alaskans' approval of the guarantee in a statewide election.

In rethinking the permanent fund issue this fall, the Division assisted the Governor in a policy formulation process to identify those goals and policies which are most important to him. Through this process, Governor Hammond identified eight major policy concerns which he hopes will be incorporated into any permanent fund bill that reaches his desk. These policies are:

OVERALL POLICY OBJECTIVE

The permanent fund is the vehicle through which a portion of the state's oil wealth is transformed from mineral to financial form. It is not to be depleted, but rather maintained and invested in such a way as to provide a continuing stream of benefits to Alaskans.

1. Policy Guideline on Eligible Investments

   The investment of the permanent fund principal should be based upon a list of eligible investments identified as appropriate with respect to risk level and return to the fund. All other things being equal, priority would be given to in-state investments.

2. Policy Guideline on Allocation Among Types of Investments

   The Governor and the legislature should address, in general terms, the allocation of permanent fund investments among the uses designated in a list of eligible investments.

3. Policy Guideline on Interest Rates

   The rates of interest charged to borrowers by the permanent fund should conform to the rates which would be obtained in the private sector for similar financing under similar conditions. The legislature and the Governor should specifically identify investment categories which they may wish to subsidize. Such

subsidies must be appropriated from the general fund, such that the rate of return to the permanent fund remains at the market rate and the security of the fund is maintained.

4. Policy Guideline on Permanent Fund Earnings

The permanent fund earnings are to provide an ongoing stream of benefits to Alaskans through a direct distribution or tax rebates and the provision of public goods and services.

5. Policy Guideline on Management Control

Permanent fund enabling legislation should include thorough reporting and audit requirements, to assure responsible, visible management practices.

6. Policy Guideline on Management Prerogatives

Fund managers should be limited to operating within the guidelines specified in enabling legislation and annual directives. They are not to be responsible for designing or implementing social or economic policy outside of their specific mandate.

7. Policy Guideline on Contribution Rate

As much as possible of the state's mineral resource wealth should be preserved in a form which will yield continuing benefits to Alaskans. Such a policy seeks to avoid increasing dependence on non-sustainable revenue sources for the operating expenses of state government.

These policies have been incorporate in HB 277. We hope that any vehicle which is selected as permanent fund enabling legislation will also include them.

In closing, let me make a few comments about public expectations.

As many of you know, the Alaska Public Forum took the issue of the Permanent Fund to the people. The Year End Reports of 1977 and 1978 detail the results of those Forum meetings and the responses from the participants.

There are a number of conclusions which one could make from those results. I would urge you to look at that material for your own analysis. But I feel very assured that you will agree with me on one inescapable conclusion, and that is that there are many more ways to use the money wisely than there is money to use. There are competing goals which are difficult if not impossible to reconcile. Although we have heard a multitude of desires for the fund, it cannot be all things to all people. You must decide what its principal purpose should be and what policies should guide its management and use. That decision can be made somewhat easier by recognizing that there are other sources of funds to accomplish some of these other purposes.

The state already has a variety of mechanisms to inject money into the economy and to enhance the economy, from bond-financed expenditures on capital facilities such as ports and highways, to loan programs such as the Alaska Renewable Resources Corporation, the Fish and Agriculture Bank, the twelve state loan programs, and the General Fund itself. Governor Hammond has decided on what he feels is the most prudent and most important policy objective of the Permanent Fund, and recommends it to you, for your consideration, in this package of legislation:

> "The permanent fund is the vehicle through which a portion of the state's oil wealth is transformed from mineral to financial form. It is not to be depleted, but rather maintained and invested in such a way as to provide a continuing stream of benefits to Alaskans."

Thank you for this opportunity to share these ideas with you.

STATE of ALASKA

MEMORANDUM

DIVISION OF POLICY DEVELOPMENT AND PLANNING
OFFICE OF THE GOVERNOR

TO: Distribution

DATE: February 23, 1979

FILE NO:

TELEPHONE NO:

FROM: Frances A. Ulmer
Director

SUBJECT: Permanent Fund Policy

The following discussion summarizes the major policy concerns which the Governor has identified for incorporation in a Permanent Fund legislative package. Also presented are the sections of SB 226/HB 277, which encompass these policy guidelines. The outline is followed by a narrative description of the bill.

OVERALL POLICY OBJECTIVE

THE PERMANENT FUND IS THE VEHICLE THROUGH WHICH A PORTION OF THE STATE'S OIL WEALTH IS TRANSFORMED FROM MINERAL TO FINANCIAL FORM. IT IS NOT TO BE DEPLETED, BUT RATHER MAINTAINED AND INVESTED IN SUCH A WAY AS TO PROVIDE A CONTINUING STREAM OF BENEFITS TO ALASKANS.

Explanation: The Permanent Fund implementing legislation should provide the establishment of a permanent and thus prudently managed investment portfolio, which maintains the value of the principal and maximizes earnings given risk constraints. The stream of financial benefits to Alaskans from the Permanent Fund is not to be eroded by use of Fund principal for investments at less than market rates.

Section 020 of the bill establishes the purpose of the Permanent Fund: It is to provide a means of conserving a portion of the state's revenues from mineral resources for the benefit of Alaskans. The Permanent Fund is not to be depleted but rather maintained in income-producing investments to provide a continuing stream of benefits to Alaskans.

The key provisions for implementing this policy are outlined below.

1. Policy Guideline on Eligible Investments

THE INVESTMENT OF THE PERMANENT FUND PRINCIPAL SHOULD BE BASED UPON A LIST OF ELIGIBLE INVESTMENTS IDENTIFIED AS APPROPRIATE WITH RESPECT TO RISK LEVEL AND RETURN TO THE FUND. ALL OTHER THINGS BEING EQUAL, PRIORITY WOULD BE GIVEN TO IN-STATE INVESTMENTS.

Explanation: Considerable debate has raged regarding the amount of in-state investment and the appropriate risk level which would be allowed by alternative management structures for

the Permanent Fund. The exact meaning and implications of such terms as "trust fund," "prudent-man rule," and "loan program" are unclear as regards in-state investment and the security of the fund.

A specific list of clearly drafted categories eligible for investment will maximize policy control by elected officials with respect to the risk level and uses of the fund. The list presented in the Governor's proposal contains those types of investments which are generally regarded by money managers as relatively low risk investments. As the Permanent Fund Corporation gains operating experience and identifies capital gaps, the list can be expanded by temporary Acts or permanent amendments to permit additional uses of the fund.

Sections .C30(c) and .050 address investment of the Permanent Fund and contain lists which define the range of investments available to Permanent Fund managers for both the 25% trust and any additional contributions for the development bank.

Section .190 contains the operational principles for the fund. The first principle states that the Fund shall give preference to investments within Alaska having a risk level no higher than and an expected yield equivalent to, alternative investment opportunities.

2. Policy Guideline on Allocation Among Types of Investments

THE GOVERNOR AND THE LEGISLATURE SHOULD ADDRESS, IN GENERAL TERMS, THE ALLOCATION OF PERMANENT FUND INVESTMENTS AMONG THE USES DESIGNATED IN A LIST OF ELIGIBLE INVESTMENTS.

Explanation: The list of eligible investments may include a range of uses of Permanent Fund principal such as mortgages, corporate securities, bank certificates of deposit, government securities, etc. Some policy guidance to the fund managers regarding the allocation of investments among categories should be exercised by elected officials. This guidance should be provided for in Permanent Fund enabling legislation through both executive and legislative approval of investment programs and through annual directives to the fund managers by the legislature. Such guidance must be sufficiently flexible to allow for balanced and effective portfolio management.

Section .110 establishes an Executive Oversight Committee consisting of the Governor and four cabinet members, and charges them with review and approval of the Permanent Fund Corporation investment program as developed by the policy board.

Section .100 provides for a Legislative directive through which the Legislature can express preferences for emphasis among the categories on the Corporation's investment list.

3. Policy Guideline on Interest Rates

THE RATES OF INTEREST CHARGED TO BORROWERS BY THE PERMANENT FUND SHOULD CONFORM TO THE RATES WHICH WOULD BE OBTAINED IN THE PRIVATE SECTOR FOR SIMILAR FINANCING UNDER SIMILAR CONDITIONS. THE LEGISLATURE AND THE GOVERNOR SHOULD SPECIFICALLY IDENTIFY INVESTMENT CATEGORIES WHICH THEY MAY WISH TO SUBSIDIZE. SUCH SUBSIDIES MUST BE APPROPRIATED FROM THE GENERAL FUND, SUCH THAT THE RATE OF RETURN TO THE PERMANENT FUND REMAINS AT THE MARKET RATE AND THE SECURITY OF THE FUND IS MAINTAINED.

Explanation: There is no fixed or certain definition of the "market interest rate." The concept of a market rate is fluid, meaning that rate of return on an investment opportunity which is required to attract the necessary capital from the private capital markets. This is a function of several factors including the lender's opportunity cost of capital, the length, risk level, liquidity, and other terms of the loan. Because the Permanent Fund will be a public sector lender, and will be making different types of investments under a variety of conditions, no fixed definition of market interest rates in statute may be possible.

While investment of the Permanent Fund should remain accountable to elected officials, the fund must be insulated from undue political influence. The up-front subsidization of certain types of projects through general fund appropriations would allow for the implementation of social policy by those who should be making such decisions, i.e., elected officials. However, decisions to subsidize should be structured to insure a rational dialogue between elected officials (and their goals in using subsidies) and the fund managers (and their goal of maintaining the integrity of the Fund).

Section .190, the operating principles, contains subsection (4) which instructs the corporation to undertake financing on terms and conditions which take int account the participation of other investors, the risks being undertaken by the fund and the terms and conditions normally obtained by private investors from similar financing. Sec. 070 also requires market interest rates.

Section .190 also contains provision for the Legislature to appropriate funds for subsidizing categories of investment which are determined to be of such high priority that special terms and conditions are appropriate. The amount and timing of subsidies must be such that the rate of return to the fund remains the market rate.

4. Policy Guideline on Permanent Fund Earnings

THE PERMANENT FUND EARNINGS ARE TO PROVIDE AN ONGOING STREAM OF BENEFITS TO ALASKANS THROUGH A DIRECT DISTRIBUTION OR TAX REBATES AND THE PROVISION OF PUBLIC GOODS AND SERVICES.

Explanation: Unless otherwise directed by law, the earnings of the Permanent Fund are deposited in the general fund. The Governor has proposed to return some portion of the earnings to the public in the form of either tax rebates or cash dividends. Such a program will link the performance of the Fund directly to every Alaskan by providing tangible benefits from the fund. Permanent Fund earnings further appear to be the fastest growing source of recurring revenues needed to offset operating budget dependence on oil wealth. Thus these earnings can help allow for the continued provision of public goods and services without drastic increases in tax burden to the state's citizenry.

A companion bill (HB 99) has been drafted to implement this policy. The Governor's Permananet Fund enabling legislation, in Section .030(b), provides only that income be returned to the General Fund.

5. Policy Guideline on Management Control

PERMANENT FUND ENABLING LEGISLATION SHOULD INCLUDE THOROUGH REPORTING AND AUDIT REQUIREMENTS, TO ASSURE RESPONSIBLE, VISIBLE MANAGEMENT PRACTICES.

Explanation: The form of management control is critical to the accountability of the fund to the Governor, legislature, and the public. A list of eligible investments will provide the basis for this control by restricting the uses of the fund to legislatively established purposes. Beyond this constraint, the annual reporting requirements can serve to inform elected officials and the public as to the performance of the fund. Such reporting could include, for example, the following elements: specific investments--amounts and rates of return; subsidized investments; impact of investment constraints on fund performance; investment plans; performance measures; and results of independent audit. Further control could be exercized through the formation of an Executive/Legislative review committee charged with overseeing fund management.

Section .090 instructs the Permanent Fund Corporation Policy Board to provide for annual independent outside audits.

Section .140 instructs the corporation director to establish appropriate organizational, operating, and financial controls.

Section .160 instructs the Corporation Investment Committee to set standards for the organization, and administration, and collection of loans.

Section .200 establishes the general reporting requirements including:

a. comprehensive financial statements and audit reports,

b. income statements and balance sheet to be published in at least one newspaper in each judicial district, and

c. income statement and balance sneet to be published in the election pamphlet.

6. Policy Guideline on Management Prerogatives

FUND MANAGERS SHOULD BE LIMITED TO OPERATING WITHIN THE GUIDELINES SPECIFIED IN ENABLING LEGISLATION AND ANNUAL DIRECTIVES. THEY ARE NOT TO BE RESPONSIBLE FOR DESIGNING OR IMPLEMENTING SOCIAL OR ECONOMIC POLICY OUTSIDE OF THEIR SPECIFIC MANDATE.

Explanation: Under this policy the fund managers would be money managers charged with maximizing return to the Permanent Fund under the established constraints. They could be located either within state government (e.g., Treasury Division) or as a separate corporation but their duties would be limited to financial management. Decisions about social or economic policy and programs to implement that policy should be made by elected officials.

Sections .110 and .100, creating the Executive Oversight Committee and the Legislative directive respectively, provide elected officials an opportunity to formulate general policies on an ongoing basis for implementation by corporation managers. Addition to the investment list by statute give elected officials further control over the uses allowed for the fund.

7. Policy Guideline on Contribution Rate

AS MUCH AS POSSIBLE OF THE STATE'S MINERAL RESOURCE WEALTH SHOULD BE PRESERVED IN A FORM WHICH WILL YIELD CONTINUING BENEFITS TO ALASKANS. SUCH A POLICY SEEKS TO AVOID INCREASING DEPENDENCE ON NON-SUSTAINABLE REVENUE SOURCES FOR THE OPERATING EXPENSES OF STATE GOVERNMENT.

Explanation: The Governor has chosen increased contributions to the permanent fund as the best mechanism for both holding down state spending and providing a source of recurring revenues. Increasing the contribution rate yields two major benefits: (1) it would make a large amount of

nonrecurring revenue unavailable for ongoing state spending and would reduce the unacceptable rate of budget growth, and (2) it would triple the earnings potential of the fund to provide certain, recurring revenues for financing tax credits and future state government activities.

Section .030(a) sets the contribution rate at 25% until FY 1982, at which time it increases to 75% except for bonuses which increase to 100%. SJR 26/HJR 23 is a proposed constitutional amendment to increase the contribution rates to the permanent fund as described above.

Narrative

The composition of the Permanent Fund is 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received through FY 1981, after which it increases to 75% except for bonuses, which increase to 100% (as also proposed in SJR 26). Income is returned to the general fund, except for amounts retained for corporation operations (subject to the Executive Budget Act) and the funding of necessary reserve accounts. A companion bill (HB 99) addresses use of an amount equal to one-half of the earnings as tax credits.

The bill establishes the constitutionally mandated minimum 25% as a trust fund to be managed by the Department of Revenue. Provisions for managing this portion of the fund, including a list of eligible investments, already exists in statute as AS 37.10.065. Such management is in keeping with the purpose established in Sec. 020 of the bill.

The bill further establishes any additional contributions over 25% as a "cautious" development bank within the Department of Revenue, structured as an independent corporation. Policy making for the corporation is vested with a policy board subject to review and approval of an Executive Oversight Committee and the Legislature. Legislative policy input is provided for through legislative directives and expansion of the investment list by temporary Act or permanent amendment.

Permanent Fund Corporation policy is specified through an investment list, the categories of which reflect in general terms the uses of the corporation principal desired by elected officials. The list, as now conceived, is fairly conservative, allowing for money market and mortgage investments. The director of the corporation is instructed to prepare both an initial determination and an annual assessment of the capital markets serving Alaska and recommend to the Governor and the Legislature possible expansion of the investment list based on these assessments.

The Corporation director is empowered to manage the daily operations of the corporation. Investment decisions are to be made by an Investment Committee chaired by the director with four public members appointed by the policy committee.

Because it may well be the only feasible means of financing large electric power projects, the bill authorizes guarantees based on the corporation's income for electric generation and transmission facilities. This provision contains safeguards so that it can only be used for feasible projects of the lowest cost to the consumer after approval of the guarantee by a majority of the state's voters.

Operating principles are established for investment of the Fund including:

a) preference for investments within Alaska which have risk levels and expected yields comparable to alternative investment opportunities;

b) a version of the prudent man rule;

c) preparation of an investment program, based on an annual credit assessment of the state by the director. The assessment may also include recommendations to the Governor and the Legislature to expand the investment list if appropriate;

d) the requirement that all Permanent Fund investments earn a market rate of interest;

e) the requirement that if the Legislature wishes to subsidize investments it must specifically appropriate general fund money to do so (which will maintain a market return to the fund); and,

f) several additional operating principles.

The bill also contains extensive reporting requirements, and conflict of interest and confidentiality of information sections.

FAU:ms

Section-by-Section Summary of SB 226

Sec. 010: Establishes the Alaska Permanent Fund in the Department of Revenue according to Article IX, Section 15 of the Alaska Constitution.

Sec. 020: Sets out the purpose of the fund - to conserve a portion of the state's revenues from mineral resources and to maintain the fund's principal through income-producing investments.

Sec. 030: (a) Sets the contribution rate at the constitutional minimum of 25% until FY 1982, at which time the contribution rate increases to 75% except for bonuses which are set at 100%.

(b) Provides that income from the permanent fund shall be deposited in the general fund except for amounts appropriated for the corporation's expenses and amounts required for reserve accounts.

(c) Provides that all of the permanent fund principal dedicated under the 1976 amendment (the first 25%) be managed as a trust fund by the Department of Revenue as prescribed by the Interim Management Act (AS 37.10.065). Any contributions dedicated by statute or additional constitutional amendments above the 25% level must be allocated to the Permanent Fund Corporation.

Sec. 040: Establishes the Alaska Permanent Fund Corporation in the Department of Revenue to invest and manage permanent fund contributions in excess of the 25% level, and provides it with the necesaary corporate powers.

Sec. 050: (a) Establishes a list of investments eligible for corporation investment. This list represents the policy set by the legislature and the Governor for the use of permanent fund principal above the 25% level.

(b) Allows the corporation to make additional investments only as authorized by law.

(c) Provides for contracts for the investment, custody, safekeeping, and management of securities and execution of transactions.

Sec. 060: Provides for guarantees of indebtedness of electric generating and transmission facilities recommended by the Alaska Power Authority from corporation income. Such guarantee must be approved by the investment committee, the Executive Oversight Committee, and by the voters via proposition at a statewide election.

Sec. 070: Mandates that the corporation receive a market rate of interest on all investments.

Sec. 080: Establishes a policy board consisting of the Commissioners of Commerce and Economic Development and Revenue and five public members appointed by the Governor, serving at his pleasure for a four-year term.

Sec. 090: Establishes the duties of the policy board:

1) appoint the director and investment committee,
2) select an independent outside auditor and receive audit reports,
3) review and publish financial statements,
4) review and approve an annual investments program, the corporation's operating budget, and a financial plan for the following three years,
5) present the material in (4) to the Executive Oversight Committee,
6) determine whether investments are consistent with the statute,
7) set renumeration and other terms of employment for employees, and
8) hold public hearings on the investment program.

Sec. 100: Provides for a legislative directive establishing legislative preference among investment categories.

Sec. 110: Establishes an Executive Oversight Committee consisting of the Governor, the Commissioners of Commerce and Economic Development and Revenue, and the Directors of Policy Development and Planning and Budget and Management.

Sec. 120: Establishes the duties of the Executive Oversight Committee - to review and either approve or revise the corporation's annual investment program and present it to the legislature.

Sec. 130: Provides for the corporation's operating budget to come from corporation earnings subject to the Executive Budget Act.

Sec. 140: Establishes a corporation director and duties:

1) responsiblity for the day-to-day business of the corporation and management of staff,
2) establishment of organizational, operating, and financial controls,
3) investment activity, and
4) preparation of reports.

Sec. 150: Establishes an Investment Committee consisting of the director and four public members appointed by the policy board for four year terms.

Sec. 160: Establishes the duties of the Investment Committee:

1) approval of all investment proposals, and
2) setting of standards for the origination, administration, and collection of loans.

Sec. 170: Provides for an initial determination by the director which:

1) evaluates the capital market serving Alaska,
2) specifies resources and methods other than the permanent fund available to mitigate any inefficiencies (capital gaps) which are found, and
3) recommends additional investment categories to be added to the investment list by law to enable the corporation to invest in such categories.

Sec. 180: Provides for the Executive Oversight Committee to establish reserves out of income consistent with sound financial practices.

Sec. 190: Establishes eight operating principles:

1) in-state investment preference for equivalent investment opportunities,
2) a version of the prudent man rule,
3) annual analysis of the state's capital markets to serve as the basis of the investment program, and of recommendations for expansion of the investment list,
4) market interest rates, except that the legislature may appropriate monies to subsidize permanent fund investments,
5) diversification in investments,
6) requirement for investment proposals and staff review,
7) powers of corporation to take legal actions to protect its investments, and
8) discontinuation of loan purchase from financial institutions with delinquent loans.

Sec. 200: Provide for reports and publications by both the Commissioner of Revenue and the corporation including:

1) financial statement audited by independent outside auditors,
2) a statement of the amount of money received from each revenue source,
3) a statement of investments appraised at market value,
4) a discription of investment activities, and
5) any other information.

The annual income statements and balance sheets must be published in at least one newspaper in each judicial district annually. The income statement and balance sheets for the two years preceding the publication of the election pamphlet must be included in that pamphlet.

Sec. 210: Establishes conflict-of-interest policies requiring the director and staff of the corporation, and the members of the policy board and investment committee to comply with the Conflict of Interest Act and to disqualify themselves from decisions in which they have a financial interest.

Sec. 220: Establishes confidentiality of information policies protecting information which discloses the particulars of a business which is not a matter of public record.

AS 37.10.065(c) is repealed.

Immediate effective date in accordance with AS 01.10.070(c).

THE ALASKA PERMANENT FUND

A Decision Guide

The Division of Policy Development
and Planning

October 1978

The Decision - What is the Administration's Position on the Permanent Fund

As you know, the Tenth Alaska Legislature failed to agree on a plan for the use and management of the Permanent Fund. As a result, you now have the opportunity to provide leadership to the Eleventh Alaska Legislature on this tremendously important issue. We are entering our third year of deliberation on the Permanent Fund, and an enormous amount of information, as well as three legislative proposals, are already before us. The following decision guide lays out the generally accepted conceptualization of the choices involved. Starting with a set of policy goals, the guide presents the major alternatives which have been developed for achieving those goals, and presents some key considerations for choosing among them. Once you have identified your goals and chosen your preferred alternatives, we can begin to develop your recommendations or legislative proposals for the coming legislative session.

For the sake of clarity and a manageable discussion, this decision guide will consider only use of Permanent Fund principal. Use of Permanent Fund income will be ignored. In reality, however, many combinations are possible using the principal to achieve one goal and the income for another. Once your policy direction is clear, the appropriate disposition of the principal and the income can be determined.

Our Nest Egg - Separating Fact from Fantasy

Great claims have been made about our "billion dollar" nest egg. But how much money are we really talking about, and over what time frame? To a degree, what the Fund can do depends on how large it is. Before beginning our exploration of the decision you face, consider these startling facts about the growth of the Fund.

In February, 1976, the Department of Revenue predicted that the contribution to the Permanent Fund for F.Y. 1976 would be $113.9 million. A year later the Division of Legislative Finance predicted it would be $83 million, and the Division of Research Services predicted $80-$90 million. In September of 1976, the Department of Revenue reported a "preliminary actual" figure of $80.6 million. The following figures show a more complete history:

Department of Revenue
Permanent Fund Contribution Projections (in millions)

F.Y.	2/76	2/76	2/77	11/77	2/78
1976	113.9	88.4	82.3	82.8	80.6
1978	131.2	130.9	130.0	88.7	89.3
1980	164.6	162.8	166.3	117.0	77.4

Clearly our nest egg will be much smaller and will grow more slowly than was thought originally. These prediction errors resulted from unforeseeable circumstances such as the pipeline and tanker tariffs and the Pump Station 8 explosion. Much thinking about the Permanent Fund is based on the concept that the Fund is a "pot of billions" just waiting to be used. A more cautious appraisal of our riches is clearly in order as you consider existing proposals and develop new ones.

Key Considerations

Most of the following alternatives for use and management of the Permanent Fund were incorporated into legislation before the 10th Legislature. Each was based on extensive research, public hearings, and hard thinking. The major issues surrounding the alternatives are outlined below.

After this initial review, ample background material and detail is available to help refine your thinking.

Savings

Alternatives:
Interim Management
Trust in Independent Corporation
Trust in Treasury
All of principal in development bank

- As a group, the savings alternatives represent the least risky use of the Permanent Fund. The lower risk level results in a lower earnings potential than some other investment opportunities; however, the earnings are relatively certain and the risk of loss is minimized.

- Strict trust standards may mean fewer Permanent Fund dollars will be invested in Alaska.

- Savings would provide the least stimulus for immigration.

- The question of who should manage the savings trust created a major difference between the House and Senate. The House favored an independent corporation, while the Senate felt the Division of Treasury was appropriate. The major arguments were:

Independent Corporations		Treasury	
for	against	for	against
insulated from politics	too insulated from elected officials	economy of scale in investing	harder to attract top people
visible and therefore accountable to the public	created another bureaucracy	organization already in place	history of political lending
able to attract better personnel			

What is the Goal of the Permanent Fund?

The State Investment Advisory Committee, the Public Forum, and the House and Senate Permanent Fund Committees have heard many, many answers to this question. Presented below is a distillation of the answers, and the organizational ideas which have been developed to implement them.

Goal	Policy	Alternative
Savings	"...to preserve the state's oil wealth and insure a safe income stream"	-retain interim management law, no new bill.
		-trust fund managed by an independent corporation (House)
		-trust fund managed by Treasury (Senate)
		-large scale development bank minimum of 40% of principal in savings (Administration)
Economic Development	"...to provide for the diversification and stabilization of the Alaskan economy."	-large scale development bank maximum of 30% of principal in economic development (Administratio
		-small scale rural developm bank (House)
		-expanded state loan progra (Senate)
		-financing for major one-ti state projects (Gasline, Susitna)
		-financing for GSOP
Community Development	"...to provide for the health, education, social and public facility needs of Alaskan communities."	-large scale development ba maximum of 30% of princip in community development (Administration)
		-expanded state loan progra (Senate)
		-municipal bond purchases b Treasury

Economic Development

Alternatives:

30% of principal in development bank (Administration)
Small scale development bank (House)
Expanded state loan program (Senate)
Financing for major projects
Financing for GSOP

- These alternatives represent more risky uses of the Permanent Fund than savings. They also promise higher monetary returns and social returns such as employment. Any losses on investments would result in erosion of the principal of the Fund.

- One of the goals of economic development is to generate a tax base to replace non-recurring oil revenues in the future. Economic analysis has shown that such growth rates need to be astronomically high to generate a tax base sufficiently large to replace oil revenues.

- Under existing conditions, economic development actually worsens the state's fiscal deficit by stimulating immigration. As long as non-renewable resources revenues constitute 70% of government expenditures, "nest egg" will only be further diluted by immigration. Thus either our tax structure must be changed to increase recurring revenues or per capita spending must be decreased to mitigate the negative fiscal impacts of economic growth.

- Most experts agree that all of the economic development alternatives would involve a subsidy by definition - by making public capital available at interest rates which were unable to attract private capital. If rates are changed that would attract private capital (by definition a market rate), such public capital would merely be displacing private capital with no net economic gain for the state.

- Under certain circumstances, subsidies can be sound public policy. The above simply points out the dangers of hidden or unintended subsidies. Decisions to subsidize certain economic sectors or population groups through loans at below market interest rates should reflect deliberate policy goals and be limited to the target sector or group. The amount of the subsidy should also be identified.

- As you know, the state is rapidly approaching a crisis with our loan programs. Since the opening of the Anchorage and Fairbanks offices of the Division of Business Loans, application volume has doubled and is still growing. Loan demand exceeds $10 million per month, and is threatening the liquidity of the General Fund surplus. Various solutions to this problem are being developed. Here it is important to recognize that attention next session may focus on the Permanent Fund to solve this problem (as with the Senate proposal). However, at $10 million per month, state loans would absorb the entire annual contribution to Permanent Fund principal in two months. Clearly, solutions may have to be found elsewhere.

- There is a tension between the goal of equity and the goal of rational economic intervention. Some of the proposals, such as expanded "first come, first served" loan programs or financing a GSOP, are based on equal access by the benefit for all Alaskans with a minimum of bureaucratic discretion. Other proposals, such as the development banks and financing major projects, are based on optimal economic intervention by economic experts under the policy guidance of elected officials.

- The size and rate of the Permanent Fund may be inadequate for economic development proposals with large capital requirements.

- Administration, House, and Senate participants found that, while hard to document or quantify, people feel that some real capital shortages do exist in Alaska, especially rural Alaska.

Community Development

Alternatives:

Sit of principal in development bank (Administration)
Expanded state loan program (Senate)
Municipal bond purchases by Treasury

- Using Permanent Fund money to construct public facilities for community development would match nonrecurring revenues with nonrecurring expenditures. However, this ignores operating expenses.

- The return on public, tax exempt borrowing is considerably lower than alternative investments for the Permanent Fund.

- Economic development strategies will be ineffective if real bottlenecks from a lack of public facilities are not removed.

- There are many real community development needs in Alaska and a large variety of existing mechanisms to finance such projects.

- Investment in community development should improve the quality of life for all resident Alaskans.

- Use of Permanent Fund principal to meet community development needs may duplicate the purposes of the Municipal Bond Bank or other capital improvement programs.

- Some legal question raised about some types of these investments fulfilling constitutional mandate to be "income producing."

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

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M E M O R A N D U M

TO: Hon. Sterling J. Gallagher
Commissioner of Revenue

Hon. Clark Gruening, Chairman
Special Committee on the Alaska
Permanent Fund

FROM: Eric E. Wohlforth

DATE: February 1, 1978

SUBJECT: Brief Comments on House Bill 595 Relating to Income of the Alaska Permanent Fund, House Bill 596 Relating to Non-renewable Resources, and House Bill 682 Relating to Non-renewable Resources.

Section 1 of HB 596 provides for an investment oversight committee apparently with the purpose of overseeing the activities of all agencies of the State performing lending, borrowing or investment functions, including the corporations established by the bill itself.

Section 3 of the bill establishes, by adding a new chapter to AS 37, the Alaska Permanent Fund from which is allocated 5/6 of mineral rents and royalties to the Alaska Permanent Fund Corporation. AS 37.13.020 contains legislative findings with respect to the Alaska Permanent Fund Corporation and its primary goal which is to maximize total return while maintaining safety of principal and states that it is a savings device to allow the maximum use of disposable income as needed for the purposes as provided by law. Under 37.13.130 the prudent man rule is established to govern the investment activities of the corporation with the provision that assets may be used only for income producing investments and that the board maintain reasonable diversification. Subsection (g) of Section 130 limits investments to direct obligations of the United States, mortage loans and stock and "corporate obligations freely marketable under the Securities Act of 1933". It is submitted that the limitation to direct obligations to the United States may be too limiting now and that investment permission should be extended to government agencies and instrumentalities currently the subject of investment of monies in the State general fund.

The Alaska Enterprise Investment Corporation is created by Section 4 and is funded with an allocation from the Permanent Fund of one-sixth of all of the receipts thereof up to $100,000,000. The corporation is permitted to invest its capital in loans or stock of projects, with stock investment limited to 25% of the capital stock of a project and loans up to 90% of cost except where additional amounts are necessary to protect the interest of the fund.

AS 44.55.125 imposes a prudent man rule on the investment policy of the corporation requiring at least 150% of all guarantees by the corporation to be invested in investment grade securities with not more than 50% invested in "financing the establishment, improvement, and expansion of productive private enterprise which will benefit Alaskans, and for which sufficient capital is not available from other sources or unreasonable terms" in the form of equity, debt or guarantees and 50% "for financing the longer-term investment capital needs for financially sound small and medium scale community development projects of municipalities and public corporate entities and private dwellings for which sufficient financing is not available from other sources or unreasonable terms". The right to guarantee obligations in addition to the right to invest in the stock or purchase the debt of a corporation is referred to in AS 44.55.080 and AS 44.55.120 and provides that the corporation has power to guarantee obligations of another corporation or legal entity to facilitate their sale. In general, guarantees are made in connection with corporate financings by a parent of a subsidiary in which there is already an investment. There would be some question as to whether a guarantee of debt not incident to an investment of monies would qualify under the constitutional limitation that money to the Permanent Fund may only be invested in an income producing securities.

AS 44.55.130 establishes a capital reserve account to secure obligations of the corporation. Monies in the capital reserve account are to be used to pay principal, interest and redemption premium on obligations of the corporation. The capital reserve account is funded with the income of the corporation until that is equal to 25% of its

outstanding obligations. Under AS 44.55.120(4) the corporation is permitted to borrow amounts up to its paid-in capital. If the corporation is conceived as a borrowing vehicle to provide money for investments or loans and there should be additional provisions establishing its rights to enter into covenants and agreements with bondholders, provisions providing that the indebtedness of the corporation is not a debt of the State and otherwise as necessary for a public bond financing. The above is not in the nature of a policy observation since it is readily perceived that the primary thrust of the fund is an investment or lending vehicle rather than a borrowing vehicle.

HB 595 provides that income from investment of the Permanent Fund, becomes part of the Permanent Fund and may be used to provide for guarantees of indebtedness issued by governmental agencies of the State for power projects. This is a worthy and sensible goal for the use of Permanent Fund income in my opinion. However, I feel that the efficacy of a guarantee of debt of public authorities, municipalities or agencies issued for power projects may well be subject to the legislature's appropriating income to the fund for this purpose on an annual basis. Further, the requirement that the fund itself be invested in income producing investments may not be satisfied by a guarantee or indebtedness of another body. When AS 37.13.200 provides for the guarantee of indebtedness issued for power projects of monies transferred to the Permanent Fund from its income, the actual obligation which is entered into by the board of trustees of the Alaska Permanent Fund Corporation may amount only to an annual direction to use income for the purpose stated rather than a long term obligation requiring the corporation to devote the income to that purpose without further act. As I have stated before, I may well be wrong in my reading of the power and permission to devote Permanent Fund income on a long term basis without further appropriation of the legislature, but I think there is at least a substantial question whether an effective guarantee can be entered into under HB 595 of such income to secure indebtedness of another party.

As to HB 682 creating an Alaska Renewable Resources Corporation, the primary purposes appear to be research and development in renewable resource industries and investment

in projects related to research and development. The investment permission in AS 37.12.170 is limited in size ($1,500,000) and in percentage of a project (25%) unless a greater amount or percentage is fixed by concurrent legislative resolution. Under AS 37.12.050, the corporation is allocated 5% of mineral lease bonuses and rentals, half of which are to be placed in the fund. Under AS 37.12.150(11) the corporation "may make financial assistance available in the form of grants, loans, loan guarantees or other appropriate forms to public research and development groups in the state in order to facilitate investment" and in (13) may further make grants. The power to make grants seems to run counter to the constitutional requirement that the Permanent Fund may only be invested in income producing investments. As to guarantees, please see my comments above.

EEW:jr

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April 18, 1977

Hon. Clark Gruening, Chairman

Commissioner of Revenue, Sterling Gallagher

Members of the Joint Legislature
Committee on the Permanent Fund

Sirs:

I am very sorry that I cannot attend your hearings scheduled for April 20 and 21, on the Permanent Fund. I would like, nevertheless, to set down for your consideration a precis of my views.

The special State Investment Advisory Committee Hearings held last year were an immensely valuable start of consideration of uses of the permanent fund. Advisors were used intelligently and were made to work hard to educate the Committee on development loan and permanent fund systems in place elsewhere. Not the least important lesson of the hearings was the fact that public education as to the perameters of the issues is at least as important as pure public input. In light of this, I feel that you should consider compiling a readable digest of this expert testimony, and that otherwise available to you, as to what has happened elsewhere both with permanent funds created with non-renewable resource revenues and with public development banking. I further suggest that the digest be made broadly available in Alaska before embarking on broad scale public hearings. Hearings conducted in this context would seem to me to be very much more valuable than those conducted in a public vacuum of knowledge of what has happened elsewhere. Ideally the digest would contain a readable summary of the history of state loan programs to date.

If I may presume to advise you further on procedure, I commend to your consideration the hearing-seminar procedure of the type conducted by the Brookings Institute in 1970 after the North Slope lease sale. The considerations of possible use of the permanent fund have major implications for Alaska's governmental structure as well as its economic future. I cannot emphasize too strongly the importance of the selection of the correct method of securing public input.

As to substantive matters, I have two observations. First, the preliminary pass at the development loan banking issue which I chaired in Juneau in 1971 elicited the firm recommendation of the representative of the World Bank that structuring of a development loan program be preceeded first by intensive investigation of development banking opportunities. We were told then, and I have heard since, that a one year initial effort to ascertain the scope and magnitude of investment opportunities be first undertaken before a developmental banking structure is legislated. The initial committee should be comprised of Alaska businessmen, entrepreneurs and investors in various sectors of our economy and should have adequate support help.

Our situation in this regard is better advanced than in 1971 for now we have developing case histories of successes and failures in Native Corporate investment in the State. We should take advantage of this body of knowledge in configuring any Development Loan structure.

Secondly, I feel that Permanent Fund monies devoted to the public sector should be used on a "leveraged" basis. I feel that establishment of reserve funds to support local government borrowing or State agency

borrowing for this purpose is preferable to direct loans to municipalities. The reason for this view is the fact that local government bonds are tax exempt. Loans between tax exempt entities are not economically efficient if the debtor entity can borrow publically at tax exempt rates. Satisfactory precedent for this procedure now exists with both the Alaska Municipal Bond Bank Authority and the Alaska Housing Finance Corporation.

Thank you for the opportunity to comment. I wish again I could attend the meeting and hearings. Extra copies are enclosed for the Committee's use.

Very truly yours,

WOHLFORTH & FLINT

By Eric E. Wohlforth
Eric E. Wohlforth

EEW:vf

Enclosures: as stated.

BANK OF AMERICA

October 19, 1971

BANK INVESTMENT SECURITIES DIVISION

Mr. Eric E. Wohlforth, Commissioner
Department of Revenue
State of Alaska
Pouch S
Alaska Office Building
Juneau, Alaska 99801

Dear Commissioner Wohlforth,

The objective of forming an Alaska Industrial Development Corporation is certainly commendable, from a theoretical standpoint. Yet given the variety of structural and operational alternatives relative to such formation, the small step from concept-in-theory to implementation-in-practice imposes on the executive several large and hard questions which demand resolution. It was obvious, from our conversation last Friday, that you and your staff are well aware of the organizational problems and pitfalls. What you might be less familiar with - insofar as research materials are concerned, is: 1) the latest literature on industrial-aid financing and the IRS; 2) prospectively, the increased ease and attractiveness of using tax-exempt bonds issued by the state or a state agency, as the primary financing vehicle for raising seed capital to lure new industry to Alaska.

Recent efforts by the Investment Bankers Association and other interested groups have concentrated upon:

> the desired exclusion from present IRS industrial-aid bond limits of all state and local general obligation bond issues, regardless of purpose
>
> expansion of the straight industrial-aid limit to $15 million per issue, as proposed by Chairman Wilbur Mills of the House Ways and Means Committee.

Favorable action in either of these areas should promote renewed consideration by Alaska of tax-free industrial-aid bonds as a financing alternative to subsidize or support statewide industrial development. The cheapest method of financing would clearly be to issue voted bonds backed by the state's guarantee or its full faith and credit. Reasonable rates could also be obtained by using a state agency as issuer, provided that: 1) a debt-service reserve fund were established from bond proceeds equal per issue to maximum annual principal and interest; 2) annual access to the state's general fund were statutorily permitted, to compensate for any drawdown of the reserve fund to meet debt-service payments. In the case of

either direct state or state agency financing, support for industrial-aid issues would presumably be derived not from state-tax moneys, but rather from loan repayments by the benefited industries. As such, from a municipal analyst's viewpoint, the bonds in due course would be treated as self-liquidating obligations deductible from the state's gross debt - thus reducing, to small or no measure, potential impairement of the state's general credit.

The success of an industrial development corporation in Alaska is keyed as much to its structure and planning as to the method selected for financing its operations. It would be an error, in my view, to staff and administer the corporation as a unique, state-level entity responsible only to the executive and a governing board, and responsive by its nature largely to the corporate stature, potential profitability, and market prospects of applicant industries on a case-by-case basis. In order to ensure a better, more even-handed result, I would strongly recommend - before the corporation is formed, that a joint study be undertaken: by the state and selected local governments or chambers of commerce, to determine the number, type, size, and optimum location of the industries that such a corporation would seek to draw to Alaska. By inviting local participation in the planning process, the corporation would additionally benefit from a broader political base of support, as well as a greater prospective commitment from the private local sector in financing a share of the corporation's activities. Then, too, while there is an evident need for an executive director and professional staff on the state-corporation level, there would seem to be an equally pressing need for local representation on the governing board-which would presumably include leading spokesmen from the public, business, financial, and academic communities.

Much stress in this analysis has been given to the necessity for intergovernmental cooperation in planning, organizing, and administering an Alaska Industrial Development Corporation. This relationship could additionally be extended, on the public level, to the financing aspect as well. Where the siting of a corporation-assisted enterprise could reasonably be expected to stimulate ancillary developments, the local government in the area may strongly be induced to underwrite certain infrastructual costs associated with servicing an industrial complex. To the extent that such participation could be courted, the capital costs of a corporation-assisted enterprise would be reduced, and the free-resource funds of the corporation enlarged accordingly.

I welcome this opportunity to share these views with you, Mr. Wohlforth, and hope that the enclosed materials on industrial-aid

financing will prove of value. If I can be of any further assistance, please be in touch.

Sincerely,

Merrill Ring
Senior Research Officer

Enclosures

MR/vs
622-2530(415)

cc: Mr. Leland S. Prussia. Jr.
Mr. William D. Shaw, Jr.

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 277

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to management of the Alaska Permanent Fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art. IX, sec. 15, of the Alaska Constitution, there is established, as a separate fund in the Department of Revenue, the Alaska Permanent Fund.

Sec. 37.13.020. PURPOSE OF THE PERMANENT FUND. The permanent fund is to provide a means of conserving a portion of the state's revenues from mineral resources for the benefit of Alaskans. The permanent fund is not to be depleted but rather maintained in income-producing investments to provide a continuing stream of benefits to Alaskans.

Sec. 37.13.030. COMPOSITION OF THE PERMANENT FUND. (a) The permanent fund consists of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received through FY 1981, and will at the beginning of FY 1982 increase to at least 75 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments, and 100 per cent of the bonuses received by the state. The commissioner of revenue shall deposit money from these sources in the permanent fund at least once each month.

(b) Income from investment of the permanent fund does not become a part of the permanent fund and must be deposited in the general fund, except that income in the following amounts may be retained in the fund and used as indicated:

(1) the amount appropriated to pay the corporation's operating and administrative expenses, under AS 37.13.100;

(2) any amount allocated to a reserve account established under AS 37.13.180.

(c) All of the revenues dedicated to the Alaska Permanent Fund by the 1976 amendment to article IX of the Alaska Constitution shall be administered as a trust fund and invested by the commissioner of revenue as prescribed by AS 37.10.065. Any money deposited in the Alaska Permanent Fund in addition to that revenue must be allocated to the Alaska Permanent Fund Corporation and invested as prescribed by this chapter.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. (a) There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue but has a legal existence independent of and separate from the state. The purpose of the corporation is to manage and invest the money from the Alaska Permanent Fund allocated to it in accordance with this chapter.

(b) The corporation has all powers necessary to carry out the purposes of this chapter including but not limited to the following:

(1) sue and be sued;

(2) adopt a seal;

(3) have perpetual succession;

(4) adopt and amend policies and operational procedures which are not inconsistent with this chapter;

(5) make and execute contracts and other instruments;

(6) in its own name, own, exchange, transfer, lease, rent, convey, acquire, or dispose of by other means real and personal property.

Sec. 37.13.050. INVESTMENT OF THE PERMANENT FUND. (a) The corporation's allocation from the Alaska Permanent Fund must be invested in income-producing investments of the following types, which investments must conform to the purposes set out in AS 37.13.020:

(1) obligations of, or obligations insured or guaranteed by, the United States or an agency or instrumentality of the United States;

(2) obligations secured by reserves paid in by the United States or an agency or instrumentality of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit or their equivalent issued by United States domestic banks, savings and loan institutions or credit unions which are insured by the United States or an agency or instrumentality of the United States and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) banker's acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) real estate mortgage securities insured by or guaranteed by the United States or an agency or instrumentality of the United States;

(8) conventional real estate mortgages secured by real estate in the state or other collateral allowed under this chapter;

(9) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(10) fixed-term certificates of debenture of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The corporation may make other types of investments which are not freely traded on a recognized market only as expressly authorized by law.

(c) The director may enter into contracts providing for investment, custody, safekeeping, and management of securities and execution of transactions.

Sec. 37.13.060. GUARANTEES OF INDEBTEDNESS. The corporation may, from its income from the fund and for a reasonable fee, guarantee construction of electric generating and related transmission facilities which have been recommended by the Alaska Power Authority as to reliability and technical feasibility, which have the lowest cost to the consumer of available alternatives, which have been approved by the investment committee as to the financial condition of the borrower, and which have the final approval of the executive oversight committee, and the guarantee for which has been submitted as a proposition at a statewide election and been approved by a majority of those voting on the question. The aggregate of all guarantees may not exceed 100 per cent of the total assets of the corporation.

Sec. 37.13.070. RATE OF INTEREST. The rate of interest charged by the corporation on investments made under AS 37.13.040 must at all times be at least equal to the market rate of interest applicable to

the kind of investment, less an appropriate servicing fee.

Sec. 37.13.080. POLICY BOARD. (a) There is established the Alaska Permanent Fund Policy Board, consisting of the commissioner of commerce and economic development, the commissioner of revenue, and five members to be appointed by the governor who serve at his pleasure. The five appointed members must be Alaska residents and may not be employees of the state. Their term of office is four years, and they may be reappointed. Terms must be staggered. Initial terms are one year for one member, two years for two members, three years for one member, and four years for one member.

(b) The commissioner of revenue shall serve as the chairman of the policy board.

(c) A quorum for the transaction of policy board business consists of at least four members. Decisions of the board must be made by a majority of the appointed members. The provisions of AS 44.62.310 and 44.62.312 apply to meetings of the board.

(d) Appointed members of the policy board are not entitled to compensation as such but are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.090. DUTIES OF THE POLICY BOARD. The policy board shall:

(1) appoint the director and other members of the investment committee;

(2) select an independent outside auditor and receive and publish all audit reports;

(3) review and publish financial statements audited by independent outside auditors;

(4) review and approve the annual investment program based on the credit assessment of the State of Alaska as established in AS

37.13.190(3), the budget for the forthcoming year, and the financial plan for the following three years;

(5) present a report on the annual investment program, the financial plan for the following three years and any other information considered to be of interest to the executive oversight committee by December 1 annually;

(6) determine, without approving or disapproving the investment itself, whether a specific investment or kind of investment is consistent with the provisions of this chapter;

(7) set the remuneration and other terms of employment of the director and the remuneration of the investment committee on a daily basis;

(8) hold public hearings on the investment program and submit its findings to the executive oversight committee and the legislature at the beginning of each regular session.

Sec. 37.13.100. LEGISLATIVE DIRECTIVE. The legislature may express any preference or emphasis it desires to be placed among investment categories designated in AS 37.13.050(a) by concurrent resolution, consistent with the purposes and principles prescribed by AS 37.13.020 and 37.13.190.

Sec. 37.13.110. EXECUTIVE OVERSIGHT COMMITTEE. There is established the Permanent Fund Executive Oversight Committee, consisting of the governor, the commissioner of commerce and economic development, the commissioner of revenue, the director of the division of policy development and planning, and the director of the division of budget and management. The governor, or, in his absence, the commissioner of revenue, is the chairman.

Sec. 37.13.120. DUTIES OF THE EXECUTIVE OVERSIGHT COMMITTEE. The executive oversight committee shall review and either approve or

revise and approve the corporation's annual investment program and present it to the legislature no later than the 20th day of each regular session.

Sec. 37.13.130. OPERATIONAL BUDGET. The annual operating budget for the corporation must be prepared and administered in accordance with the Executive Budget Act (AS 37.07). Appropriations must be made for the budget from income earned by the corporation from investment of the money allocated to it from the Alaska Permanent Fund.

Sec. 37.13.140. CORPORATION DIRECTOR. The director of the corporation is to be appointed by the policy board and serve at its pleasure. The director

(1) is responsible for the day-to-day business of the corporation and the organization, appointment, promotion, and discharge of the staff which is in the exempt service under AS 39.25;

(2) shall establish and maintain adequate and appropriate organizational, operating, and financial controls;

(3) is responsible for making investments except that the director may delegate this authority under the provisions of AS 37.13.-050(b);

(4) prepare reports as specified in AS 37.13.170, 37.13.-190(3), and 37.13.200.

Sec. 37.13.150. INVESTMENT COMMITTEE. (a) There is established the Alaska Permanent Fund Corporation investment committee consisting of the permanent fund corporation director, who shall serve as chairman, and four public members appointed by the policy board. All public members must be Alaska residents for at least three years, may not be state employees, and must be persons of recognized competence and wide experience in investment, finance, or other business management related fields. Their term of office is four years and they may be reappointed.

Terms must be staggered. Initial terms are one year for one member, two years for two members and three years for one member. Members of the investment committee serve at the pleasure of the policy board.

(b) A quorum for the transaction of investment committee business consists of at least three members. Decisions of the committee must be made by a majority of the members. The provisions of AS 44.62.310 and 44.62.312 do not apply to meetings of the committee.

(c) Members of the committee are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.160. DUTIES OF THE INVESTMENT COMMITTEE. The investment committee:

(1) has sole responsibility to approve all investment proposals, except that the committee may establish criteria for investments that may be approved by the director;

(2) shall set standards for the origination, administration, and collection of loans.

Sec. 37.13.170. INITIAL DETERMINATIONS. Within 30 days after the beginning of the legislative session following enactment of this chapter, the governor shall submit a report compiled by the director and approved by the policy board and the oversight committee to the legislature. This report must:

(1) evaluate the capital markets serving Alaska;

(2) specify and discuss resources and methods other than the permanent fund available to mitigate inefficiencies, if any are found, in Alaskan capital markets; and

(3) recommend additional investment categories to be included in the list of eligible investments established in AS 37.13.040, if it is found that the permanent fund corporation is the best mechanism for

correcting these inefficiencies; those recommendations must conform to the purposes established in AS 37.13.020 and the operating principles established in AS 37.13.190.

Sec. 37.13.180. RESERVES. The executive oversight committee shall establish reserve accounts from income earned by the corporation to preserve the principal of the permanent fund allocated to the corporation, consistent with sound financial practices.

Sec. 37.13.190. OPERATIONAL PRINCIPLES. The operations of the corporation must be conducted in accordance with the following principles:

(1) the corporation shall give preference to investments within the state to the extent that they have a risk level no higher than, and an expected yield equivalent to, alternative investment opportunities;

(2) the prudent-man rule of investments is applicable; in making investments, the staff and the investment committee shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital;

(3) the corporation shall prepare an annual analysis of the state's capital markets, and may recommend additional investment categories to be included in the list of eligible investments established in AS 37.13.050 if it is found that the permanent fund corporation is the best mechanism for correcting market inefficiencies; those recommendations shall conform to the purposes established in AS 37.13.020; and its investment program shall be based, to the extent consistent

with the fund's purposes and operational principles, on correcting shortages and inefficiencies in those capital markets;

(4) The corporation shall only undertake its financing on terms and conditions which take into account the participation of other investors, the risks being undertaken by the corporation, and the terms and conditions normally obtained by private investors from similar financing; the legislature may appropriate funds for subsidizing categories of investments which it determines to be of such high priority that special terms and conditions are appropriate; the amount and timing of subsidies must be such that the rate of return to the corporation remains the market rate;

(5) the corporation shall seek to maintain a reasonable diversification in its investments;

(6) for those investments which are not freely traded on a recognized market, the corporation may not consider investment proposals unless the applicant or originating financial institution has submitted a detailed proposal to the corporation staff, and the staff has prepared a written report recommending the investment after a study of its merits;

(7) nothing in this section prevents the corporation, in the event of actual or threatened default on any of the permanent fund investments, actual or threatened insolvency of the enterprise in which the investment has been made, or other situations which, in the opinion of the corporation threaten to jeopardize the investment, from taking the action and exercising the rights it considers necessary for the protection of its interest;

(8) when more than two per cent of the aggregate of all loans purchased from a financial institution becomes delinquent for 90 days, the corporation shall discontinue purchasing loans from that

financial institution until the delinquency is reduced to less than two per cent.

Sec. 37.13.200. REPORTS AND PUBLICATIONS. (a) The commissioner of revenue and the corporation shall each publish in easily understood language a separate annual repor to the governor, legislature, and the public. Each report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the commissioner and by the corporation from each source during the period covered, a statement of the commissioner's and the corporation's investments including an appraisal at market value, a description of their respective investment activities during the period covered by the report, and any other information the commissioner or corporation believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet for the entire fund must be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 must be included in that pamphlet. The corporation may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.210. CONFLICT-OF-INTERESTS POLICIES. The director and staff of the corporation, and the members of the policy board and the investment committee shall comply with the requirements of the Conflict of Interest Act (AS 39.50) and the director, staff, and members of the investment committee shall disqualify themselves from voting on any investment in which they have a financial interest.

Sec. 37.13.220. CONFIDENTIALITY OF INFORMATION. (a) Information furnished the corporation by an applicant for a loan or investment which discloses the particulars of the applicant's business or affairs

is not a matter of public record. The information must be kept confidential except when its production is required for a criminal investigation or court proceeding. These restrictions do not prohibit the release or publication of the information in a manner that prevents the identification of a particular applicant.

(b) Nothing in this section prevents the corporation from disclosing the terms and conditions of individual investments as public information.

* Sec. 2. AS 37.10.065(c) is repealed.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

JAY S. HAMMOND
GOVERNOR

OFFICE OF THE GOVERNOR

DIVISION OF POLICY DEVELOPMENT AND PLANNING

POUCH AD-JUNEAU 99811
PHONE 465-3577

March 29, 1979

The Honorable Hugh Malone
Chairman, House Special Committiee
on the Alaska Permanent Fund
Court Bldg, Room 647
Juneau, AK 99801

Dear Representative Malone:

Enclosed are the responses to the via questions which your committee addressed to the Administration during our testimony. The six questions were:

(1) What are the Governor's intentions regarding the reserve accounts established by last year's legislature?

(2) Is HJR 23 in proper legal form?

(3) Does the existing permanent fund constitutional amendments mandate to trust responsibilities?

(4) What other uses is the Governor considering for permanent fund income?

(5) What revenue projections were used to justify a proposed contribution level of 75%?, and

(6) Can the gas pipeline be financed with the permanent fund under the proposed investment lists?

We hope these answers are satisfactory. We will be happy to respond further if you should require more information.

Sincerely,

Fran Ulmer
Director
Policy Development and Planning

cc: Committee members

STATE of ALASKA

MEMORANDUM

DIVISION OF POLICY DEVELOPMENT AND PLANNING
OFFICE OF THE GOVERNOR

TO: Distribution

DATE: February 23, 1979

FILE NO:

TELEPHONE NO:

FROM: Frances A. Ulmer
Director

SUBJECT: Permanent Fund Policy.

The following discussion summarizes the major policy concerns which the Governor has identified for incorporation in a Permanent Fund legislative package. Also presented are the sections of SB 226/HB 277, which encompass these policy guidelines. The outline is followed by a narrative description of the bill.

OVERALL POLICY OBJECTIVE

THE PERMANENT FUND IS THE VEHICLE THROUGH WHICH A PORTION OF THE STATE'S OIL WEALTH IS TRANSFORMED FROM MINERAL TO FINANCIAL FORM. IT IS NOT TO BE DEPLETED, BUT RATHER MAINTAINED AND INVESTED IN SUCH A WAY AS TO PROVIDE A CONTINUING STREAM OF BENEFITS TO ALASKANS.

Explanation: The Permanent Fund implementing legislation should provide the establishment of a permanent and thus prudently managed investment portfolio, which maintains the value of the principal and maximizes earnings given risk constraints. The stream of financial benefits to Alaskans from the Permanent Fund is not to be eroded by use of Fund principal for investments at less than market rates.

Section 020 of the bill establishes the purpose of the Permanent Fund: It is to provide a means of conserving a portion of the state's revenues from mineral resources for the benefit of Alaskans. The Permanent Fund is not to be depleted but rather maintained in income-producing investments to provide a continuing stream of benefits to Alaskans.

The key provisions for implementing this policy are outlined below.

1. Policy Guideline on Eligible Investments

THE INVESTMENT OF THE PERMANENT FUND PRINCIPAL SHOULD BE BASED UPON A LIST OF ELIGIBLE INVESTMENTS IDENTIFIED AS APPROPRIATE WITH RESPECT TO RISK LEVEL AND RETURN TO THE FUND. ALL OTHER THINGS BEING EQUAL, PRIORITY WOULD BE GIVEN TO IN-STATE INVESTMENTS.

Explanation: Considerable debate has raged regarding the amount of in-state investment and the appropriate risk level which would be allowed by alternative management structures for

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Explanation: Considerable debate has raged regarding the amount of in-state investment and the appropriate risk level which would be allowed by alternative management structures for

the Permanent Fund. The exact meaning and implications of such terms as "trust fund," "prudent-man rule," and "loan program" are unclear as regards in-state investment and the security of the fund.

A specific list of clearly drafted categories eligible for investment will maximize policy control by elected officials with respect to the risk level and uses of the fund. The list presented in the Governor's proposal contains those types of investments which are generally regarded by money managers as relatively low risk investments. As the Permanent Fund Corporation gains operating experience and identifies capital gaps, the list can be expanded by temporary Acts or permanent amendments to permit additional uses of the fund.

Sections .030(c) and .050 address investment of the Permanent Fund and contain lists which define the range of investments available to Permanent Fund managers for both the 25% trust and any additional contributions for the development bank.

Section .190 contains the operational principles for the fund. The first principle states that the Fund shall give preference to investments within Alaska having a risk level no higher than and an expected yield equivalent to, alternative investment opportunities.

2. Policy Guideline on Allocation Among Types of Investments

THE GOVERNOR AND THE LEGISLATURE SHOULD ADDRESS, IN GENERAL TERMS, THE ALLOCATION OF PERMANENT FUND INVESTMENTS AMONG THE USES DESIGNATED IN A LIST OF ELIGIBLE INVESTMENTS.

Explanation: The list of eligible investments may include a range of uses of Permanent Fund principal such as mortgages, corporate securities, bank certificates of deposit, government securities, etc. Some policy guidance to the fund managers regarding the allocation of investments among categories should be exercised by elected officials. This guidance should be provided for in Permanent Fund enabling legislation through both executive and legislative approval of investment programs and through annual directives to the fund managers by the legislature. Such guidance must be sufficiently flexible to allow for balanced and effective portfolio management.

Section .110 establishes an Executive Oversight Committee consisting of the Governor and four cabinet members, and charges them with review and approval of the Permanent Fund Corporation investment program as developed by the policy board.

Section .100 provides for a Legislative directive through which the Legislature can express preferences for emphasis among the categories on the Corporation's investment list.

3. Policy Guideline on Interest Rates

THE RATES OF INTEREST CHARGED TO BORROWERS BY THE PERMANENT FUND SHOULD CONFORM TO THE RATES WHICH WOULD BE OBTAINED IN THE PRIVATE SECTOR FOR SIMILAR FINANCING UNDER SIMILAR CONDITIONS. THE LEGISLATURE AND THE GOVERNOR SHOULD SPECIFICALLY IDENTIFY INVESTMENT CATEGORIES WHICH THEY MAY WISH TO SUBSIDIZE. SUCH SUBSIDIES MUST BE APPROPRIATED FROM THE GENERAL FUND, SUCH THAT THE RATE OF RETURN TO THE PERMANENT FUND REMAINS AT THE MARKET RATE AND THE SECURITY OF THE FUND IS MAINTAINED.

Explanation: There is no fixed or certain definition of the "market interest rate." The concept of a market rate is fluid, meaning that rate of return on an investment opportunity which is required to attract the necessary capital from the private capital markets. This is a function of several factors including the lender's opportunity cost of capital, the length, risk level, liquidity, and other terms of the loan. Because the Permanent Fund will be a public sector lender, and will be making different types of investments under a variety of conditions, no fixed definition of market interest rates in statute may be possible.

While investment of the Permanent Fund should remain accountable to elected officials, the fund must be insulated from undue political influence. The up-front subsidization of certain types of projects through general fund appropriations would allow for the implementation of social policy by those who should be making such decisions, i.e., elected officials. However, decisions to subsidize should be structured to insure a rational dialogue between elected officials (and their goals in using subsidies) and the fund managers (and their goal of maintaining the integrity of the Fund).

Section .190, the operating principles, contains subsection (4) which instructs the corporation to undertake financing on terms and conditions which take into account the participation of other investors, the risks being undertaken by the fund and the terms and conditions normally obtained by private investors from similar financing. Sec. 070 also requires market interest rates.

Section .190 also contains provision for the Legislature to appropriate funds for subsidizing categories of investment which are determined to be of such high priority that special terms and conditions are appropriate. The amount and timing of subsidies must be such that the rate of return to the fund remains the market rate.

4. Policy Guideline on Permanent Fund Earnings

THE PERMANENT FUND EARNINGS ARE TO PROVIDE AN ONGOING STREAM OF BENEFITS TO ALASKANS THROUGH A DIRECT DISTRIBUTION OR TAX REBATES AND THE PROVISION OF PUBLIC GOODS AND SERVICES.

Explanation: Unless otherwise directed by law, the earnings of the Permanent Fund are deposited in the general fund. The Governor has proposed to return some portion of the earnings to the public in the form of either tax rebates or cash dividends. Such a program will link the performance of the Fund directly to every Alaskan by providing tangible benefits from the fund. Permanent Fund earnings further appear to be the fastest growing source of recurring revenues needed to offset operating budget dependence on oil wealth. Thus these earnings can help allow for the continued provision of public goods and services without drastic increases in tax burden to the state's citizenry.

A companion bill (HB 99) has been drafted to implement this policy. The Governor's Permananet Fund enabling legislation, in Section .030(b), provides only that income be returned to the General Fund.

5. Policy Guideline on Management Control

PERMANENT FUND ENABLING LEGISLATION SHOULD INCLUDE THOROUGH REPORTING AND AUDIT REQUIREMENTS, TO ASSURE RESPONSIBLE, VISIBLE MANAGEMENT PRACTICES.

Explanation: The form of management control is critical to the accountability of the fund to the Governor, legislature, and the public. A list of eligible investments will provide the basis for this control by restricting the uses of the fund to legislatively established purposes. Beyond this constraint, the annual reporting requirements can serve to inform elected officials and the public as to the performance of the fund. Such reporting could include, for example, the following elements: specific investments--amounts and rates of return; subsidized investments; impact of investment constraints on fund performance; investment plans; performance measures; and results of independent audit. Further control could be exercized through the formation of an Executive/Legislative review committee charged with overseeing fund management.

Section .090 instructs the Permanent Fund Corporation Policy Board to provide for annual independent outside audits.

Section .140 instructs the corporation director to establish appropriate organizational, operating, and financial controls.

Section .160 instructs the Corporation Investment Committee to set standards for the organization, and administration, and collection of loans.

Section .200 establishes the general reporting requirements including:

a. comprehensive financial statements and audit reports,

b. income statements and balance sheet to be published in at least one newspaper in each judicial district, and

c. income statement and balance sheet to be published in the election pamphlet.

6. Policy Guideline on Management Prerogatives

FUND MANAGERS SHOULD BE LIMITED TO OPERATING WITHIN THE GUIDELINES SPECIFIED IN ENABLING LEGISLATION AND ANNUAL DIRECTIVES. THEY ARE NOT TO BE RESPONSIBLE FOR DESIGNING OR IMPLEMENTING SOCIAL OR ECONOMIC POLICY OUTSIDE OF THEIR SPECIFIC MANDATE.

Explanation: Under this policy the fund managers would be money managers charged with maximizing return to the Permanent Fund under the established constraints. They could be located either within state government (e.g., Treasury Division) or as a separate corporation but their duties would be limited to financial management. Decisions about social or economic policy and programs to implement that policy should be made by elected officials.

Sections .110 and .100, creating the Executive Oversight Committee and the Legislative directive respectively, provide elected officials an opportunity to formulate general policies on an ongoing basis for implementation by corporation managers. Addition to the investment list by statute give elected officials further control over the uses allowed for the fund.

7. Policy Guideline on Contribution Rate

AS MUCH AS POSSIBLE OF THE STATE'S MINERAL RESOURCE WEALTH SHOULD BE PRESERVED IN A FORM WHICH WILL YIELD CONTINUING BENEFITS TO ALASKANS. SUCH A POLICY SEEKS TO AVOID INCREASING DEPENDENCE ON NON-SUSTAINABLE REVENUE SOURCES FOR THE OPERATING EXPENSES OF STATE GOVERNMENT.

Explanation: The Governor has chosen increased contributions to the permanent fund as the best mechanism for both holding down state spending and providing a source of recurring revenues. Increasing the contribution rate yields two major benefits: (1) it would make a large amount of

nonrecurring revenue unavailable for ongoing state spending and would reduce the unacceptable rate of budget growth, and (2) it would triple the earnings potential of the fund to provide certain, recurring revenues for financing tax credits and future state government activities.

Section .030(a) sets the contribution rate at 25% until FY 1982, at which time it increases to 75% except for bonuses which increase to 100%. SJR 26/HJR 23 is a proposed constitutional amendment to increase the contribution rates to the permanent fund as described above.

Narrative

The composition of the Permanent Fund is 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received through FY 1981, after which it increases to 75% except for bonuses, which increase to 100% (as also proposed in SJR 26). Income is returned to the general fund, except for amounts retained for corporation operations (subject to the Executive Budget Act) and the funding of necessary reserve accounts. A companion bill (HB 99) addresses use of an amount equal to one-half of the earnings as tax credits.

The bill establishes the constitutionally mandated minimum 25% as a trust fund to be managed by the Department of Revenue. Provisions for managing this portion of the fund, including a list of eligible investments, already exists in statute as AS 37.10.065. Such management is in keeping with the purpose established in Sec. 020 of the bill.

The bill further establishes any additional contributions over 25% as a "cautious" development bank within the Department of Revenue, structured as an independent corporation. Policy making for the corporation is vested with a policy board subject to review and approval of an Executive Oversight Committee and the Legislature. Legislative policy input is provided for through legislative directives and expansion of the investment list by temporary Act or permanent amendment.

Permanent Fund Corporation policy is specified through an investment list, the categories of which reflect in general terms the uses of the corporation principal desired by elected officials. The list, as now conceived, is fairly conservative, allowing for money market and mortgage investments. The director of the corporation is instructed to prepare both an initial determination and an annual assessment of the capital markets serving Alaska and recommend to the Governor and the Legislature possible expansion of the investment list based on these assessments.

The Corporation director is empowered to manage the daily operations of the corporation. Investment decisions are to be made by an Investment Committee chaired by the director with four public members appointed by the policy committee.

Because it may well be the only feasible means of financing large electric power projects, the bill authorizes guarantees based on the corporation's income for electric generation and transmission facilities. This provision contains safeguards so that it can only be used for feasible projects of the lowest cost to the consumer after approval of the guarantee by a majority of the state's voters.

Operating principles are established for investment of the Fund including:

a) preference for investments within Alaska which have risk levels and expected yields comparable to alternative investment opportunities;

b) a version of the prudent man rule;

c) preparation of an investment program, based on an annual credit assessment of the state by the director. The assessment may also include recommendations to the Governor and the Legislature to expand the investment list if appropriate;

d) the requirement that all Permanent Fund investments earn a market rate of interest;

e) the requirement that if the Legislature wishes to subsidize investments it must specifically appropriate general fund money to do so (which will maintain a market return to the fund); and,

f) several additional operating principles.

The bill also contains extensive reporting requirements, and conflict of interest and confidentiality of information sections.

FAU:ms

Section-by-Section Summary of SB 226

Sec. 010: Establishes the Alaska Permanent Fund in the Department of Revenue according to Article IX, Section 15 of the Alaska Constitution.

Sec. 020: Sets out the purpose of the fund - to conserve a portion of the state's revenues from mineral resources and to maintain the fund's principal through income-producing investments.

Sec. 030: (a) Sets the contribution rate at the constitutional minimum of 25% until FY 1982, at which time the contribution rate increases to 75% except for bonuses which are set at 100%.

(b) Provides that income from the permanent fund shall be deposited in the general fund except for amounts appropriated for the corporation's expenses and amounts required for reserve accounts.

(c) Provides that all of the permanent fund principal dedicated under the 1976 amendment (the first 25%) be managed as a trust fund by the Department of Revenue as prescribed by the Interim Management Act (AS 37.10.065). Any contributions dedicated by statute or additional constitutional amendments above the 25% level must be allocated to the Permanent Fund Corporation.

Sec. 040: Establishes the Alaska Permanent Fund Corporation in the Department of Revenue to invest and manage permanent fund contributions in excess of the 25% level, and provides it with the necesaary corporate powers.

Sec. 050: (a) Establishes a list of investments eligible for corporation investment. This list represents the policy set by the legislature and the Governor for the use of permanent fund principal above the 25% level.

(b) Allows the corporation to make additional investments only as authorized by law.

(c) Provides for contracts for the investment, custody, safekeeping, and management of securities and execution of transactions.

Sec. 060: Provides for guarantees of indebtedness of electric generating and transmission facilities recommended by the Alaska Power Authority from corporation income. Such guarantee must be approved by the investment committee, the Executive Oversight Committee, and by the voters via proposition at a statewide election.

Sec. 070: Mandates that the corporation receive a market rate of interest on all investments.

Sec. 080: Establishes a policy board consisting of the Commissioners of Commerce and Economic Development and Revenue and five public members appointed by the Governor, serving at his pleasure for a four-year term.

Sec. 090: Establishes the duties of the policy board:

1) appoint the director and investment committee,
2) select an independent outside auditor and receive audit reports,
3) review and publish financial statements,
4) review and approve an annual investments program, the corporation's operating budget, and a financial plan for the following three years,
5) present the material in (4) to the Executive Oversight Committee,
6) determine whether investments are consistent with the statute,
7) set renumeration and other terms of employment for employees, and
8) hold public hearings on the investment program.

Sec. 100: Provides for a legislative directive establishing legislative preference among investment categories.

Sec. 110: Establishes an Executive Oversight Committee consisting of the Governor, the Commissioners of Commerce and Economic Development and Revenue, and the Directors of Policy Development and Planning and Budget and Management.

Sec. 120: Establishes the duties of the Executive Oversight Committee - to review and either approve or revise the corporation's annual investment program and present it to the legislature.

Sec. 130: Provides for the corporation's operating budget to come from corporation earnings subject to the Executive Budget Act.

Sec. 140: Establishes a corporation director and duties:

1) responsiblity for the day-to-day business of the corporation and management of staff,
2) establishment of organizational, operating, and financial controls,
3) investment activity, and
4) preparation of reports.

Sec. 150: Establishes an Investment Committee consisting of the director and four public members appointed by the policy board for four year terms.

Sec. 160: Establishes the duties of the Investment Committee:

1) approval of all investment proposals, and
2) setting of standards for the origination, administration, and collection of loans.

Sec. 170: Provides for an initial determination by the director which:

1) evaluates the capital market serving Alaska,
2) specifies resources and methods other than the permanent fund available to mitigate any inefficiencies (capital gaps) which are found, and
3) recommends additional investment categories to be added to the investment list by law to enable the corporation to invest in such categories.

Sec. 180: Provides for the Executive Oversight Committee to establish reserves out of income consistent with sound financial practices.

Sec. 190: Establishes eight operating principles:

1) in-state investment preference for equivalent investment opportunities,
2) a version of the prudent man rule,
3) annual analysis of the state's capital markets to serve as the basis of the investment program, and of recommendations for expansion of the investment list,
4) market interest rates, except that the legislature may appropriate monies to subsidize permanent fund investments,
5) diversification in investments,
6) requirement for investment proposals and staff review,
7) powers of corporation to take legal actions to protect its investments, and
8) discontinuation of loan purchase from financial institutions with delinquent loans.

Sec. 200: Provide for reports and publications by both the Commissioner of Revenue and the corporation including:

1) financial statement audited by independent outside auditors,
2) a statement of the amount of money received from each revenue source,
3) a statement of investments appraised at market value,
4) a discription of investment activities, and
5) any other information.

The annual income statements and balance sheets must be published in at least one newspaper in each judicial district annually. The income statement and balance sheets for the two years preceding the publication of the election pamphlet must be included in that pamphlet.

Sec. 210: Establishes conflict-of-interest policies requiring the director and staff of the corporation, and the members of the policy board and investment committee to comply with the Conflict of Interest Act and to disqualify themselves from decisions in which they have a financial interest.

Sec. 220: Establishes confidentiality of information policies protecting information which discloses the particulars of a business which is not a matter of public record.

AS 37.10.065(c) is repealed.

Immediate effective date in accordance with AS 01.10.070(c).

THE ALASKA PERMANENT FUND

A Decision Guide

The Division of Policy Development and Planning

October 1978

The Decision - What is the Administration's Position on the Permanent Fund

As you know, the Tenth Alaska Legislature failed to agree on a plan for the use and management of the Permanent Fund. As a result, you now have the opportunity to provide leadership to the Eleventh Alaska Legislature on this tremendously important issue. We are entering our third year of deliberation on the Permanent Fund, and an enormous amount of information, as well as three legislative proposals, are already before us. The following decision guide lays out the generally accepted conceptualization of the choices involved. Starting with a set of policy goals, the guide presents the major alternatives which have been developed for achieving those goals, and presents some key considerations for choosing among them. Once you have identified your goals and chosen your preferred alternatives, we can begin to develop your recommendations or legislative proposals for the coming legislative session.

For the sake of clarity and a manageable discussion, this decision guide will consider only use of Permanent Fund principal. Use of Permanent Fund income will be ignored. In reality, however, many combinations are possible using the principal to achieve one goal and the income for another. Once your policy direction is clear, the appropriate disposition of the principal and the income can be determined.

Our Nest Egg - Separating Fact from Fantasy

Great claims have been made about our "billion dollar" nest egg. But how much money are we really talking about, and over what time frame? To a degree, what the Fund can do depends on how large it is. Before beginning our exploration of the decision you face, consider these startling facts about the growth of the Fund.

In February, 1976, the Department of Revenue predicted that the contribution to the Permanent Fund for F.Y. 1978 would be $113.9 million. A year later the Division of Legislative Finance predicted it would be $65 million, and the Division of Research Services predicted $80-$90 million. In September of 1978, the Department of Revenue reported a "preliminary actual" figure of $50.5 million. The following figures show a more complete history:

Department of Revenue
Permanent Fund Contribution Projections (in millions)

FY	2/76	9/76	2/77	11/77	9/78
1978	113.9	89.4	62.3	52.6	50.5
1979	131.2	130.9	130.0	88.7	69.3
1980	164.5	183.6	165.3	117.0	77.4

Clearly our nest egg will be much smaller and will grow more slowly than was thought originally. These prediction errors resulted from unforseeable circumstances such as the pipeline and tanker tariffs and the Pump Station 8 explosion. Much thinking about the Permanent Fund is based on the concept that the Fund is a "pot of billions" just waiting to be used. A more cautious appraisal of our riches is clearly in order as you consider existing proposals and develop new ones.

Key Considerations

Most of the following alternatives for use and management of the Permanent Fund were incorporated into legislation before the 10th Legislature. Each was based on extensive research, public hearings, and hard thinking. The major issues surrounding the alternatives are outlined below.

After this initial review, ample background material and detail is available to help refine your thinking.

Savings

Alternatives:
Interim Management
Trust in Independent Corporation
Trust in Treasury
40% of principal in development bank

- As a group, the savings alternatives represent the least risky use of the Permanent Fund. The lower risk level results in a lower earnings potential than some other investment opportunities; however, the earnings are relatively certain and the risk of loss is minimized.

- Strict trust standards may mean fewer Permanent Fund dollars will be invested in Alaska.

- Savings would provide the least stimulus for immigration.

- The question of who should manage the savings trust created a major difference between the House and Senate. The House favored an independent corporation, while the Senate felt the Division of Treasury was appropriate. The major arguements were:

Independent Corporations		Treasury	
for	against	for	against
insulated from politics	too insulated from elected officials	economy of scale in investing	harder to attract top people
visible and therefore accountable to the public	created another bureaucracy	organization already in place	history of political lending
able to attract better personnel			

What is the Goal of the Permanent Fund?

The State Investment Advisory Committee, the Public Forum, and the House and Senate Permanent Fund Committees have heard many, many answers to this question. Presented below is a distillation of the answers, and the organizational ideas which have been developed to implement them.

Goal	Policy	Alternative
Savings	"...to preserve the state's oil wealth and insure a safe income stream"	-retain interim management law, no new bill.
		-trust fund managed by an independent corporation (House)
		-trust fund managed by Treasury (Senate)
		-large scale development bank minimum of 40% of principal in savings (Administration)
Economic Development	"...to provide for the diversification and stabilization of the Alaskan economy."	-large scale development bank maximum of 30% of principal in economic development (Administrati
		-small scale rural develop bank (House)
		-expanded state loan progra (Senate)
		-financing for major one-ti state projects (Gasline, Susitna)
		-financing for OSOP
Community Development	"...to provide for the health, education, social and public facility needs of Alaskan communities."	-large scale development ba maximum of 30% of princip in community development (Administration)
		-expanded state loan progra (Senate)
		-municipal bond purchases b Treasury

Economic Development

Alternatives:

30% of principal in development bank (Administration)
Small scale development bank (House)
Expanded state loan program (Senate)
Financing for major projects
Financing for GSOP

- These alternatives represent more risky uses of the Permanent Fund than savings. They also promise higher monetary returns and social returns such as employment. Any losses on investments would result in erosion of the principal of the Fund.

- One of the goals of economic development is to generate a tax base to replace non-recurring oil revenues in the future. Economic analysis has shown that such growth rates need to be astronomically high to generate a tax base sufficiently large to replace oil revenues.

- Under existing conditions, economic development actually worsens the state's fiscal deficit by stimulating immigration. As long as non-renewable resources revenues constitute 70% of government expenditures, "nest egg" will only be further diluted by immigration. Thus either our tax structure must be changed to increase recurring revenues or per capita spending must be decreased to mitigate the negative fiscal impacts of economic growth.

- Most experts agree that all of the economic development alternatives would involve a subsidy <u>by definition</u> - by making public capital available at interest rates which were unable to attract private capital. If rates are charged that would attract private capital (by definition a market rate), such public capital would merely be displacing private capital with no net economic gain for the state.

- Under certain circumstances, subsidies can be sound public policy. The above simply points out the dangers of hidden or unintended subsidies. Decisions to subsidize certain economic sectors or population groups through loans at below market interest rates should reflect deliberate policy goals and be limited to the target sector or group. The amount of the subsidy should also be identified.

- As you know, the state is rapidly approaching a crisis with our loan programs. Since the opening of the Anchorage and Fairbanks offices of the Division of Business Loans, application volume has doubled and is still growing. Loan demand exceeds $25 million per month, and is threatening the liquidity of the General Fund surplus. Various solutions to this problem are being developed. Here it is important to recognize that attention next session may focus on the Permanent Fund to solve this problem (as with the Senate proposal). However, at $25 million per month, state loans would absorb the entire annual contribution to Permanent Fund principal in two months. Clearly, solutions may have to be found elsewhere.

- There is a tension between the goal of equity and the goal of rational economic intervention. Some of the proposals, such as expanded "first come, first served" loan programs or financing a GSOP, are based on equal access by the benefit for all Alaskans with a minimum of bureaucratic discretion. Other proposals, such as the development banks and financing major projects, are based on optimal economic intervention by economic experts under the policy guidance of elected officials.

- The size and rate of the Permanent Fund may be inadequate for economic development proposals with large capital requirements.

- Administration, House, and Senate participants found that, while hard to document or quantify, people feel that some real capital shortages do exist in Alaska, especially rural Alaska.

Community Development

Alternatives:

30% of principal in development bank (Administration)
Expanded state loan program (Senate)
Municipal bond purchases by Treasury

- Using Permanent Fund money to construct public facilities for community development would match nonrecurring revenues with nonrecurring expenditures. However, this ignores operating expenses.

- The return on public, tax exempt borrowing is considerably lower than alternative investments for the Permanent Fund.

- Economic development strategies will be ineffective if real bottlenecks from a lack of public facilities are not removed.

- There are many real community development needs in Alaska and a large variety of existing mechanisms to finance such projects.

- Investment in community development should improve the quality of life for all resident Alaskans.

- Use of Permanent Fund principal to meet community development needs may duplicate the purposes of the Municipal Bond Bank or other capital improvement programs.

- Some legal question raised about some types of these investments fulfilling constitutional mandate to be "income producing."

Article 3. Investment and Deposit of State Funds.

Section
65. Investment of the Alaska Permanent Fund
70. Investment of surplus funds
75. Deposit of state funds
80. Purchase of bonds
90. Sale of bonds held as investments
85. Financial aid to corporations by state or political subdivision
87. Loans to bond construction funds
88. Department of Administration authorized to make advances to the University

Sec. 37.10.065. Investment of the Alaska Permanent Fund. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuse received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 1 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency. (§ 1 ch 6 SLA 1977)

Legislative committee report. — For report on ch. 6, SLA 1977 (H 10), see 1977 Senate Journal, p. 575; 1977 House Journal, p. 279.

SENATE BILL NO. 225 by the Commerce Committee by request, entitled:

"An Act providing for state chartered credit unions."

was read the first time and referred to the Commerce Committee and the Judiciary Committee.

SENATE BILL NO. 226 by the Rules Committee by request of the Governor, entitled:

"An Act relating to management of the Alaska Permanent Fund; and providing for an effective date."

was read the first time and referred to the State Affairs Committee and the Finance Committee.

The above bill will not be available in the Documents Room until further notice.

Fiscal note appears in Senate Supplement No. 7 to today's journal.

Governor's transmittal letter on SENATE BILL NO. 226 follows:

February 13, 1979

The Honorable Clem Tillion
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under art. III, sec. 18, of the Alaska Constitution, I am pleased to transmit a bill for the management of the permanent fund. It is a companion measure to my proposal to amend the constitution to increase the dedication of revenues to the permanent fund, and the two should be read together.

I am convinced that the 25 per cent dedication must be considered to be a trust fund and be invested accordingly. That means that the existing law providing for its safe investment in the money market is quite

SB 226 adequate for the management of those funds. A repeal of the subsection transferring funds is all that is required. No other change is contemplated. This is a straight, money-market program of investment, an investment trust, pure and simple.

The bill establishes the Alaska Permanent Fund Corporation for the purpose of managing all monies deposited in the permanent fund which are in excess of the original 25 per cent dedication. The corporation is governed by a policy board consisting of the commissioners of revenue and commerce and five members from the public at large. An executive oversight committee composed of the governor, the commissioners of revenue and of commerce and economic development, and the directors of budget and management and of policy development and planning reviews and approves the board's policy determinations with respect to its investment program but has no control over individual loans. That control lies with an investment committee.

The corporation has general authority to make investments which are freely traded on recognized money markets and certain mortgage transactions. Beyond that, it must request and receive express authority by law to enter into so-called development banking. Again, only money deposited in the fund which is in addition to the 25 per cent dedication is allocated to the corporation for its investment. And even this must be invested in the same manner as a prudent trustee would invest the money placed in his care.

The corporation's policy board is required to make an initial analysis -- and, after that, an annual analysis -- of the state's capital markets and to ascertain what inefficiencies exist there. It then recommends how the permanent fund can and should (and should not) be used to correct these inefficiencies. If additional types of investments are considered to be desirable, it will recommend their authorization. If permanent authorization is preferable, a permanent amendment to section 50 would be proposed. Otherwise, a temporary Act will be proposed.

Because it may well be the only feasible means of financing large power projects, the bill authorizes guarantees based on the corporation's income for electric generation and transmission facilities. This provision is hedged in with safeguards so that it can only be used for feasible projects of the lowest cost to the consumer and after approval of the guarantee by a majority of the state's voters.

The bill I propose is essentially conservative. It is based on the premise that the permanent fund is first and foremost a

trust fund and that in its management we must learn to walk before we can run. Nevertheless, the mechanism to expand its use, to use it as a development bank for economic diversification is included, and when the need for such a use is demonstrated, and such a use would be prudent, it will be available for that purpose.

The widespread interest in the permanent fund and statewide concern for it mandate prudence and caution. I know that you agree and hope that the proposed measure is favorably considered.

Sincerely,

Jay S. Hammond
Governor

SENATE BILL NO. 227 by Senators Colletta and Stimson, entitled:

"An Act relating to insurance for alcoholism and drug dependency."

was read the first time and referred to the Health, Education and Social Services Committee and the Judiciary Committee.

The above bill will not be available in the Documents Room until further notice.

SENATE BILL NO. 228 by the Rules Committee by request of the Governor, entitled:

"An Act relating to the excise tax on and license fees for sale of intoxicating liquors; and providing for an effective date."

was read the first time and referred to the Commerce Committee and the Finance Committee.

Fiscal note and Governor's transmittal letter will be printed in a future journal.

SENATE BILL NO. 228 will not be available in the Documents Room until further notice.

SPECIAL ORDERS

Senator Sackett moved and asked unanimous consent that he be excused from a call of the Senate, February 15 and 16. Without objection, Senator Sackett was excused.

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 29, 1979

The Honorable Hugh Malone
Chairman
Special Committee for the
Permanent Fund
House of Representatives
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Chairman:

I understand that you have requested a statement of my position on the special funds and accounts which have been created by the legislature. According to the Attorney General, the constitutionally mandated Permanent Fund, which was adopted by a constitutional amendment in 1976, is exempted from the constitutional prohibition against dedicated funds. I am aware that legislative counsel has concluded that the Renewable Resources Fund is also contitutionally protected, allegedly having been grandfathered into existence by the same constitutional amendment which created the Permanent Fund. But at this point in time, the only ruling from the Attorney General's Office which I have received, raises some doubt about the requirement to treat anything other than the Permanent Fund as inviolate. Apparently, the other funds and accounts are subject to legislative appropriation and are not dedicated or automatically allocated.

I recognize that the legislature has the legal authority to fund all of these special accounts, if it wishes and if it has the money to do so. The budget which I submit to the legislature is my recommendation on expenditures and allocations which I feel are the best use of the finanacial resources available to the State. I make those recommendations on the basis of needs, as I understand them to be; they may or may not reflect the percentages expressed in prior legislatures' special accounts and funds, which I consider to be recommendations and not constitutional requirements. These comments apply not only to the funds which the legislature adopted last year, i.e., capital outlay reserve, energy facility reserve, etc., but also to the formula allocations, i.e., school foundation, revenue sharing, community schools, etc. The legislature itself has frequently "underfunded" or ignored such formulas and accounts. Both branches should, and I believe, do consider these as recommendations, not requirements.

What then is the purpose of those special formulas, accounts, funds, reserves? The first purpose is as a policy statement: to the extent that monies are available, these purposes should be considered and be weighed against other alternatives for funding. The second purpose is for planning. To the extent that other groups (school boards, municipal governments, etc.) are dependent upon State funding for their programs, they should have some guidance on the level of funding which may be available for those programs.

As indicated above, the Permanent Fund is an exception to these generalizations, because of its consitutional status. Similarly, I consider the Public School Fund an exception because it was created to replace the constitutionally mandated school trust lands. I feel that to fulfill our constitutional obligation to provide for school funding in the future and to implement the exchange of trust lands for a trust fund (as passed in the 1978 legislative session), we should fund that account for both FY 79 and FY 80.

I hope that this adequately answers the Committee's question.

Sincerely,

Jay S. Hammond
Governor

STATE OF ALASKA

JAY S. HAMMOND, Governor

OFFICE OF THE GOVERNOR

DIVISION OF POLICY DEVELOPMENT AND PLANNING

POUCH AD
JUNEAU, ALASKA 99811
PHONE: 465-3512

February 22, 1979

The Honorable Hugh Malone, Chairman
House Special Committee on the Alaska
Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Malone:

You have requested background information about SB 226/HB 277, Governor Hammond's enabling legislation for the Alaska Permanent Fund. When considering SB 226/HB 277, I believe it would be helpful to also consider at the same time two other measures which the Governor has introduced. The first is SJR 26/HJR 23, which would amend the Alaska Constitution to increase contributions to the permanent fund from 25% to 75%. The second is HB 99, which would distribute one-half of the earnings of the fund to Alaskans in the form of tax credits. These three bills represent a package which, when read together, accomplish the objectives set forth in the attached material.

I would like to share with you several documents which were instrumental in the formulation of policies embodied in the Governor's permanent fund package. The first document is a memo which describes the Governor's policy decisions regarding the purpose and use of the fund. The policy principles which the Governor has identified as those which should control the management of the fund are:

1. Investments should be based upon a list of eligible investments.

2. All other things being equal, preference should be given to in-state investments.

3. The Governor and the Legislature should select in general terms their preferences among types of eligible investments.

4. Market rates of interest should be earned on all Permanent Fund investments.

5. If the Legislature and the Governor wish to have certain categories of investment subsidized, such subsidies should be appropriated from the General Fund.

6. One half of Permanent Fund earnings should be returned to the public in the form of tax credits.

7. The other half of Permanent Fund earnings should be returned to the General Fund for use in the provision of public goods and services via the operating budget.

8. Thorough reporting and audit requirements should be included in the legislation.

9. Fund managers should not be responsible for designing or deciding upon economic or social policy.

The first document offered provides a more detailed explanation of these principles and explains how the Governor's permanent fund bill incorporates these policies.

The second document is a section-by-section outline of SB 226/HB 227. The third document is "The Alaska Permanent Fund - A Decision Guide" which summarizes our view of the permanent fund issues at the close of the last legislative session.

I hope these documents will assist your understanding of the Governor's proposal. We will be happy to provide any additional information to your committee as needed.

Sincerely,

Frances A. Ulmer
Director

Attachments
FAU:ms

STATE of ALASKA

MEMORANDUM

#18:09

TO: Rep. Hugh Malone

DATE: March 28, 1979

FILE NO:

TELEPHONE NO:

FROM: Fran Ulmer

SUBJECT: Re: Permanent Fund Income

The following is in response to your question concerning the Governor's preference for use of permanent fund income. As you know, the Governor proposed the Alaska, Inc. idea several years ago. This idea was introduced into the 10th Alaska legislature as HB525/SB384. It provided for cash distribution of at least 50% of permanent fund earnings via shares (based on residency) in Alaska, Inc.

The Governor has introduced a similar plan this session as HB99. This plan would distribute as least one-half of permanent fund earnings in the form of tax credits.

Generally speaking, the Governor desires that all Alaskans share directly and equitably in at least some portion of the earnings of the permanent fund. The Governor also seeks to give individuals a stake in the budget process by providing a direct link to that process; i.e., contributions to the permanent fund and higher earnings vs. budgetary expenditures and higher level of government services, and permanent fund earnings be designed so as to not stimulate immigration. Attached to this memo you will find two speeches by Gov. Hammond which elaborate on these themes. Basically, the Governor is not wedded to any particular proposal, and welcomes any ideas which will implement these goals.

Attachments

financial practice.

In my two years as governor, it has become increasingly apparent that unless we are able to make that shift, we have commenced a countdown to chaos which will make New York's financial plight seem trivial by contrast. One means of possibly helping us make that shift is a proposal I've put forth which would make each Alaskan a shareholder in our resource stocks. It's my hope that, by giving John Q. Alaskan a "piece of the action", we'll also be giving him an increased awareness of the improper uses those resource dollars are often put to. I call this grass roots revenue sharing proposal "ALASKA, INC.". I'll begin outlining it in the next article in this series.

". . . If Alaska, Inc. would do what many believe it might . . . isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth?"

FACING UP TO THE FUTURE

Part Four of a Five-Part Series

by

Governor Jay S. Hammond

"Alaska, Inc." - One Possible Solution

The "Alaska, Inc." proposal is not something which the public can or should accept without examination. It will only come about if the public concludes it provides the best, perhaps the only, means by which we can possibly shift now to an appropriate "pay as you go system" before it is too late. It will come about not because we politicians have told the public it should, but because the public concludes, as have I, that it may be the only way to assure that at least a portion of our non-renewable resource wealth is returned in some discernible benefit form to Alaskans both here now and in the future.

However, the only way it's likely to happen is if the people demand it. Otherwise, expect business as usual. Save for that small percentage of non-recurring resource wealth which must by constitutional mandate go into the permanent fund, inevitably ever greater amounts of our non-recurring wealth will be used to fund state government spending before most politicians would dream of offending the electorate by suggesting new taxes.

Therein lies the most compelling arguments in behalf of dispersing dividends to citizen shareholders in "Alaska, Inc.". We are blessed as no other state has been; we can afford to try something different. In fact, it may be we cannot afford not to.

The basic question as to how we use our income from investment of our resource inheritance wealth is this: Do you believe as I that all Alaskans should share equally in at least a portion of that income? If you do, "Alaska, Inc." may be the only means by which this can be done.

The "Alaska, Inc." bill we are introducing will be a blueprint for discussion. It should not be acted on this year. I submit it to provide merely something to build upon or be torn asunder. It incorporates features and procedures designed to ease administrative costs; reduce fraud; provides no inducement for persons to come to Alaska; permits options which reduce the federal tax bite; permits us to shift to appropriate tax schedules without undue cost to most Alaskans now here.

It obligates but a minor portion of the income earned from permanent fund investments. The great bulk of such income can still be used for expanding government. Hopefully, however, once the public is conditioned to the "Alaska, Inc." concept, there would be ever greater restraints placed upon those who would spend monies from depleting non-renewable resources. I would hope that ultimately 100 percent of such revenues were placed into the permanent fund. However, we cannot do that in one jump.

It will take a long time to wean ourselves away from siphoning "nest egg" inheritance oil dollars into state salaries and services. However, even the modest amounts of money committed under present law to the permanent fund should at least start to turn down the tap.

The blueprint bill which we will introduce provides that a person who has been physically present in Alaska during the majority of each of five years would be eligible to receive a dividend check for a share of earnings derived from investments of permanent fund oil money. Shareholders would make application by signing an affidavit attached to state income tax forms. That affidavit would attest, under penalty of losing all future benefits for perjury, that one had met the qualifications which, along with physical presence, required that one be registered to vote. There will be an option to defer receiver dividends for those who find that under such deferral they could reduce the federal tax bite. Persons 65 years of age who qualified would initially receive two shares. Subject to the effective date of the legislation, for each subsequent five years during which an individual met the qualifications, an additional share would be conveyed. Children, upon achieving the age of 18 and otherwise meeting eligibility requirements, would receive one share for each accumulative five year period subsequent to the date of the act.

Possibly we should provide that those imposing costs on the state should have the dividends used to defray those costs. For example, we might

charge room and board of those housed in our correctional facilities.

There are some of course who's earned income is such that state dividends could be largely offset by federal income taxes. An option to defer receipt of dividends until retirement age or some such time could go a long way to offset the federal tax bite. A tax audit option also should be considered.

Since oil royalties and lease bonuses make up but a portion of revenues derived from oil, there will still be a significant amount of oil revenues from severance taxes available for spending through general fund appropriations, just as now. Under a constitutional amendment establishing the permanent fund, only 25 percent of just lease bonuses and royalties would have to go into the permanent fund. If leases bonuses and royalties made up 50 percent of the annual income to the state from oil, that means that only one-eighth of our annual income from oil would be placed into the permanent fund. In turn, under our "Alaska, Inc." proposal, but one-half the earnings from permanent fund investments, or one-sixteenth of the potential earnings from our oil wealth, would be dispersed in dividends to qualified Alaskans. If "Alaska, Inc." would do what many believe it might insofar as suppressing government growth to the level people would permit themselves to be taxed; creating public pressures to place additional depleting non-renewable resource wealth into the permanent fund; assuring that all Alaskans received some discernible benefit from their share of our resource wealth and that those flocking to Alaska in the

future really paid their way rather than requiring the state to subsidize their presence; if it even possibly could do these, isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth? or, should we permit it to go the way of the $900 million instead?

While the initial dividends to be paid Alaskan shareholders might be modest, by increasing the amount of oil wealth within the permanent fund or the percentage allocated to dividends. Those dividends could be significant. They could more than offset the additional costs to most Alaskans now here of appropriate taxes to which we must begin to shift if we ever hope to start "paying as we go" for government—or not going!

". . . The more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to 'pay our way'."

FACING UP TO THE FUTURE

Part Five of a Five-Part Series

by

Governor Jay S. Hammond

In Defense of "Alaska, Inc."

Of course, there have been objections raised to the "Alaska, Inc." concept. I was reluctant to float it out because I knew it would be vulnerable politically. Yet, the more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to "pay our way".

Among the main objections I have heard raised is the suggestion that to pay dividends directly to Alaskan shareholders would pander to the public's "greed". But even if such would be the case, would it not be refreshing to have the public's so-called "greed" working to suppress the growth of government and state budgets to counter special interest "greed"? Of course, one man's presumed "need" becomes the other fellow's "greed". Regardless of the terminology, it would be interesting to have the modifying influence of the public's "greed" or "need" countering that of special interests or the pork barrel process. Another objection has been that such a program would create pressure from the public to exploit our resources at a less than prudent pace. But those pressures could not be worse than the pressures we are faced with now. It would be much easier to resist public pressures to lease out all our oil lands as quickly as possible simply to achieve a larger dividend than it is under the present circumstances to resist putting up new oil leases each time the growth of government demands an increase in revenues. Such was the case when I took over this administration. Faced with a $200 million shortfall, I had little choice but to cast around for some immediate revenues. Obviously, I could not double the income tax. The only thing I could assuredly do was to find another oil province to lease and hope we could raise enough money. Thus, I was almost compelled to put up the Beaufort Sea leases simply to meet the state's payroll, despite the fact the time was not the most auspicious nor the price potentially top dollar. That's a lousy way to be forced to do business. However, unless we shift to funding government from appropriate tax dollars it's only a matter of time before this governor or the next will be forced to start selling lands to pay off the help.

Some have suggested that if you believe that all Alaskans should share equally in our non-renewable resource wealth, perhaps we should simply sell it all and disperse shares directly to Alaskans rather than placing that wealth into a permanent fund. I disagree most emphatically. That wealth does not belong to simply those of this generation. It belongs to Alaskans now and in the future.

Some have said the program would be difficult to administer and would lead to fraud and litigation. By using an affidavit attached to one's income

tax return, we not only will increase the number of income tax filings but simplify the process of application. Moreover, it is unlikely that many will be inclined to cheat if they are made aware that if by so doing they would foreclose the opportunity to ever again participate in the program. Since initially all who qualified would receive but one modest share, it is unlikely there'd be much inducement for an individual to jeopardize his potential long-term earnings by perjuring himself. An additional safeguard could be structured into the act by simply requiring that applicants must submit, upon demand, evidence supporting their contended qualifications. Such evidence might consist of affidavits from two prospective shareholders who, if found to have perjured themselves, would also lose forevermore prospective benefits.. Procedures such as these would certainly cut down on the potential for abuse.

While dispensing dividend checks to Alaskans may seem unusual, if one thinks about it, no matter how we use State monies, they are dispersed in "dividends" from a gigantic people's owned business corporation we could call "Alaska, Inc." If we use the money to cut taxes, a "dividend" is granted taxpayers. Use it to expand services; recipients of these services receive a "dividend". If we use it for municipal revenue sharing, "dividends" are conveyed to municipal dwellers.

While some investment earnings from "nest egg" wealth in the Permanent Fund could and will no doubt be used for the above purposes, all such "dividends" are <u>selectively</u> dispersed. What about the individual who

lives outside a municipality? Or who makes too little income to pay taxes? Or who receives no welfare benefits and few, if any, State services? Does not he also deserve a "dividend" from that wealth which belongs to all Alaskans? Perhaps the only way he can ever expect to see a share of that wealth is if he actually receives a dividend check. Perhaps we should take a page from the Native Land Claims Act. The Natives foresaw that the only way some of their corporate shareholders might see any part of their wealth was to distribute a portion in the form of a direct dividend check. However, they are distributing a portion of their capital nest egg wealth. I propose something far more modest: a distribution not of the "nest egg" wealth itself but a part of its earnings.

It seems to me that no matter how we use the income from our "nest egg" wealth, a major objective should be to see that at least a portion of it is distributed equitably. Should someone come forth with a more equitable means of assuring that all Alaskans can have a "piece of the action" than direct dividend checks, I welcome that information. To date nobody has.

Some say municipal revenue sharing's the way we should go. I don't think most Alaskans agree. However, there's an easy way to find out. Let people exercise local option. Should they elect to have all dividends go to the municipality rather than to themselves, so be it. However, I suspect most would like to have a chance to decide for themselves how

they would spend at least a small part of their wealth rather than leave all of such decisions up to elected officials.

Polls have shown that confidence in the way public monies are spent is inversely proportionate to the distance you remove those monies from the public's control. Thus, the public has least confidence that the federal government spends their money wisely. Somewhat more confidence in state government; and far more in local government since they at least have those who will spend it within their arms length. "However, if you really want my dollars spent wisely," says the average citizen, "let me say where they are spent." I think it's high time we listened.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K—STATE CAPITOL
JUNEAU 99811

September 16, 1977

Hon. Clark Gruening
Chairman
House Special Committee on
the Permanent Fund
528 West Fifth, Suite 270
Anchorage, Alaska 99501

Re: Permanent fund, accounting
for inflation; our file J-66-107-78

Dear Representative Gruening:

You have asked whether there is any legal requirement that the statutory guidelines for administering the permanent fund take inflation into consideration.

We believe that the answer is no.

The answer to your question requires an inquiry into the legal nature of the permanent fund and, there being no law on the precise subject, involves some speculation.

First, we believe that, despite the absence of an actual transfer of legal and equitable interests to a trustee and beneficiary respectively, the Alaska Supreme Court will treat the permanent fund as a trust or quasi-trust, and as a general rule, apply trust concepts in determining its administrators' duties. We make this assumption (1) because of the tendency of the court, exemplified by such cases as Moore v. State, 553 P.2d 8 (Alaska 1976), to impose trust-like duties upon the State's management of its patrimony, and (2) because the constitutional amendment which created the permanent

fund is extremely similar to the classic spendthrift trust both in its roots or causes and in its establishment, i.e., the owner of the State's capital, the people, dissatisfied with the state government's spending of the royalty bonus from the Prudhoe Bay leases, has resolved to remove a portion of that capital from the spending power of the government and to place it in trust, with only the income from its investment available to the government for expenditure.

Because the people established the trust, we believe that the state government will be deemed to be the trustee, not the trustor. This means that, despite the power vested in it by the constitutional amendment to designate by law the kinds of investments to be made, the legislature--as the appropriating arm of the government--will not be deemed to be the trustor or settlor, and that therefore, its power to designate eligible investments is not plenary but rather is limited by the express terms of the amendment on the one hand and by implied trust concepts on the other. In other words, the legislature may designate only income-producing investments and may not designate imprudent, income-producing investments or provide for imprudent administration of the fund principal. To the extent, if any, that it did, the managers of the fund would nevertheless remain under a duty to make only prudent income-producing investments and to provide a prudent administration.

Finally, we believe that the Alaska Supreme Court

will rule that--absent exceptional circumstances involving the very existence of the State or its citizens--the preservation of the fund principal is of primary import, i.e., that investment policies cannot endanger the principal. This belief rests on what we perceive to be the essential character of this trust or quasi-trust, i.e., a conservative, cautionary nest egg. */

Of course, the Alaska Supreme Court could rule that no trust or quasi-trust exists and that the law of trusts does not, therefore, govern the fund's administration. That would remove the administration of the fund from the operation of the prudent-man rule. There would then be no duty to limit investments to those which are prudent. That would pretty much give the legislature the power to authorize the expenditure of the fund's principal on any income-producing investment even though it would not be a prudent, i.e., an investment which a trustee could not properly make. This result would allow the fund principal to be frittered away and thereby frustrate the basic purpose of the constitutional amendment. Principally for that reason, we believe the Alaska Supreme Court will impose trust concepts to avoid that result and to give the amendment its full effect.

*/ While the permanent fund is essentially a conservative device, the constitutional amendment was not overly conservative. It did not apply to taxes on minerals at all and it still leaves 75 percent of other mineral revenues available for expenditure.

There can be no question that a trustee must take into consideration the trend of prices and the cost of living, the prospect of inflation or deflation. RESTATEMENT (SECOND) OF TRUSTS 2d § 227, Comment e (1959). To do otherwise would hardly be the conduct of a man of prudence. Accordingly, the fund managers will have to take inflation (or deflation) into account in making and changing investments, if--as we believe--the fund constitutes a trust.

It does not follow, however, that the legislature has a duty to provide specific guidelines on the matter. If the court rules that there is a trust, the prudent-man rule applies. If it rules otherwise, the rule does not apply. Unless the legislature itself resolves the question by making the fund a trust, the matter is entirely up to the court. Whichever way it rules, the court would not, and could not, order the legislature to adopt any particular guidelines. It would merely order the fund managers to follow the prudent-man rule.

Nor does the legislature have any duty to increase the amount of the fund principal because of inflation. The constitutional amendment, which sets forth the principal terms of the trust, makes it mandatory to deposit 25 percent of the designated mineral revenues in the fund. That is the trust property which must be administered, we believe, under the prudent-man rule. While the legislature qua legislature clearly has the power to increase that amount, nothing in

trust law places a duty on it to do so. It could also provide for all or a portion of the income from the principal to be deposited in the fund, i.e., added to the principal. But under the terms of the trust, i.e., the constitutional amendment, it has no duty to do so.

We hope that this answers your question. We remind you that we are making an educated guess as to the trust or quasi-trust nature of the permanent fund. We believe it is a trust or quasi-trust and that trust law applies. We are constrained to add that we could be wrong. The legislature may wish to treat the fund as a trust. That would resolve the issue. It should feel free, however, to experiment and treat it otherwise insofar as it determines the public interest warrants doing so, and let the court resolve the issue.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By: Rodger W. Pegues
Assistant Attorney General

RWP:chp

March 21, 1979

The Honorable Brian Rogers
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Re: HJR 23, proposing a constitutional amendment re permanent fund

Dear Representative Rogers:

You have asked whether it is necessary for the effective date clause of a constitutional amendment to be made a part of the proposition to be voted on by the electorate.

The short answer is no.

The pertinent provision of the constitution reads as follows:

> Amendments to this constitution may be proposed by a two-thirds vote of each house of the legislature . . . . Unless otherwise provided in the amendment, it becomes effective thirty days after certification of the election returns by the lieutenant governor.

Alaska Const., art. XIII, § 1.

As originally introduced, the provisions on amendment and revision of the constitution did not include any language on the effective date of an amendment. 6 MINUTES, Alaska Constitutional Convention, App. V, p. 25 (1956) (hereinafter, MINUTES). It was added by way of amendment, with the following explanation:

> [O]n line 8, we added the words, 'Unless otherwise provided in the amendment, it becomes effective . . . .' We want to make it [a constitutional amendment] effective 30 days later,

> but we have not changed the intent, because the legislature, if it so desires, can designate the effective date . . . . We just wanted to put in a cautionary note there if the legislature should happen to forget when it became effective.

5 MINUTES 3425.

The constitution has a related provision in the article on the legislative branch. It reads as follows:

> Laws passed by the legislature become effective ninety days after enactment. The legislature may, by two-thirds of the membership of each house, provide for another effective date.

Alaska Const., art. II, § 18.

The spokesman quoted above probably had it in mind when he said that the provision on amendments "now conforms" to other provisions of the constitution. 5 MINUTES 3425.

While it can be argued that the phrase "in the amendment" means that the effective date must be a literal part of the actual amendment to the constitution, we think that goes too far and that it serves no useful purpose. We think the better view is that the convention used the word "amendment" in the sentence at hand to mean the bill or resolution on which the legislature would act in proposing to amend the constitution.

The convention routinely referred to the papers before it which contained proposals to alter the language of the proposed articles it was considering as amendments. Thus, HJR 23 can itself be thought of as a proposed constitutional amendment -- which it is -- and the effective date is provided in it just as was contemplated by the convention. This particular use of language is common, particularly where, as here, there was no established procedure or mechanism for proposing amendments at the time the constitution was drafted. Not having an established mechanism to which they could refer, the framers simply used the word "amendment" in an inclusive sense.

Moreover, a convention which prided itself on its lean and spare language and which avoided the excessive verbiage of its nineteenth century counterparts with a passion, could hardly have intended to clutter up its own document with effective date clauses of only transitory significance. The only possible purpose of making an effective date clause a part of the actual amendment itself would be to have a popular vote on it. That purpose is negated, however, by the testimony of the spokesman quoted above, in which he says, "the legislature, if it so desires, can designate the effective date of the amendment . . . ." 5 MINUTES 3425.

Accordingly, we can see no constitutional intent to require that the effective date be incorporated into the actual language of an amendment and conclude that it suffices that the clause is included in the resolution.

You have also asked whether a section should be added which contains directions for placing the proposed amendment on the ballot. This is the format used in the Legislative Drafting Manual, Appendix XIII. Because the standard section has no legal effect and merely restates a directive contained in article XIII, section 1, of the Alaska Constitution, we have considered recommending its deletion from the format to the Revisor of Statutes. However, we have not yet done so, and the omission of the standard section was simply an oversight. We would in no way object to its insertion as a section 3.

Your inquiry has caused us to review the resolution in its entirety. In doing so, we have discovered that the title -- which stems from an original working draft of a somewhat different proposal -- is overbroad. We recommend that the word "finance" be deleted and that the words "the permanent fund" be inserted in its place.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By:
Rodger W. Pegues
Assistant Attorney General

RWP/pjg

bcc: Tom Singer, DPDP

SCOMM

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Alaska State Legislature

1976

Source:

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HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the State.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

HJR 39 HOUSE JOINT RESOLUTION NO. 39 by the Rules Committee by request of the Governor

Proposing an amendment to the Constitution of the State of Alaska to authorize an additional exception for a dedication of revenues

was introduced, read the first time and referred to the Committee on Finance.

The Governor's transmittal letter on HOUSE JOINT RESOLUTION NO. 39 appears as follows:

"June 5, 1975

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature, I am transmitting a joint resolution for an amendment to the State Constitution.

The proposed amendment would change Article IX, Section 7, of the Constitution to provide an additional exception from the prohibition against dedicated funds to allow the dedication of proceeds from mineral lease bonuses or so-called royalty bonuses.

The effect of the proposed amendment would be to allow the legislature to provide for the dedication of a single source of revenue. It will give the legislature a free hand to establish special funds and provide for their administration. Subsequent legislatures will, of course, be able to alter the funds' administration or purposes as new needs arise or old needs disappear. The per cent of the proceeds to be dedicated is left to the legislature's discretion.

Sincerely,

Jay S. Hammond
Governor"

CONSIDERATION OF THE DAILY CALENDAR

SECOND READING OF HOUSE RESOLUTIONS

HCR 61 HOUSE CONCURRENT RESOLUTION NO. 61 (paving of a certain portion of the Denali Highway) was read the second time with the State Affairs Committee report (page 1178 of the journal) and the Finance Committee report (page 1638 of the journal).

The question being: "Shall HOUSE CONCURRENT RESOLUTION NO. 61 pass the House?" On voice vote, it passed the House and was referred to the Chief Clerk for engrossment.

HJR 34 HOUSE JOINT RESOLUTION NO. 34 (state and federal fishery management arrangements) was read the second time with the Resources Committee report (page 1318 of the journal).

Mr. Miller moved and asked unanimous consent that HOUSE JOINT RESOLUTION NO. 34 be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered and the resolution was read the third time.

The question being: "Shall HOUSE JOINT RESOLUTION NO. 34 pass the House?" The roll was taken with the following result:

Yeas:	33	Anderson, H. Beirne, M. Beirne, Bowman, Bradner, Brown, Buchholdt, Cotten, Cowper, Davis, Duncan, Ellison, Gardiner, Gruening, Guy, Hackney, Hershberger, Ivan, McKinnon, Malone, Miller, Naughton, Osterback, Ostrosky, Parker, Parr, Rhode, Smith, Speaking, Sullivan, Swanson, Urion, Wallis.
Nays:	0	
Excused:	7	Bradley, Fischer, Freeman, Haugen, Huntington, Kelley, Ose.

And so, it passed the House and was referred to the Chief Clerk for engrossment.

HJR 35 HOUSE JOINT RESOLUTION NO. 35 (child support programs under P.L. 93-647) was read the second time with the Finance Committee report (page 1283 of the journal) and the Judiciary Committee report (page 1626 of the journal).

Mr. Miller moved and asked unanimous consent that HOUSE JOINT RESOLUTION NO. 35 be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered and the resolution was read the third time.

FIRST READING AND REFERENCE OF SENATE RESOLUTIONS

SJR 41 am — SENATE JOINT RESOLUTION NO. 41 amended, by Ray, Ziegler and Noland

Requesting amendment of the Organic Act of 1897 to permit management of the national forests in Alaska according to modern silvicultural techniques

was read the first time and referred to the Resources Committee.

COMMUNICATIONS

A letter dated January 13, 1976 to Speaker Bradner from Commissioner Brooks, Department of Fish and Game, was read, enclosing the 1975 Annual Report of activities of the Alaska King Crab Marketing and Quality Control Board. Copies of this report were distributed to each member of the House.

REPORTS OF STANDING COMMITTEES

The State Affairs Committee has had before it HOUSE JOINT RESOLUTION NO. 47 (commending the United States Forest Service for the Alaska Marine Highway Visitor Information Service program) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Rep. McKinnon, Chairman, and concurred in by McKinnon, Wallis, Fischer, H. Boyle, F. Boyle, Miller and Parker.

HOUSE JOINT RESOLUTION NO. 47 appears on today's calendar.

INTRODUCTION, FIRST READING AND REFERENCE OF HOUSE RESOLUTIONS

The Governor's transmittal letters appear following the resolution or bill to which each pertains.

HJR 39 — HOUSE JOINT RESOLUTION NO. 39 by the Rules Committee by Request of the Governor

Proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources.

was introduced, read the first time and referred to the Committee on Finance and Judiciary.

"January 15, 1976

SSHJR 39

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a sponsor substitute for House Joint Resolution 39, proposing an amendment to the Constitution of the State of Alaska establishing a permanent fund for mineral leasing revenues.

The resolution proposes a constitutional amendment establishing a constitutional permanent fund into which 10 percent of all mineral lease rentals, royalties, royalty sale proceeds, revenue sharing payments, bonuses, and mineral production taxes would automatically be dedicated. The resolution also provides that the legislature may appropriate additional amounts to the permanent fund.

With respect to mineral leasing, the dedication of revenues would be 10 percent of the amount of money initially received by the State. For example, 10 percent of the amount equivalent to the rentals, royalties, and bonuses which must be paid into the Alaska Native Fund would be dedicated to the permanent fund even though it must be paid into the Alaska Native Fund. Also an amount equivalent to the value of royalties taken in kind would not be dedicated, but 10 percent of the proceeds from the sale of royalty taken in kind would be dedicated to the fund. Also, revenue sharing payments which the State receives from federal mineral leasing would be dedicated.

With respect to taxes, 10 percent of all mineral production taxes would be dedicated to the permanent fund. This would include the State's oil and gas properties production tax under AS 43.55 (severance tax), the State's mining license tax under AS 43.65, and the State's oil and gas regulation and conservation tax under AS 43.67 (conservation tax). These taxes would be dedicated to the fund regardless of how they are amended or changed in the future. The fund would not include the oil and gas exploration, production and pipeline transportation property tax under AS 43.56 (20 mil property tax) or the oil and gas reserves ad valorem tax under AS 43.58 (reserve tax).

The amount to be dedicated would be based upon the gross amount of tax to be received by the State. For example, 10 percent of an amount equivalent to the tax revenue required to be paid into the Alaska Native Fund would be dedicated even though it must be paid into the fund. Also 10 percent of the amount of production taxes not received in cash by the State because of the application of reserve tax credit would be dedicated to the fund.

The principal of the fund would be used only for investment in income-producing investments which the legislature would establish and change to meet current investment needs of the State. The fund could not be used to fund the general operating expenditures or capital improvements of the

MESSAGES FROM THE GOVERNOR

A message dated March 10, 1976 to Speaker Bradner was read, stating the Governor had read the following resolutions and has transmitted the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

SCR 86 — SENATE CONCURRENT RESOLUTION NO. 86

SCR 87 — SENATE CONCURRENT RESOLUTION NO. 87

HCR 87 — HOUSE CONCURRENT RESOLUTION NO. 87

MESSAGES FROM THE SENATE

A message dated March 9, 1976 was read, stating the Senate has passed the following and the same are transmitted herewith for consideration:

FIRST READING AND REFERENCE OF SENATE RESOLUTIONS

CSSCR 62 am — COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 62 as amended, by the State Affairs Committee

> Delaying the implementation of a periodic motor vehicle inspection program in the state by annulling certain administrative regulations adopted by the Department of Public Safety.

was read the first time and referred to the Committees on State Affairs and Judiciary.

SCR 89 — SENATE CONCURRENT RESOLUTION NO. 89 by all members of the Senate

> Congratulating the Dimond High School Lynx.

was read the first time and referred to the Rules Committee for placement on the calendar.

FIRST READING AND REFERENCE OF SENATE BILLS

SB 685 am — SENATE BILL NO. 685 amended, by the Rules Committee by request of the Joint Gas Pipeline Impact Committee, entitled:

> "An Act making a special appropriation to the Department of Natural Resources for the purpose of conducting negotiations with prospective purchasers of North Slope natural gas; and providing for an effective date."

was read the first time and referred to the Finance Committee.

REPORTS OF STANDING COMMITTEES

The Commerce Committee has had COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 66 (North Slope natural gas) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mr. Bradley, Chairman, and concurred in by Bradley, Kelley, Urion, Rudd, McKinnon, Freeman and Fischer. — CSSCR 66

The Speaker gave a further referral to the Finance Committee on COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 66.

The Commerce Committee has had COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 85 (Impact on Alaska of a trans-Canada gas transportation system) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mr. Bradley, Chairman, and concurred in by Bradley, Kelley, Urion, Rudd, McKinnon, Freeman and Fischer. — CSSCR 85

COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 85 was referred to the Rules Committee for placement on the calendar.

The Finance Committee has had SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources) under consideration and a majority of the members of the Committee recommends it do pass with the following amendment: — SSHJR 39

Amendment No. 1 by the Finance Committee:

Page 1, line 6: After "establishing" insert "an ALASKA PERMANENT FUND"

line 22: Before "PERMANENT FUND" insert "ALASKA"

Before "per cent" delete "Ten" and insert "Twenty-five"

line 23: Before "revenue" insert "federal mineral"

line 26: After "investments" insert "which shall be established by law"

line 29: After "fund" add "unless otherwise provided by law"

Page 2, line 5: Add another section:

"Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

CSHB 159 (Jud.)

(2) the horns or antlers were acquired by gift from another person after the associated meat was salvaged;

(3) the meat was lost due to circumstances beyond the possessor's control, including loss in the field to another animal, weather or other acts of God, or theft.

(b) If a person who possesses raw horns or antlers without its being accompanied by most of its edible meat raises a justification specified in (a) (1) - (3) of this section, additional corroborating evidence of that justification may be required by the department. In this section, "

Page 2, line 18: Delete "department" and insert "board"

and so, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 159 (Judiciary) amended Senate is transmitted herewith for consideration.

The above bill will be considered at a later time.

A message dated March 23, 1976 was read, stating the Senate has passed the following bill and is transmitting it herewith for consideration:

FIRST READING AND REFERENCE OF SENATE BILLS

CSSB 197 (L&M) COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 197 (Labor and Management) by the Labor and Management Committee, entitled:

"An Act relating to the Public Employment Relations Act; and providing for an effective date."

was read the first time and referred to the Judiciary Committee.

REPORTS OF STANDING COMMITTEES

SCR 77 The Commerce Committee has had SENATE CONCURRENT RESOLUTION NO. 77 (establishment of a comprehensive and meaningful agricultural policy for the State of Alaska) under consideration and four of the members of the Committee recommend it do pass. The report was signed by Mr. Bradley, Chairman, and concurred in by Bradley, Wallis, Fischer and McKinnon. Not concurring were Urion and Freeman who have no recommendation.

SENATE CONCURRENT RESOLUTION NO. 77 was referred to the Rules Committee for placement on the calendar.

SCR 90 The State Affairs Committee has had SENATE CONCURRENT RESOLUTION NO. 90 (timely completion of the highway link between the Yukon Territory and Skagway, Alaska) under consideration and a majority of the members of the Committee recommends it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 90:

Urging the federal government of Canada to authorize and direct that Canada's portion of the Skagway-Carcross Highway be completed at the same time the United States portion is completed.

and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by McKinnon, Miller, Parker and M. Beirne.

SENATE CONCURRENT RESOLUTION NO. 90 was referred to the Rules Committee for placement on the calendar.

CSSB 526 am The Commerce Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 526 amended (relating to safety provisions in elevators; effective date) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mr. Bradley, Chairman, and concurred in by Bradley, Wallis, Freeman, Fischer and McKinnon. Not concurring was Urion who recommends "up or down".

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 526 amended was referred to the Rules Committee for placement on the calendar.

SB 641 The Labor and Management Committee has had SENATE BILL NO. 641 (wage rates) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mr. Smith, Chairman, and concurred in by Smith, Urion, Huntington and M. Beirne.

SENATE BILL NO. 641 was referred to the Judiciary Committee.

SJR 39 The Judiciary Committee has had SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources) under consideration and a majority of the members of the Committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (same title) and that it do pass. The report was signed by Mr. Gardiner, Chairman, and concurred in by Gardiner, Eliason, Bradley, Cotten, Parr, Brown and Specking.

SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 was referred to the Rules Committee for placement on the calendar.

The Chairmen of the Judiciary Committee and the Finance Committee offer the following joint report on the above resolution:

Original sponsor: Rules Committee by request of the Governor

Offered: 5/21/76
Referred: Finance

IN THE HOUSE BY THE RESOURCES COMMITTEE

SENATE CS FOR CS FOR SS FOR HOUSE JOINT RESOLUTION NO. 39 (Res) am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section [CONSTITUTION] by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. [THE LEGISLATURE MAY APPROPRIATE ADDITIONAL AMOUNTS TO THE PERMANENT FUND WHICH SHALL BECOME A PART OF THE PRINCIPAL OF THE FUND.] All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Original sponsor: Rules Committee by request of the Governor

Offered: 5/21/76
Referred: Finance

IN THE HOUSE BY THE RESOURCES COMMITTEE

SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39(Res)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. The legislature may appropriate additional amounts to the permanent fund which shall become a part of the principal of the fund. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Original sponsor: Rules Committee by request of the Governor

Offered: 4/7/76
Referred: Resources

IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE

SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. Fifty per cent of all the proceeds from mineral lease rentals, royalties, royalty sales, revenue sharing payments and bonuses received by the state and ten per cent of the income from the permanent fund shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. The legislature may dedicate additional proceeds both as to source and percentage which shall become a part of the principal of the fund. Any additional dedication may be revoked by the legisla-

ture, but revocation may not make the principal amount in the permanent fund subject to appropriation. Other income from the permanent fund shall be deposited in the general fund.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Original sponsor: Rules Committee by request of the Governor

Offered: 3/24/76
Referred: Rules

IN THE HOUSE BY THE JUDICIARY COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 am

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses, and all mineral production taxes received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. The legislature may appropriate additional amounts to the permanent fund which shall become a part of the principal of the fund. All income from the permanent fund shall be deposited in the general

fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Original sponsor: Rules Committee by request of the Governor

Offered: 3/24/76
Referred: Rules

IN THE HOUSE BY THE JUDICIARY COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except <u>as provided in section 15 of this article or</u> [WHEN REQUIRED] by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. Twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses, and all mineral production taxes received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. The legislature may appropriate additional amounts to the permanent fund which shall become a part of the principal of the fund. All income from the permanent fund shall be deposited in the general fund

unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Introduced: 1/15/76
Referred: Finance and Judiciary

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, <u>except as provided in section 15 and</u> except when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. PERMANENT FUND. Ten per cent of all mineral lease rentals, royalties, royalty sale proceeds, revenue sharing payments, bonuses, and mineral production taxes received by the state shall be placed in a permanent fund, the principal of which shall be used only for income investments. The legislature may appropriate additional amounts to the permanent fund which shall become a part of the principal of the fund. All income from the permanent fund shall be deposited in the general fund.

Introduced: 6/6/75
Referred: Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE JOINT RESOLUTION NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

Proposing an amendment to the Constitution of the State of Alaska to authorize an additional exception for a dedication of revenues.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska or the dedication of the proceeds of mineral lease bonuses.

* Sec. 2. The amendment proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

HJR 38 RELATING TO THE PROPOSED MOVE OF THE VETERANS ADMINISTRATION TO ANCHORAGE

PRIME SPONSORS: MILLER,M.

CO-SPONSORS: DUNCAN HAUGEN ELIASON FREEMAN GARDINER

DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
05/30/75	01	1497	FIRST READING -- COMMITTEE REPORTS
** 01/12/76	02	0001	EXPIRED AT END OF FIRST SESSION

HJR 39 PROPOSING AN AMENDMENT TO THE ALASKA CONSTITUTION; ESTABLISHING AN ALASKA PERMANENT FUND FOR CERTAIN PROCEEDS DERIVED FROM NON-RENEWABLE RESOURCES

AMENDED TITLE: SCS CSSS * (RES) AM S

PRIME SPONSORS: RULES BY REQUEST OF: GOVERNOR

DATE	SEQ. NO.	JOURNAL PAGE	HOUSE ACTION
06/06/75	01	1652	FIRST READING -- COMMITTEE REPORTS
01/15/76	03	0038	JUD COMM REFERRAL ADDED BY UNAN CONSENT
03/10/76	04	0541	FIN -- DP(AM)06, NR01
03/24/76	05	0683	JUD -- CS07
03/25/76	07	0698	SECOND READING
03/25/76	08	0698	JUD CS ADOPTED BY UNAN CONSENT
03/25/76	09	0698	AM01 ADOPTED BY UNAN CONSENT
03/25/76	10	0698	AM02 ADOPTED BY UNAN CONSENT
03/25/76	11	0699	AM03 NOT ADOPTED BY VOICE VOTE
03/25/76	12	0699	AM04 NOT ADOPTED BY VOICE VOTE
03/25/76	13	0699	AM05 NOT ADOPTED BY VOICE VOTE
03/25/76	14	0699	AM06 NOT ADOPTED BY VOICE VOTE
03/25/76	15	0700	ADVANCED TO 3RD READING BY UNAN CONSENT
03/25/76	16	0700	THIRD READING
03/25/76	17	0700	PASSED BY DIV 36-01-03
01/15/76	02	0038	SPONSOR SUBS INTRODUCED
05/24/76	06	0684	JUDICIARY JOINT CHRMN RPT
06/01/76	31	1863	CONCURRED IN SENATE AMS BY VOICE VOTE
06/02/76	32	1863	TRANSMITTED TO GOVERNOR
** 07/02/76	33	1917	READ BY GOVERNOR -- SENT TO LT GOVERNOR

DATE	SEQ. NO.	JOURNAL PAGE	SENATE ACTION
03/26/76	18	0644	FIRST READING -- COMMITTEE REPORTS
04/07/76	19	0735	S.A. -- DNP01, CS01, NR01, OTHER02
05/21/76	20	1287	RES -- CS02, NR04 REFERRAL RECOMMENDED TO FINANCE
05/26/76	21	1387	FIN -- RES CS02, NR04
05/31/76	22	1590	SECOND READING
05/31/76	23	1590	RES CS ADOPTED BY DIV 18-01-01
05/31/76	24	1590	AM01 ADOPTED BY UNAN CONSENT
05/31/76	25	1591	AM02 ADOPTED BY DIV 12-06-01
05/31/76	26	1591	ADVANCED TO 3RD READING BY UNAN CONSENT
05/31/76	27	1591	THIRD READING
05/31/76	28	1591	PASSED BY DIV 18-01-01
05/31/76	29	1591	NOTICE OF RECONSIDERATION GIVEN
05/31/76	30	1591	PASSED ON RECONSIDERATN BY DIV 18-01-01

SSHJR 39

"JOINT CHAIRMANS' REPORT ON
CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

The principal of the Fund would be used only for investment in income-producing investments which the legislative would establish and change from time to time to meet the needs of the state. The Fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund. SSHJR 39

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings -- ranging from adding to Fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures for the Fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.

HUGH MALONE
Chairman House Finance Committee

TERRY GARDINER
Chairman House Judiciary Committee"

The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) under consideration and a majority of the members of the Committee recommends it be replaced with COMMITTEE SUBJTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to revise the standard time zones in which Alaska is located) and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by Parker, Wallis, Fischer and Miller. Not concurring was McKinnon who has no recommendation. HJR 41

Mr. Malone moved and asked unanimous consent that the Finance Committee referral on HOUSE JOINT RESOLUTION NO. 41 be waived. There being no objection, it was so ordered and the resolution was referred to the Rules Committee for placement on the calendar.

CONSIDERATION OF THE DAILY CALENDAR

SECOND READING OF HOUSE RESOLUTIONS

SSHJR 39 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from nonrenewable resources) was read the second time with the Finance Committee report (pages 541 - 542 of the journal) and the Judiciary Committee report (pages 683 - 685 of the journal).

Mr. Miller moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (same title) be adopted in lieu of SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39. There being no objection, it was so ordered.

CSSS HJR 39

Amendment No. 1 by Smith and Gardiner:

Page 1, line 14: After "or" insert old material "when required"

Mr. Smith moved and asked unanimous consent that amendment No. 1 be adopted.

Mr. Swanson objected and withdrew his objection.

CSSS HJR 39 There being no further objection, amendment No. 1 was adopted.

am

Amendment No. 2 by Specking:

Page 1, line 21: After "FUND." insert the words "At least" and change "T" to "t".

Mr. Specking moved and asked unanimous consent that amendment No. 2 be adopted.

Mr. Malone objected and withdrew his objection.

There being no further objection, amendment No. 2 was adopted.

Amendment No. 3 by Urion:

Page 1, line 25: After "income producing investments" insert "which have a guaranteed rate of return and are"

Mr. Urion moved and asked unanimous consent that amendment No. 3 be adopted.

Mr. Malone objected.

CSSS HJR 39 am

The question being: "Shall amendment No. 3 be adopted?" On voice vote, amendment No. 3 was not adopted.

Amendment No. 4 by Urion:

Page 1, line 29: After "general fund" insert a period; delete "unless otherwise provided by law." (page 2, line 1)

Mr. Urion moved and asked unanimous consent that amendment No. 4 be adopted.

Mr. Gruening objected.

The question being: "Shall amendment No. 4 be adopted?" On voice vote, amendment No. 4 was not adopted.

Amendment No. 5 by Smith:

Page 1, line 21: Delete "twenty-five"; substitute "seventy-five"

line 23: Insert "and" before "bonuses" and delete all after "bonuses".

Mr. Smith moved and asked unanimous consent that amendment No. 5 be adopted.

Mr. Specking objected.

The question being: "Shall amendment No. 5 be adopted?" On voice vote, amendment No. 5 was not adopted.

Amendment No. 6 by Anderson:

Page 2, line 7: Delete all after "effective" and add "June 30, 1979"

Mr. Anderson moved and asked unanimous consent that amendment No. 6 be adopted.

Mr. Miller objected.

The question being: "Shall amendment No. 6 be adopted?" On voice vote, amendment No. 6 was not adopted.

CSSS HJR 39 am Mr. Miller moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered and the resolution was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended pass the House?" The roll was taken with the following result:

Yeas: 36 H. Beirne, M. Beirne, Bradley, Bradner, Brown, Buchholdt, Cotten, Cowper, Davis, Duncan, Fischer, Freeman, Gardiner, Gruening, Guy, Hackney, Haugen, Hershberger, Itta, McKinnon, Malone, Miller, Naughton, Ose, Osterback, Ostrosky, Parker, Parr, Rhode, Rudd, Smith, Specking, Sullivan, Swanson, Urion, Wallis.

Nays: 1 Anderson.

Excused: 3 Eliason, Huntington, Kelley.

And so, COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended passed the House and was referred to the Chief Clerk for engrossment.

HJR 41 HOUSE JOINT RESOLUTION NO. 41 (requesting the Secretary of the United States Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) was read the second time with the State Affairs Committee report (page 695 of the Journal).

Mr. Miller moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (requesting the Secretary of the United States Department of Transportation to revise the standard time zones in which Alaska is located) be adopted in lieu of HOUSE JOINT RESOLUTION NO. 41.

Mr. Brown objected.

The question being: "Shall COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 be adopted in lieu of HOUSE JOINT CSHJR 41 RESOLUTION NO. 41?" On voice vote, the motion passed.

Amendment No. 1 by Urion:

Page 2, line 12: After "Pacific Standard Time Zone" Insert: ", and by shifting those portions of it located in the Bering Sea Standard Time Zone into the Alaska Standard Time Zone"

Mr. Urion moved and asked unanimous consent that amendment No. 1 be adopted. CSHJR 41

Mr. Brown objected and withdrew his objection.

There being no further objection, amendment No. 1 was adopted. CSHJR 41 am

Amendment No. 2 by Parr:

Page 2, line 7: Insert:

"BE IT RESOLVED that the Alaska Legislature requests the governor to place on the next general election ballot the question of time zone revision. If the time zone revision is approved by a majority of those voting in the affected area, the remainder of this resolution becomes effective."

Mr. Parr moved and asked unanimous consent that amendment No. 2 be adopted.

Mr. Miller objected.

The question being: "Shall amendment No. 2 be adopted?" On voice vote, amendment No. 2 was not adopted.

Amendment No. 3 by McKinnon and Cooper:

Page 1, line 9: Delete all material through end of resolution. Insert new material to read:

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS, alone among the 50 states, Alaska spans four time zones; there is a three-hour time differential between Ketchikan and Nome; and

WHEREAS, historically, the location of Southeast Alaska in the Pacific Standard Time Zone stems from territorial days when Southeastern's orientation--commerce and finance, transportation, government and other social and economic contacts--was primarily with Seattle; and

WHEREAS from the standpoint of geography most of Southeast Alaska actually is located between or adjacent to those meridians of longitude west of Greenwich designated as the Yukon Standard Time Zone rather than in those designated as the Pacific Standard Time Zone; and

CSHB 763 (Fin) COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 763 (Finance) (Instructional unit allotments under the public school foundation program)

The above bill was referred to the Chief Clerk for enrollment.

FCCS CSHB 877 A message dated May 31, 1976 was read stating the Senate has adopted the Free Conference Committee report on COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 877 amended and COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 877 amended Senate, thus adopting:

FREE CONFERENCE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 877 (new salary schedule and cost-of-living increase for certain employees of state; effective date)

The above bill was referred to the Chief Clerk for engrossment and enrollment.

CSSS HJR 39 am A message dated June 1, 1976 was read stating the Senate has passed COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended (proposing amendment to Alaska Constitution, establishing an Alaska Permanent Fund) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate (same title)

and transmitting same for consideration.

CSHB 665 am 3 A message dated May 31, 1976 was read stating the Senate has receded from all of its amendments to COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 665 amended (re-engrossed) except Sections 4 and 5, thus adopting COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 665 amended Senate (statewide coordination of health planning; effective date).

The above bill was signed by the Speaker and the Chief Clerk and referred to the Chief Clerk for enrollment.

CSHB 763 (Fin) A message dated May 31, 1976 was read stating the Senate receded from its amendment to COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 763 (Finance), namely, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 763 (Finance) amended Senate, thus adopting:

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 763 (Finance) (Instructional unit allotments under the public school foundation program)

The above bill was referred to the Chief Clerk for enrollment.

SCSB 267 am H (e.d. add) A message dated May 31, 1976 was read stating the Senate has concurred in the effective date clause amendment to SPONSOR SUBSTITUTE FOR SENATE BILL NO. 267 amended (Department of Environmental Conservation), thus adopting:

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 267 amended House (effective date added)

and the bill is returned herewith for re-engrossment.

CSHB 873 A message dated June 1, 1976 was read stating the Senate has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (summary dissolution of marriage) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (same title)

and transmitting same for consideration.

HCS SB 613 am H A message dated June 1, 1976 was read stating the Senate has failed to concur in the House amendment to SENATE BILL NO. 613 amended (regional Native Housing authorities), namely:

HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 613 amended House (housing and regional electrical authorities)

and respectfully requests the House to recede from its amendment.

UNFINISHED BUSINESS

CSSS HJR 39 am COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended and the Senate amendment, namely, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate (page 1834 of the Journal) were before the House at this time.

Mr. Miller moved that the House concur in the Senate amendment to COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended.

The question being: "Shall the House concur in the Senate amendment to COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended?" On unanimous voice vote, the House concurred, thus adopting:

SCS CSSS HJR 39 (Res) am S SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate

The Chief Clerk was instructed to so notify the Senate.

The above resolution was signed by the Speaker and the Chief Clerk and referred to the Chief Clerk for enrollment.

The Chief Clerk notes the following corrections to the journal for the 141st day:

Pages 1789 & 1801: the reference to SENATE BILL NO. 654 amended FCC should be changed to the following in the text and margin reference:

SB 654
am (FCC) — SENATE BILL NO. 654 amended (FCC)

HCS SB 529 (Rls) am H — Page 1811, add Parker to the Yea votes on the effective date clauses roll call on HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 529 (Rls) amended House

Page 1820, add Haugen to the Nay votes on passage of HCS SB 453 HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 453.

Page 1821, add M. Beirne and Haugen to the Nay votes on the question to rescind previous action in failing to adopt HCS SB 453 HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 453

ADJOURNMENT

Mr. Miller moved and asked unanimous consent that the Second Session of the Ninth Legislature adjourn sine die. There being no objection, the House adjourned at 8:14 a.m.

Irene Cashen
Chief Clerk

June 1976

HOUSE JOURNAL

ALASKA STATE LEGISLATURE

NINTH LEGISLATURE - SECOND SESSION

JUNEAU, ALASKA July 2, 1976

FINAL SUPPLEMENT

As Chief Clerk I certify as to the correctness of the journals for the 141st day, May 31, 1976 (as corrected on page 1862 of the journal) and the 142nd day, June 1, 1976, in accordance with the rules. I would also like to note corrections to the journals for the 139th and 140th days as follows:

Page 1731, after the vote on the passage of HOUSE CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 267 (Rules) amended House, add: HCS SSSB 267 (Rls) am H

"Mr. Miller moved and asked unanimous consent that the roll call on the passage of the above bill be considered the roll call on the effective date clause. There being no objection, it was so ordered."

Page 1777, Change title in the conference committee report and the question to read:

"COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 588 amended FREE CONFERENCE COMMITTEE" CSHB 588 am FCC

ENGROSSMENT AND ENROLLMENT

The following were enrolled, signed by the Speaker, Chief Clerk, President and Secretary of the Senate and the engrossed and enrolled copies were transmitted to the Office of the Governor at 2:37 p.m., June 2, 1976:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate (Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources) SCS CSSS HJR 39 (Res) am S

HOUSE BILL NO. 700 (making a special appropriation to the water resources revolving loan fund and providing for an effective date) HB 700

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 749 (making a special appropriation to the Department of Education for community schools; eff. date) CSHB 749

June 28, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

I have allowed the following bill to become law without my signature and am transmitting the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

SB 654 am (FCC)
SENATE BILL NO. 654
amended (Free Conference Committee)
(Statewide social services planning)
(Chapter 273, SLA 1976)

I do so not because I quarrel with the intent of the bill but rather because I feel it is important to indicate my concern over the absence of any funds to accomplish the intended results. No money was added to the budget to fund this planning and assessment program. Hence, it will be impossible to comply with the requirements of this bill. However, to the extent we are able to do so with appropriated funds, we will.

Sincerely,

Jay S. Hammond
Governor

Messages dated June 28, 1976 were received stating that the Governor had signed the following bills and was transmitting the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

SB 732 am FCC
SENATE BILL NO. 732
amended Free Conference Committee
(general obligation bonds for water supply and sewage construction)
(Chapter 271, SLA 1976)

HOUSE COMMITTEE SUBSTITUTE FOR
COMMITTEE SUBSTITUTE FOR
SENATE BILL NO. 744
(Rules)
amended House
HCS CSSB 744 (Rls) am H

(general obligation bonds for constructing and remodeling justice facilities)
(Chapter 270, SLA 1976)

Messages dated June 29, 1976 were received stating that the Governor had signed the following bills and was transmitting the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

COMMITTEE SUBSTITUTE FOR
HOUSE BILL NO. 588
amended Free Conference Committee
(clarifications and additions to Alaska OSHA statutes)
(Chapter 276, SLA 1976)
CSHB 588 am FCC

COMMITTEE SUBSTITUTE FOR
HOUSE BILL NO. 665
amended Senate
(statewide health planning)
(Chapter 275, SLA 1976)
CSHB 665 am S

HOUSE COMMITTEE SUBSTITUTE FOR
SENATE BILL NO. 613
(regional Native housing and electrical authorities)
(Chapter 274, SLA 1976)
HCSSB 613

A message dated June 29, 1976 was received stating the Governor had signed the following resolutions and was transmitting the enrolled and engrossed copies to the Lieutenant Governor's Office for permanent filing:

SENATE JOINT RESOLUTION NO. 45
amended House
(amendment to the resources article to the Constitution)
SJR 45 am H

SENATE COMMITTEE SUBSTITUTE FOR
COMMITTEE SUBSTITUTE FOR
SPONSOR SUBSTITUTE FOR
HOUSE JOINT RESOLUTION NO. 39
(Resources)
amended Senate
(amending the Alaska Constitution to provide for a permanent fund)
SCSCS SSHJR 39 (Res) am S

FIRST READING AND REFERENCE OF HOUSE RESOLUTIONS

CS SS HJR 39 am — COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended, by the Judiciary Committee,

> Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources,

was read the first time and referred to the Resources Committee and the Finance Committee.

STANDING COMMITTEE REPORTS

SB 282 — The State Affairs Committee has had SENATE BILL NO. 282 (authorizing construction of the Devil's Canyon dam) under consideration and a majority of the committee recommends it do pass. The report was signed by Senator Huber, Chairman, and concurred in by Senators Miller, Colletta and Meland. Senator Ferguson signed "no recommendation."

SENATE BILL NO. 282 was referred to the Finance Committee.

SB 556 — The Commerce Committee has had SENATE BILL NO. 556 (creating a renewable resources development bank) under consideration and a majority of the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 556, entitled:

> "An Act creating the Renewable Resources Development Bank; and providing for an effective date."

and that the committee substitute do pass. The report was signed by Senator Kerttula, Chairman, and concurred in by Senators Willis, Colletta and Bradley. Senator Ziegler signed "no recommendation."

SENATE BILL NO. 556 was referred to the Finance Committee.

SB 587 — The Finance Committee has had SENATE BILL NO. 587 (issuance of bonds for capital improvements to community colleges) under consideration and the committee recommends it be replaced with the Health, Education and Social Services Committee substitute offered on page 635 and that the committee substitute do pass. The report was signed by Senator Ray, Chairman, and concurred in by Senators Butrovich, Sackett and Poland. SB 587

SENATE BILL NO. 587 was referred to the Rules Committee.

SB 666 — The State Affairs Committee has had SENATE BILL NO. 666 (motorcycle and motor scooter safety) under consideration and a majority of the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 666, entitled:

> "An Act relating to motorcycle safety; and providing for an effective date."

and that the committee substitute do pass. The report was signed by Senator Huber, Chairman, and concurred in by Senators Miller and Ferguson. Senators Colletta and Meland signed "no recommendation."

SENATE BILL NO. 666 was referred to the Rules Committee.

SB 693 — The State Affairs Committee has had SENATE BILL NO. 693 (personal possession of weapons) under consideration and a majority of the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 693 and that the committee substitute do pass. The report was signed by Senator Huber, Chairman, and concurred in by Senators Ferguson and Colletta. Senator Meland signed "no recommendation."

SENATE BILL NO. 693 was referred to the Judiciary Committee.

CS HB 63 (Fin) am — The Commerce Committee has had COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 63 (Finance) amended (creating the Department of Transportation) under consideration and a majority of the committee recommends it be replaced with SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 63, entitled:

> "An Act relating to the organization of transportation related functions; creating the Department of Transportation; and providing for an effective date."

and that the Senate committee substitute do pass with the following amendment:

HCS SCR 90 Senator Kerttula moved and asked unanimous consent that the Senate concur in the House amendment to SENATE CONCURRENT RESOLUTION NO. 90. Senator Miller objected, then withdrew his objection. There being no further objection, the Senate concurred in the House amendment.

HOUSE COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 90 was referred to the Secretary for enrollment.

HCS SB 272 (Fin) am H Message of April 6 was read stating the House has failed to recede from its amendment to SENATE BILL NO. 272 amended (operation of food service and concession stands by blind and handicapped persons) namely, HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 272 (Finance) amended by the House, and the Speaker has appointed the following members to a conference committee (with powers of free conference) to meet with a like committee from the Senate to consider the above bills:

Representative Itta, Chairman
Representative Sullivan
Representative H. Beirne

The President appointed the following Senate members to the above free conference committee:

Senator Chance, Chairman
Senator Ferguson
Senator Colletta

The Secretary was requested to so notify the House.

Message of April 6 was read stating the House has passed the following and transmitting same for consideration:

FIRST READING AND REFERENCE OF HOUSE BILLS

CS HB 442 (Jud) COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 442 (Judiciary) by the Judiciary Committee, entitled:

"An Act relating to game refuges and sanctuaries."

was read the first time and referred to the Resources Committee.

CS HB 725 COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 725 by the Community and Regional Affairs Committee, entitled:

"An Act relating to exemptions from municipal property tax; and providing for an effective date."

was read the first time and referred to the Community and Regional Affairs Committee. CS HB 725

STANDING COMMITTEE REPORTS

The State Affairs Committee has had COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 1 amended (proposing amendments to the Constitution of the State of Alaska providing for a unicameral legislature) under consideration and a majority of the committee recommends it do not pass. The report was signed as follows: Senator Huber, Chairman, signed "do pass", Senators Ferguson, Miller, Meland and Colletta signed "do not pass." CS HJR 1 am

COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 1 amended was referred to the Judiciary Committee.

The State Affairs Committee has had COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended (amending Alaska Constitution, establishing Alaska Permanent Fund) under consideration and the committee recommends it be replaced with SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39. The report was signed as follows: Senator Huber, Chairman, signed "do pass"; Senator Colletta signed "do pass if amended"; Senator Ferguson signed "do not pass unless amended"; Senator Miller signed "do not pass" and Senator Meland signed "no recommendation." CS SS HJR 39 am

COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended was referred to the Resources Committee.

The Community and Regional Affairs Committee has had COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 65 amended (assessment of real property for local taxation) under consideration and a majority of the committee recommends it be replaced with SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 65 and that the Senate committee substitute do pass. The committee further recommends the bill be referred to the Finance Committee. The report was signed by Senator Rodey, Chairman, and concurred in by Senator Tillion. Senator Orsini signed "do not pass unless amended." CS SS HB 65 am

The Chair stated that COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 65 would be referred to the Finance Committee.

SENATE COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 487 (Finance) (Chapter 76, SLA 1976)

HOUSE BILL NO. 483 amended Senate (Chapter 77, SLA 1976)

MESSAGES FROM THE HOUSE

FCCS HCS SB 302 Message of May 20 was read stating the House has adopted the report of the free conference committee which had been considering SENATE BILL NO. 302 (possession of weapons by convicts) and HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 302 amended House, thus adopting FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 302.

The Senate adopted the above free conference committee report on May 13.

FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 302 was referred to the Secretary for engrossment and enrollment.

FCCS HCS SB 731 Message of May 20 was read stating the House has adopted the report of the free conference committee which has been considering SENATE BILL NO. 731 (bonds for parks and recreation) and HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 731 (Rules), thus adopting FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 731 (bonds in the amount of $6,660,000 for the purpose of paying the cost of capital improvements to parks and recreation areas, and outdoor recreational, open space and historic properties projects).

The Senate adopted the above free conference committee report on May 18.

FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 731 was referred to the Secretary for engrossment and enrollment.

Message of May 20 was read stating the House has passed the following and returning same:

SCR 106 SENATE CONCURRENT RESOLUTION NO. 106 (taking of state-owned royalty oil or gas in-kind)

SENATE CONCURRENT RESOLUTION NO. 106 was referred to the Secretary for enrollment.

CSHB 804 (Rls) am — Message of May 20 was read stating the House has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 804 (Rules) amended and transmitting same for consideration.

FIRST READING AND REFERENCE OF HOUSE BILLS

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 804 (Rules) amended, by the Rules Committee, entitled:

"An Act relating to subsistence hunting areas."

was read the first time and referred to the Resources Committee.

STANDING COMMITTEE REPORTS

CSSS HJR 39 am — The Resources Committee has had COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended (amending the Alaska Constitution, establishing Alaska Permanent Fund) under consideration and the committee recommends it be replaced with SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources). The report was signed as follows: Senator Poland, Chairman, and Senators Meland, Rader and Butrovich signed "no recommendation" and Senators Rodey and Croft signed "do pass" and the committee further recommends the resolution be referred to the Finance Committee.

Senator Ray moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended be referred to the Finance Committee. Without objection, the resolution was referred to the Finance Committee.

HB 139 — The Resources Committee has had HOUSE BILL NO. 139 (periodic rental adjustment on land leases) under consideration and the committee recommends it be replaced with SENATE COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 139, entitled:

"An Act relating to the rental and leasing of state land; and providing for an effective date."

The report was signed as follows: Senator Poland, Chairman, and Senators Rader, Meland and Butrovich signed "no recommendation" and Senator Croft signed "do pass."

HOUSE BILL NO. 139 was referred to the Rules Committee.

SCS CS HB 583

Yeas:	11	Croft, Ferguson, Huber, Kerttula, Meland, Miller, Ray, Sackett, Tillion, Willis, Ziegler
Nays:	7	Bradley, Butrovich, Chance, Colletta, Orsini, Poland, Rodey
Excused:	2	Hohman, Rader

And so, the Senate rescinded its previous action.

Senator Kerttula moved and asked unanimous consent to withdraw his motion to recede from the Senate amendment to COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 583 amended. Senators Orsini and Ray objected, then withdrew their objections. There being no further objection, the motion was withdrawn.

Senator Kerttula moved and asked unanimous consent that the Senate recess until 1:30 p.m. today. Without objection, the Senate recessed at 11:58 a.m.

AFTER RECESS

The Senate reconvened at 1:47 p.m.

HCS SB 474 am H

Message of May 25 was read, stating the House has failed to recede from its amendment to SENATE BILL NO. 474 amended (municipal revenue sharing), namely:

HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 474 amended by the House (municipalities, municipal revenue sharing, and the Alaska Business License Act)

and the Speaker has appointed the following members to a conference committee (with powers of free conference) to meet with a like committee from the Senate on the above bills:

Representative Cotten, Chairman
Representative Miller
Representative Specking

HCR 144

Message of May 25 was read, stating the House has passed HOUSE CONCURRENT RESOLUTION NO. 144 and transmitting same for consideration.

FIRST READING AND REFERENCE OF HOUSE RESOLUTIONS

HOUSE CONCURRENT RESOLUTION NO. 144 by the Rules Committee, HCR 144

Relating to the reconstruction of the road between Sand Point and Sand Point Airport,

was read the first time and referred to the Finance Committee.

Senator Ray moved and asked unanimous consent that the Finance Committee referral be waived. Without objection, it was so ordered and HOUSE CONCURRENT RESOLUTION NO. 144 was referred to the Rules Committee.

STANDING COMMITTEE REPORTS

CS SS HJR 39 am

The Finance Committee has had COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended (amending the Alaska Constitution, establishing the Alaska Permanent Fund) under consideration and a majority of the committee reports it back without recommendation. The report was signed by Senator Ray, Chairman, and concurred in by Senators Sackett, Ferguson and Poland. Senators Butrovich and Chance signed "do pass Resouces Senate committee substitute.

COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 amended was referred to the Rules Committee.

CS HB 144 (Fin)

The Finance Committee has had COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 144 (Finance) (revising the Community College Act) under consideration and reports it back as follows: Senator Ray, Chairman, and Senator Poland signed "no recommendation"; Senators Sackett, Ferguson and Chance signed "do pass" and Senator Butrovich signed "do not pass."

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 144 (Finance) was referred to the Rules Committee.

HB 170

The Finance Committee has had HOUSE BILL NO. 170 (payments for judicial services by political subdivisions) under consideration and a majority of the committee recommend it do pass. The report was signed by Senator Ray, Chairman, and concurred in by Senators Butrovich, Chance and Poland. Senators Sackett and Ferguson signed "no recommendation."

HOUSE BILL NO. 170 was referred to the Rules Committee.

SECOND READING OF HOUSE RESOLUTIONS

CS SS HJR 39 (Jud) COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Judiciary) (Alaska permanent fund) was read the second time.

Senator Ray moved and asked unanimous consent for adoption of the Resources Committee substitute offered on page 1287. Senator Huber objected.

The question being: "Shall the Resources Committee substitute be adopted?" A roll call was requested and appears as follows:

Yeas:	18	Bradley, Butrovich, Chance, Colletta, Croft, Ferguson, Hohman, Kerttula, Meland, Miller, Orsini, Poland, Ray, Rodey, Sackett, Tillion, Willis, Ziegler
Nays:	1	Huber
Excused:	1	Rader

And so, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) was adopted.

SCS CS SS HJR 39 (Res) SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) was read the second time.

The following amendment No. 1 by the Rules Committee was offered:

Page 1, line 17: After "this" delete "constitution" and insert "section"

Senator Ray moved and asked unanimous consent for adoption of amendment No. 1. Senator Chance objected, then withdrew her objection. There being no further objection, amendment No. 1 was adopted.

SCS CSSS HJR 39 (Res) am S Senator Miller offered the following amendment No. 2:

Page 1, line 26: Delete sentence beginning "The legislature may ..."

Senator Miller moved for adoption of amendment No. 2.

The question being: "Shall amendment No. 2 be adopted?" A roll call was requested and appears as follows: SCS CSSS HJR 39 (Res) am S

Yeas:	13	Butrovich, Chance, Croft, Ferguson, Kerttula, Meland, Miller, Poland, Ray, Rodey, Sackett, Willis, Ziegler
Nays:	6	Bradley, Colletta, Hohman, Huber, Orsini, Tillion
Excused:	1	Rader

And so, amendment No. 2 was adopted.

Senator Kerttula moved and asked unanimous consent that SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate was read the third time.

The question being: "Shall SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate (Alaska permanent fund) pass the Senate?" The roll was taken with the following result:

Yeas:	18	Bradley, Butrovich, Chance, Colletta, Croft, Ferguson, Hohman, Huber, Kerttula, Meland, Orsini, Poland, Ray, Rodey, Sackett, Tillion, Willis, Ziegler
Nays:	1	Miller
Excused:	1	Rader

And so, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate passed the Senate.

SCS CSSS HJR 39 (Res) am S

Senator Miller gave notice of reconsideration of his vote on the passage of SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate and moved and asked unanimous consent that the reconsideration be taken up at this time. Without objection, it was so ordered.

HOUSE RESOLUTIONS IN THIRD READING

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amendde Senate was before the Senate in third reading for reconsideration.

The question to be reconsidered is: "Shall SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate (Alaska permanent fund) pass the Senate?" The roll was taken with the following result:

Yeas:	18	Bradley, Butrovich, Chance, Colletta, Croft, Ferguson, Hohman, Huber, Kerttula, Meland, Orsini, Poland, Ray, Rodey, Sackett, Tillion, Willis, Ziegler
Nays:	1	Miller
Excused:	1	Rader

And so, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Resources) amended Senate passed the Senate on reconsideration and was referred to the Secretary for engrossament.

SECOND READING OF HOUSE BILLS

CS HB 873

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (summary dissolution of marriage) was read the second time.

Senator Ziegler moved and asked unanimous consent for adoption of the Judiciary Committee substitute offered on page 1520. Without objection, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 was adopted.

SCS CSHB 873

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (relating to dissolution of marriage) was read the second time.

SCS CS HB 873

Senator Kerttula moved and asked unanimous consent that SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 was read the third time.

The question being: "Shall SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (relating to dissolution of marriage) pass the Senate?" The roll was taken with the following result:

Yeas:	15	Butrovich, Chance, Croft, Ferguson, Hohman, Huber, Kerttula, Meland, Miller, Poland, Ray, Sackett, Tillion, Willis, Ziegler
Nays:	4	Bradley, Colletta, Orsini, Rodey
Excused:	1	Rader

And so, SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 passed the Senate.

Senator Kerttula moved and asked unanimous consent that the vote on the passage of SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 be considered the roll call on section 2. Without objection, it was so ordered.

Senator Kerttula gave notice of reconsideration of his vote on the passage of SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 and moved and asked unanimous consent that the reconsideration be taken up at this time. Without objection, it was so ordered.

HOUSE BILLS IN THIRD READING

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 was before the Senate in third reading for consideration.

The question to be reconsidered is: "Shall SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 873 (relating to dissolution of marriage) pass the Senate?" The roll was taken with the following result:

Introduced: 2/11/77
Referred: Special Committee on the Alaska Permanent Fund and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 210

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act providing for interim management of the Alaska Permanent Fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.10 is amended by adding a new section in art. 3 to read:

Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance

with Alaska law;

(4) corporate investment-grade securities;

(5) bankers acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Article 4. Recovery of Money or Property Illegally Paid or Diverted.

Section
90. Action by attorney general
100. Costs of action and disposition of amount recovered

Sec. 37.10.090. Action by attorney general. Whenever money, funds, or property of a city, school district, municipal government, or the state are illegally paid or are diverted for an illegal purpose, or paid to a person not authorized by law to receive them, they may be recovered by an action instituted by the attorney general. When it appears to the attorney general that it is more advantageous to begin or conduct the action with additional counsel, he may choose and authorize additional counsel to bring the suit in the name of the proper party. (§ 12-5-1 ACLA 1949)

Am. Jur. reference — 42 Am. Jur., Public Funds, § 83 et seq.

Sec. 37.10.100. Costs of action and disposition of amount recovered. (a) The necessary and reasonable costs of the suit and of the additional counsel shall be advanced by the state, and a sum recovered in the suit shall be deposited in the state treasury.

(b) However if the sum recovered belongs to a city, school district, or municipal government, the sum shall be transferred to it, less sums advanced by the state in the suit, and not already repaid to it. The Department of Administration may pay to the city, school district or municipal corporation the sums belonging to it, upon warrants drawn as provided by law. The warrants shall be based upon vouchers approved by the attorney general. (§ 12-5-2 ACLA 1949)

Chapter 11. Renewable Resources Funds.

Article
1. Alaska Renewable Resources Development Fund (§§ 37.11.010 — 37.11.040)
2. Alaska Renewable Resources Permanent Fund (§§ 37.11.050 — 37.11.080)
3. Alaska Economic Disaster Impact Fund (§ 37.11.100)

Article 1. Alaska Renewable Resources Development Fund.

Section
10. Alaska renewable resources development fund
20. Fund authorization level
30. Fund utilization
40. Fund balances

Effective date of article. — Section 3, ch. 130, SLA 1974, provides: "This Act takes effect July 1, 1978 with respect to rentals and royalties, and July 1, 1975 with respect to lease bonuses."

Sec. 37.11.010. Alaska renewable resources development fund. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by § 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.020. Fund authorization level. Not less than five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the Alaska renewable resources development fund. These deposits shall be invested in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.030. Fund utilization. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.040. Fund balances. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be transferred to the Alaska renewable resources permanent fund. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Article 2. Alaska Renewable Resources Permanent Fund.

Section
50. Alaska renewable resources permanent fund
60. Fund principal
70. Utilization of fund income
80. Protection of principal

Effective date of article. — Section 3, ch. 130, SLA 1974, provides: "This Act takes effect July 1, 1978 with respect to rentals and royalties, and July 1, 1975 with respect to lease bonuses."

Sec. 37.11.050. Alaska renewable resources permanent fund. There is established as a separate fund the Alaska renewable resources permanent fund. Funds apportioned by § 60 of this chapter for deposit in the permanent fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans. (§ 1 ch 130 SLA 1974)

Sec. 37.11.060. Fund principal. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the permanent fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with AS 37.10.070 (investment of surplus state funds). (§ 1 ch 130 SLA 1974)

Sec. 37.11.070. Utilization of fund income. Income received from investment of permanent fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from fund income shall be prepared in detail by the appropriate state department or agency and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Sec. 37.11.080. Protection of principal. A transaction involving permanent fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended. (§ 1 ch 130 SLA 1974)

Article 3. Alaska Economic Disaster Impact Fund.

Section
100. Alaska economic disaster impact fund

Sec. 37.11.100. Alaska economic disaster impact fund. (a) There is established a separate fund known as the Alaska economic disaster impact fund which shall be administered by the Department of Commerce and Economic Development. Funds designated in this section and apportioned by statute for deposit in the Alaska economic disaster impact fund are for grants or loans to assist economically impacted communities within areas designated by a proclamation under AS 44.33.285. The Department of Community and Regional Affairs, in consultation with the Department of Fish and Game, shall determine which communities are economically impacted fishing communities.

(b) If the economic disaster is due to a fisheries failure based on consideration of need, the legislature may appropriate to the Alaska economic disaster impact fund from the renewable resource fund (ch. 130, SLA 1974). If there is an insufficient balance in the renewable resource fund to meet emergency needs that may be determined under the provisions of AS 44.33.285, the legislature may appropriate from the general fund. The Alaska economic disaster impact fund balance may not exceed $5,000,000. The commissioner of revenue, after determining that there is in the Alaska economic disaster impact fund a surplus above an amount sufficient to meet anticipated demands, may invest the surplus as provided in ch. 10 of this title. Interest derived from investment of these surplus funds shall be deposited to the renewable resource fund. If the economic disaster is due to other than a fisheries failure, the legislature may appropriate from the general fund to the Alaska economic disaster fund to meet emergency needs.

(c) Unappropriated or otherwise unencumbered balances remaining in the Alaska economic disaster impact fund at the close of each fiscal year shall not lapse as provided in AS 37.25.010 but shall be available in perpetuity for fund purposes.

(d) Within the first 10 days of each legislative session the commissioner of commerce and economic development shall submit to the legislature a detailed report of all expenditures from the fund and all actions taken under AS 44.33.285. (§ 9 ch 277 SLA 1976)

SCOMM

#18:11

HOMAN-McDOWELL

Economic and Management Consultants

Frank Homan
Eric McDowell
Peter McDowell

May 21, 1980

House Special Committee
on the Permanent Fund
Hugh Malone, Chairman
Pouch V
Juneau, Alaska 99811

Fee for professional consulting services of Peter B. McDowell during the 1980 Legislative Session as follows:

Permanent Fund	Hours	Fees
Review and Analysis	31	$3,100
Consultations with Committee Members and Staff	20	2,000
Attendance at Hearings	3	300
Telecommunications Bill		
Review and Anlysis	4	400
Consultations with Committee members and Staff	10	1,000
TOTAL	68	$6,800

Thank you,

Peter B. McDowell
Partner

Suite 1104 Mendenhall Building 326 Fourth Street Juneau, Alaska 99801 (907) 586-6126 or 586-2593

STATE OF ALASKA
THE LEGISLATURE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
465-3800

LEGISLATIVE AFFAIRS AGENCY

INTER-AGENCY ROUTING SLIP

TO Hon. Hugh Malone

REMARKS:

F. Y. I.

FROM Gregg Erickson. DATE 5/1/79

LAA 25

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

April 30, 1979

Samuel L. Plaia
Financial Consultant
240 East 27th Street
New York, New York 10016

Dear Mr. ~~Plaia:~~ Sam:

We are forwarding your billing of March 28 to our accounting office today for payment of $2,023. To receive reimbursement for the balance of your claim ($534.28 for air fare and per diem of $220.00) please complete the enclosed form LA-A 25, attach your air lines receipts, and return the signed form to this office.

Sincerely,

Gregg K. Erickson
Director of Research

GKE:jm
Enclosures

cc: Representative Hugh Malone
Ms. Pat Costello, Accounting

Samuel L. Plaia
Financial Consultant
240 East 27th Street
New York, New York 10016

March 28, 1979

Representative Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Bill for professional services rendered during March 1979, under retainer agreement from 1 March 1979 to the adjournment of the First Session, Eleventh Alaska Legislature:

March 25, 1979	Enroute to Juneau	$ 500.00
March 26, 1979	Preparation for testimony	500.00
March 27, 1979	Committee testimony	500.00
March 28, 1979	Enroute to New York	500.00
Tourist airfare	NY-Juneau-NY	534.28
Per diem	$55.00/day x four days	220.00
Taxis	March 25	6.00
	March 26	5.00
	March 27	6.00
	March 28	6.00
TOTAL DUE		$ 2,777.28

#2023

SUBMITTED BY:

Samuel L. Plaia

Samuel L. Plaia

PAYMENT APPROVED BY:

Rep. Hugh Malone, Chairman
House Special Committee on the Permanent Fund

4/23/79

OK to Pay #2000 for $23 TAXIS
Hold Payment of Balance
Till Per Diem Forms
& RECEIPTS ARE RECEIVED

4/20/79

FORM 02-001BC
FOR BRIEF COMMUNICATIONS
MAY BE HANDWRITTEN

MEMORANDUM

State of Alaska

DEPT. _____
DIV. _____
SEC. _____

TO: Samuel L. Plaia
240 East 27th Street
New York- New York 10016

DATE : April 9, 1979

FROM: Margo Melnicove

SUBJECT: Contract, billing, transcript, etc.

Enclosed are contract and billing for your work for the House Special Permanent Fund Committee. Please sign both and return originals to us as soon as possible. Billing cannot be processed until we have signed contract on hand.

Also enclosed is copy of transcript of your testimony on 3/27. Tape was fuzzy in parts, so some sentences are not verbatim, but I hope I captured the essence of what you said. Please review and let me know if you want any changes made. Probably easiest way to handle that would be for you to call me and tell me about any corrections over the phone, rather than take the time to write.

Margo

Signed contract + billing given to June 4-24

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

April 17, 1979

Ms. Margo Melnicove
Attention: Rep. Malone
House Special Permanent Fund Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Ms. Melnicove:

I enclose executed copies of my contract and statement. When this has been processed, please send the check to my home address as captioned on the contract. Thank you.

Sincerely yours,

Samuel L. Plaia
First Vice President

SLP:lh

Enclosures

Samuel L. Plaia
Financial Consultant
240 East 27th Street
New York, New York 10016

March 28, 1979

Representative Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Bill for professional services rendered during March 1979, under retainer agreement from 1 March 1979 to the adjournment of the First Session, Eleventh Alaska Legislature:

March 25, 1979	Enroute to Juneau	$ 500.00
March 26, 1979	Preparation for testimony	500.00
March 27, 1979	Committee testimony	500.00
March 28, 1979	Enroute to New York	500.00
Tourist airfare	NY-Juneau-NY	534.28
Per diem	$55.00/day x four days	220.00
Taxis	March 25	6.00
	March 26	5.00
	March 27	6.00
	March 28	6.00
TOTAL DUE		$ 2,777.28

SUBMITTED BY:

Samuel L. Plaia

Samuel L. Plaia

PAYMENT APPROVED BY:

Rep. Hugh Malone, Chairman
House Special Committee on the Permanent Fund

4/23/79

cc + Swick billing to Erickson 5-7-79

Alaska State Legislature

Rep. Hugh Malone's Office

POUCH V
JUNEAU, ALASKA 99811
OFFICIAL BUSINESS

May 4, 1979

Mr. Theodore P. Swick
Bache, Halsey, Stuart, Shields, Inc.
Bache Plaza
100 Gold Street
New York, New York 10038

Dear Mr. Swick:

Enclosed please find the contract for your work for the House Special Committee on the Permanent Fund. Please sign this and return it as soon as possible. Your billing cannot be processed until we have the signed contract on hand.

Since this Session may end in the near future, rather than return the signed contract to Rep. Malone, you ought to return it to Legislative Affairs. That address is:

Gregg K. Erickson, Director
Division of Research Services
Legislative Affairs Agency
Pouch Y
Juneau, Alaska 99811

I've forwarded your billing to Mr. Erickson, so that as soon as he receives the signed contract the billing can be processed.

Hope all goes well for you.

Sincerely,

Margo Melnicove

Margo Melnicove
Rep. Malone's Office

cc: Gregg K. Erickson
Legislative Affairs Agency

Agency Account No. 711
$3,000 (FY 79)

CONTRACT BETWEEN

STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

AND

THEODORE P. SWICK

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, Pouch Y, Juneau, Alaska 99811, hereinafter referred to as the "Agency," and THEODORE P. SWICK, 100 Gold Street, New York, New York 10038, hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide professional services to the Alaska State Legislature, through the Agency, in connection with the Alaska Permanent Fund.

IT IS, THEREFORE, MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

The Contractor shall do all things necessary for and incidental to consultations, providing brief papers of analysis, and forwarding data relevant to enabling legislation for the Alaska Permanent Fund.

CLAUSE II. PERIOD OF PERFORMANCE

(A) This agreement shall be retroactive to 1 March 1979 and shall expire upon adjournment of the First Session of the Eleventh Alaska Legislature unless terminated earlier as provided for in (B) of this clause.

(B) This agreement may be terminated

(1) by either party on 30 days' written notice to the other party, or

(2) by mutual consent of the parties to this agreement.

CLAUSE III. PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. COMPENSATION AND METHOD OF PAYMENT

(A) Contractor's compensation for providing the services described in this agreement shall be the retainer of Five Hundred Dollars ($500) per day.

(B) Expenses of travel authorized in advance by the Project Director shall be reimbursed on the basis of actual costs incurred, except that air travel shall be paid on the basis of coach class air fare, and per diem at prevailing State rates. Expenses shall be billed as separate items, and receipts shall be required.

(C) Total payments to the Contractor under this agreement, including all expenses, shall not exceed $3,000.

CLAUSE V. REPORTS

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

CLAUSE VI. OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support to the Contractor necessary to carry out the Contractor's obligations under this contract shall be supplied by the Contractor, at no cost to the Agency.

CLAUSE VII. RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports, and writings produced in the course of the work performed under this contract are, upon delivery to the Agency or at termination of this agreement, the property of the Agency.

CLAUSE VIII. ALL WRITINGS CONTAINED HEREIN

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

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

CONTRACTOR

THEODORE P. SWICK — Date

IRS Identification No. _____

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

GREGG X. ERICKSON — 5/3/79 Date

Accepted:

REP. HUGH MALONE, Chairman
House Special Committee on
the Permanent Fund — 5/4/79 Date

Approved as to form:

AGENCY LEGAL COUNSEL — 5/2/79 Date

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

Theodore P. Swick
Senior Vice President

April 20, 1979

Representative Hugh Malone, Chairman
House Special Committee on the
Permanent Fund
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Statement for professional services rendered during April, 1979:

April 6, 1979	Preparation for testimony	$500.00
April 9, 1979	Enroute to Juneau	500.00
April 10, 1979	Committee Testimony	500.00
April 11, 1979	Enroute to New York	500.00
Tourist Airfare	N.Y. - Juneau - N.Y.	534.28
Per diem	$55.00/day x 4 days	220.00
Taxis	April 9	6.00
	April 10	6.00
	April 11	6.00
Total due		$ 2,772.28

APPROVED FOR PAYMENT:

REP. HUGH MALONE, CHAIRMAN
House Special Committee on the
Permanent Fund

5/4/79

BOB GREELEY

Margo,

Thank you for sending the Contract and billing form. Enclosed is the signed document that you requested. Sorry for the accounting mistake. Please change April 9/10 to half day each, and adjust the total as such.

Thank you for your attention to this matter.

Bob Greeley

4.30.79

FORM 02-001BC
FOR BRIEF COMMUNICATIONS
MAY BE HANDWRITTEN

(415) 856-2314

MEMORANDUM

State of Alaska

DEPT.
DIV.
SEC.

TO: Mr. Robert E. Greeley
1501 Page Mill Road
Palo Alto, CA 94304

DATE : April 16, 1979

FROM: Margo Melnicove

SUBJECT: Contract, billing

Enclosed is the contract for your work for the House Special Permanent Fund Committee. Please sign this and return the original to us as soon as possible. The billing cannot be processed until we have the signed contract on hand. Also enclosed are some per diem and transportation reimbursement forms. I'm not sure you have to use these - the billing you sent may be adequate - but hold onto them just in case and I'll let you know by phone if and when you need to fill one out. Speaking of your billing, Jim had a question about the updated billing for 4/9-10. I think he assumed you'd bill for those days as a half-day each. He'll call you soon to talk about that. Thanks for giving this your attention.

(P/s

Sent 2 Greeley 4-18 for sig
Signed contract ret. to us
5-4-79

Agency Account No. 711
$4000 (FY'79)

CONTRACT BETWEEN

STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

AND

ROBERT E. GREELEY

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, Pouch Y, Juneau, Alaska 99811, hereinafter referred to as the "Agency," and ROBERT E. GREELEY, 1501 Page Mill Road, Palo Alto, California 94304, hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide professional services to the Alaska State Legislature, through the Agency, in connection with the Alaska Permanent Fund.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

The Contractor shall do all things necessary for and incidental to consultations, providing brief papers of analysis, and forwarding data relevant to enabling legislation for the Alaska Permanent Fund as directed.

CLAUSE II. PERIOD OF PERFORMANCE

(A) This agreement shall be retroactive to 1 March 1979 and shall expire upon adjournment of the First Session of the Eleventh Alaska Legislature unless terminated earlier as provided for in (B) of this clause.

(B) This agreement may be terminated

(1) by either party on 30 days' written notice to the other party, or

(2) by mutual consent of the parties to this agreement.

CLAUSE III. PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. COMPENSATION AND METHOD OF PAYMENT

(A) Contractor's compensation for providing the services described in this agreement shall be the retainer of Five Hundred Dollars ($500) per day.

(B) Expenses of travel authorized in advance by the Project Director shall be reimbursed on the basis of actual costs incurred, except that air travel shall be paid on the basis of coach class air fare, and per diem at prevailing State rates. Expenses shall be billed as separate items, and receipts shall be required.

(C) Total payments to the Contractor under this agreement, including all expenses, shall not exceed $4000.

CLAUSE V. REPORTS

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

CLAUSE VI. OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support to the Contractor that will be necessary to carry out the Contractor's obligations under this contract shall be supplied by the Contractor, at no cost to the Agency.

CLAUSE VII. RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports, and writings produced in the course of the work performed under this contract are, upon delivery to the Agency or at termination of this agreement, the property of the Agency.

CLAUSE VIII. ALL WRITINGS CONTAINED HEREIN

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

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

CONTRACTOR

ROBERT E. GREELEY — 4-30-79 Date

IRS Identification No. 105-54-8711

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

GREGG K. ERICKSON — 4/12/79 Date

Accepted:

REP. HUGH MALONE, Chairman
House Special Committee on
the Permanent Fund — 5/5/79 Date

Approved as to form:

AGENCY LEGAL COUNSEL — 4/13/79 Date

STATEMENT FOR SERVICES RENDERED

By Robert E. Greeley
Financial Consultant
82 Canoe Hill Road
New Canaan, CT 06840

FOR: HOUSE COMMITTEE ON THE PERMANENT FUND

Through	Per Diem	Fee
Thursday, March 15 - Travel	$ 55	$ 500
Friday, March 16 - Preparation	55	500
Saturday, March 17 - Testimony	55	500
Sunday, March 18 - Travel	55	500
Monday, April 9 - Conference		500
Tuesday, April 10 - Testimony		500
	$220	$3,000

Fee: 6 days @ $500	$3,000.00
Per Diem: 4 days @ $55	220.00
Coach Air Fare: New York City/ Juneau, Alaska	534.28
	$3,754.28

Revised 4/11/79
Receipts attached to original statement.

Robert E. Greeley

APPROVED FOR PAYMENT:

H. Malone

REP. HUGH MALONE, CHAIRMAN
House Special Committee
on the Permanent Fund

5/5/79

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
Phone: 465-3852

LA-A 25
Rev. 4/79

STATE EMPLOYEE

PER DIEM AND TRANSPORTATION REIMBURSEMENT CLAIM

TRIP PURPOSE: _____ for _____
(Subcom., Task force)
(Contract, etc)

PER DIEM:

This is to certify that I left _____ (city) on _____ (date) and I overnighted in _____ (city) on _____ (dates)

in _____ (city) on _____ (dates)

and returned to _____ (city) on _____ (date) at _____ a.m. p.m.

TRAVEL:

(1) I used State TR No. _____.

(2) My taxi and limousine fares were _____. (Please attach receipts if individual tab total exceeds $6.00)

(3) Mileage claimed is between _____ and _____, a total of _____ miles.

(4) Please reimburse me for air fare in the amount of $ _____. (Please attach ticket stub or other receipt.)

For Office Use Only
Account Code _____
Advance _____ FW# _____
Per Diem _____ FW# _____
Travel _____
FW# _____. Date _____

_____
Signature of Authorizer of Trip

_____
Signature of Traveler

_____
Mailing Address

_____

_____
Date

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

Theodore P. Swick
Senior Vice President

April 20, 1979

Ms. Margo Melnicove
House Special Permanent Fund
Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Attention: Representative Malone

Dear Ms. Melnicove:

As per your request, I enclose a copy of my statement for testimony to the Committee.

Sincerely,

Theodore P. Swick

enclosure

Gaffney -

Contract under Miles.

As of 5-5-79, unsigned by Gaffney.

Billing given to Erickson.

Will ask ~~Hallinan~~ Jim to get contract signed & returned by Gaffney.

Contract needs amendment I think - encumbers only 2500. Bill for 2625.94

MASON GAFFNEY

Economic Policy Analysis
3040 Tyler Street
Riverside, California 92503
(714) 687-1677

MEMORANDUM TO: Jim Rhode, c/o Rep. Hugh Malone, Alaska State Legislature

FROM: Mason Gaffney

DATE: April 23, 1979

SUBJECT: Expenses by Mason Gaffney, to Juneau, March 29 - 1 April, 1979, to testify before Joint Hearings on Beaufort Sea lease sales

1. Private car, home to Ontario Airport and return, 60 miles @ 17¢	$ 10.20
Parking, Airport (receipt attached)	8.00
2. Air fare, Ontario-Juneau and return	412.74
3. Cab, Juneau Airport - Baranof Hotel + tip	10.00
4. Cab in Juneau	4.00
5. Cab, return to Juneau airport, with extra stop to pick up papers at Rhode residence, + tip	11.00
6. Per diem, begin 5:30 a.m., March 29 end 6:00 p.m., April 1 4 days @ 55	220.00
My time: March 28 - April 1 = 5 days April 3 = 1 day April 4 = ½ day 6½ days 6½ days @ $300.00	$1,950.00
TOTAL	$2,625.94

Mason Gaffney

FORM 02-001BC
FOR BRIEF COMMUNICATIONS-
MAY BE HANDWRITTEN

MEMORANDUM

State of Alaska

DEPT.
DIV.
SEC.

TO: Ted Swick, Sr. Vice President
Bache, Halsey, Stuart, & Shields, Inc.
100 Gold Street
NY, NY 10038

DATE : 4 April 1979

FROM: Jim Rhode, AA
House Special Permanent Fund Committee
Alaska State Legislature
Juneau, AK 99811

SUBJECT:

Enclosed is the information placed before the legislature on the question of G.O. revenue bonds for power debt. The writers do not say whether or not Alaska Power Authority issues on behalf of a local utility, as distinct from a wholly A.P.A. project, could be handled in this way. The issue of "double barrel" contrasted with a guarantee from Permanent Fund earnings will either be taken up in this Committee when you visit or by a conference call with you and Sam.

FORM 02-001BC
FOR BRIEF COMMUNICATIONS
MAY BE HANDWRITTEN

MEMORANDUM

State of Alaska

DEPT. _____
DIV. _____
SEC. _____

TO: Rep. Terry Gardiner
Speaker of the House

DATE: 23 March 1979

FROM: Rep. Hugh Malone

SUBJECT: Testimony of Mr. Clark Gruening

As we discussed, I have asked Mr. Gruening to testify on the Permanent Fund on Friday, 30 March. He requires only his round-trip fare from Anchorage, not per diem.

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811

P. O. BOX 9
KENAI, ALASKA 99611

REPRESENTATIVE HUGH MALONE

April 27, 1979

The Honorable Terry Gardiner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

My staff, in drafting contracts for services rendered to the House Special Committee on the Permanent Fund, inadvertently over-charged the Permanent Fund Committee's account. The reason is they did not know that the amounts encumbered would be the contract maximums (which are rounded-off figures determined before actual billings were made), rather than the actual amounts billed to us (which in all cases are less than the max). One way to remediate this is to amend the contracts so maximums reflect actual billings, but contract amendments are time-consuming and would cause further delays before billings can be processed.

A simpler, faster way to alleviate this situation would be to charge one contract against the in-session budget, which would free up enough Permanent Fund Committee money to cover the other contract maximums and also leave approximately $2400 after bills are paid for a contingency fund. Therefore, I request your permission to have the contract for Samuel L. Plaia charged against the in-session budget account rather than the Permanent Fund Committee account. This contract has a $5600 maximum but the actual amount billed will not exceed $3000.

If this meets with your approval, please sign below and forward this letter to Pat Costello as soon as possible.

Thank you for giving this your attention.

Sincerely,

Hugh Malone

Approval to charge contract
for Samuel L. Plaia to
in-session budget account:

TERRY GARDINER, SPEAKER

STATE OF ALASKA
THE LEGISLATURE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
465-3800

LEGISLATIVE AFFAIRS AGENCY

INTER-AGENCY ROUTING SLIP

TO Hon. Hugh Malone

REMARKS: Attn: Margo

This letter of agreement for the expenditure of $400 to Arlon Tussing is in lieu of the contract we discussed previously.

FROM Gregg Erickson DATE 5/1/79
by June Meacham

LAA 25

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

April 30, 1979

Arlon R. Tussing
Tussing & Associates
880 H Street
Suite No. 210
Anchorage, Alaska 99501

Dear Arlon:

This letter will confirm the arrangements made with Representative Hugh Malone to provide services to the House Special Committee on the Permanent Fund during the period March 1, 1979 through the end of the First Session of the Eleventh Legislature. These services shall be provided in accordance with our usual terms governing expenses and per diem, and at the same hourly rate that you charge under our West Coast Surplus contract. Total amount authorized to be expended under this arrangement is $400 from Agency Account No. 711.

Sincerely yours,

Gregg K. Erickson
Director of Research

GKE:jm

cc: Rep. Hugh Malone
Pat Costello

Grant Erickson
5-5-79

ART

ARLON R. TUSSING & ASSOCIATES / 880 H St., Suite No. 210, Anchorage, Alaska 99501

April 10, 1979

Representative Hugh Malone
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Attention: Margo

STATEMENT

Prefessional time and effort expended regarding the Special Committee on the Permanent Fund	
2.50 Hours at $75.00/Hour	$ 187.50
Travel Expenses (detailed on Form LA-A 25 Rev. 3-76 with receipts attached)	187.21
AMOUNT DUE	$ 374.71

1220 19th Ave. N.W., Suite No. 201, Washington D.C. 20036 / 2720 Rainier Bank Tower / Seattle, Washington 98101 / (206) 447-0321

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811

LA-A 25
Rev. 3-76

STATE EMPLOYEE

PER DIEM AND TRANSPORTATION REIMBURSEMENT CLAIM

TRIP PURPOSE: Committee on the Permanent Fund

PER DIEM

This is to certify that I left Seattle (Town) on 3/8/79 (Dates) at 0835 am pm. I overnighted in Juneau (Town) on 3/8/79 (Dates) and _____ (Town) on _____ (Dates). I returned to Seattle (Town) on 3/9/79 (Dates) at 1805 am pm. (a)

TRAVEL

(1) I used State TR No. _____.

(2) My taxi and limousine fares were _____.
(Please attach receipts if individual tab total exceeds $6.)

(2a) Parking at Seattle/Tacoma Airport - $4.00(b)

(3) Mileage claimed is between _____ and _____, a total of _____ miles.

(4) Please reimburse me for air fare in the amount of $133.21(b).
(Please attach ticket stub or other receipt.)

For Office Use Only
Account Code _____
Advance _____ FW# _____
Per Diem _____ FW# _____
Travel _____
FW# _____ Date _____

Arlon R. Tussing
Signature

Arlon R. Tussing

Mailing Address
880 H Street - Suite 210

Anchorage, Alaska 99501

April 10, 1979
Date

a. I claim one day per diem./$50
b. prorated with other business

TOTAL DUE: 187.21

Agency Account No. 711
$3000 (FY'79)

CONTRACT BETWEEN

STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

AND

G. MICHAEL DOOGAN

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, Pouch Y, Juneau, Alaska 99811, hereinafter referred to as the "Agency," and G. MICHAEL DOOGAN, 926 W. 19th, Anchorage, Alaska 99503, hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide professional services to the Alaska State Legislature, through the Agency, in connection with the Alaska Permanent Fund.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

The Contractor shall do all things necessary for and incidental to consultations, providing brief papers of analysis, and forwarding data relevant to enabling legislation for the Alaska Permanent Fund as directed, provided the time required does not exceed 40 hours a month.

CLAUSE II. PERIOD OF PERFORMANCE

(A) This agreement shall be retroactive to 1 February 1979 and shall expire upon adjournment of the First Session of the Eleventh Alaska Legislature unless terminated earlier as provided for in (B) of this clause.

(B) This agreement may be terminated

(1) by either party on 30 days' written notice to the other party, or

(2) by mutual consent of the parties to this agreement.

CLAUSE III. PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. COMPENSATION AND METHOD OF PAYMENT

(A) Contractor's compensation for providing the services described in this agreement shall be the retainer of Five Hundred Dollars ($500) per month.

(B) Expenses of travel authorized in advance by the Project Director shall be reimbursed on the basis of actual costs incurred, except that air travel shall be paid on the basis of coach class air fare, and per diem at prevailing State rates. Expenses shall be billed as separate items, and receipts shall be required.

(C) Total payments to the Contractor under this agreement, including all expenses, shall not exceed $3000.

CLAUSE V. REPORTS

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

CLAUSE VI. OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support to the Contractor that will be necessary to carry out the Contractor's obligations under this contract shall be supplied by the Contractor, at no cost to the Agency.

CLAUSE VII. RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports, and writings produced in the course of the work performed under this contract are, upon delivery to the Agency or at termination of this agreement, the property of the Agency.

CLAUSE VIII. ALL WRITINGS CONTAINED HEREIN

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

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

CONTRACTOR

G. Michael Doogan 4/10/79
G. MICHAEL DOOGAN Date
IRS Identification No. 574184064

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

4/6/79
GREGG K. ERICKSON Date

Accepted:

4/11/78
REP. HUGH MALONE, Chairman Date
House Special Committee on
the Permanent Fund

Approved as to form:

4/6/79
AGENCY LEGAL COUNSEL Date

G. MICHAEL DOOGAN
926 W. 19th Avenue
Anchorage, Alaska 99503

April 11, 1979

Rep. Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

For professional services in accord with retainer agreement,
First Session, Eleventh Legislature.

February, March ea. $500.00	$1,000.00
Round trip coach air fare Anch-Jun-Anch 3/29-4/1	171.16
Per diem 3/29-3/31, 3 days x $55.00/day	165.00
TOTAL DUE	$1,336.16

Approved for payment by:

REP. HUGH MALONE, CHAIRMAN
House Special Committee on the Permanent Fund

April 4, 1979
926 W. 19th Ave.
Anchorage, Alaska
99503

Honorable Hugh Malone
Chairman
House Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Dear Rep. Malone:

In accordance with my contract with your committee, I hereby submit my travel/per diem bill for my March 29 trip to Juneau.

Air fare for the trip was $171.16 (see attached ticket).

For your computation of the per diem payment, I left Anchorage March 29 at 8:10 a.m. I overnighted in Juneau March 29, 30 and 31. I returned to Anchorage April 1 at 5:50 p.m. I do not wish, however, to change per diem for April 1.

Sincerely,

G. Michael Doogan

G. MICHAEL DOOGAN
Contractor

Approved for Payment:

REP. HUGH MALONE
Project Director
DATE: 4/10/79

April 11, 1979

TO: Honorable Hugh Malone

FROM: Mike Doogan MD

SUBJECT: Travel/per diem billing

In accordance with my contract with your committee, I hereby submit my bill for my April 10 trip to Juneau.

The air fare was $171.16 (see attached ticket) and cab fares totaled $14.50 (see attached receipts). I departed Anchorage April 10 at 8:10 a.m. and arrived in Juneau at 11:30 a.m. I overnighted in Juneau and returned to Anchorage April 11 at 8:00 a.m.

Air fare	$ 171.16
Cab fares	14.50
Per diem	
1½ days x $55/day	82.50
For professional services, April '79	500.00
TOTAL DUE	$ 768.16

Approved for Payment:

J. Malone

Rep. Hugh Malone
Project Director

DATED: April 19, 1979

FORM 02-001BC
FOR BRIEF COMMUNICATIONS
MAY BE HANDWRITTEN

MEMORANDUM

State of Alaska

DEPT. _____
DIV. _____
SEC. _____

TO: George Wolf
Orrick, Herrington, Rowley & Sutcliffe
600 Montgomery Street
San Francisco, CA 94111

DATE : April 9, 1979

FROM: Margo Melnicove

SUBJECT: Contract, billing.

Enclosed please find the contract for your work for the House Special Permanent Fund Committee. Sign this and return the original to us as soon as possible. Also, please send us your billing for your testimony on 3/29, and be sure to attach airline ticket receipt.

The billing cannot be processed until we have the signed contract on hand, so you might want to give this your attention immediately. Thanks.

Margo

B

Asked Secretary to send billing to Gregg 5-4-79

Signed contract given to Jane 4-24

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE
COUNSELORS AND ATTORNEYS AT LAW
ELEVENTH FLOOR
600 MONTGOMERY STREET
SAN FRANCISCO, CALIFORNIA 94111

TELEPHONE 392-1122
AREA CODE 415

CABLE "ORRICK"
TELEX 34-0973

April 16, 1979

The Honorable Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Court Building, Room 647
Juneau, Alaska 99801

Attention: Mr. James Rhode

Dear Mr. Rhode:

Enclosed is an executed copy of the contract covering our recent employment by the Committee with respect to SSSB1. As instructed by you, the figure "$3000" has been changed to "$4000" each place it appears in the contract. Our bill will be sent shortly.

I would like to say again that it was a pleasure working with Representative Malone, you, and the other members of Mr. Malone's staff on this matter, and we would be pleased to provide similar services in the future if you should need them.

Very truly yours,

George E. Wolf

George G. Wolf

GGW/lcl

Enclosure

cc: C. Richard Walker

Agency Account No. 711
$4000(FY'79)

CONTRACT BETWEEN

STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

AND

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE
COUNSELORS AND ATTORNEYS AT LAW

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, Pouch Y, Juneau, Alaska 99811, hereinafter referred to as the "Agency", and ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE, Counselors and Attorneys at Law, 600 Montgomery Street, San Francisco, California 94111, hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide professional services to the Alaska State Legislature, through the Agency, in connection with the Alaska Permanent Fund.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. STATEMENT OF WORK

The Contractor shall do all things necessary for and incidental to consultations, providing brief papers of analysis, and forwarding data relevant to enabling legislation for the Alaska Permanent Fund.

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(1) by either party on 30 days' written notice to the other party, or

(2) by mutual consent of the parties to this agreement.

CLAUSE III. PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. COMPENSATION AND METHOD OF PAYMENT

(A) Compensation to the Contractor for the services described in this agreement shall be paid at the Contractor's customary rates.

(B) Expenses of travel authorized in advance by the Project Director shall be reimbursed on the basis of actual costs incurred, except that air travel shall be paid on the basis of coach class air fare, and per diem at prevailing State rates. Expenses shall be billed as separate items, and receipts shall be required.

(C) Total payments to the Contractor under this agreement, including all expenses, shall not exceed $4000.

CLAUSE V. REPORTS

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

CLAUSE VI. OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support to the Contractor that will be necessary to carry out the Contractor's obligations under this contract shall be supplied by the Contractor, at no cost to the Agency.

CLAUSE VII. RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports, and writings produced in the course of the work performed under this contract are, upon delivery to the Agency or at termination of this agreement, the property of the Agency.

CLAUSE VIII. ALL WRITINGS CONTAINED HEREIN

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

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE

George E. Wolf 4/16/79

GEORGE WOLF, ATTORNEY Date

IRS Identification No. 94-1240421

LEGISLATIVE AFFAIRS AGENCY
(By direction of the Executive Director)

Gregg K. Erickson 4/6/79

GREGG K. ERICKSON Date

Accepted:

[signature] 4/21/79

REP. HUGH MALONE, Chairman Date
House Special Committee on
the Permanent Fund

Approved as to form:

[signature] 3/4/79

AGENCY LEGAL COUNSEL Date

SCOMM

#18:12

March 1980

CAPITAL SHORTAGE IN RURAL ALASKA

CONCEPTUAL ISSUES

Richard B. Coffman
City University of New York
and
Washington State University

-Draft-

I. Introduction and Recommendations

The main questions addressed in our study were:

1. Have imperfections in private capital markets caused a capital shortage in rural Alaska?

2. Have governmental policies caused a capital shortage in rural Alaska?

Our answers are:

To 1, yes. There is above average concentration in the banking industry in Alaska, which appears to have led to above average spreads between banks' deposit and lending notes of interest, and to less lending than would be found in a competitive market. However, this appears to be a state-wide problem, rather than one facing just rural Alaska.

To 2, yes. The State of Alaska has a number of policies which contribute to capital shortages. There are (a) state usury and loan interest ceilings, (b) the gross receipts tax on banks, (c) reserve requirements for state chartered banks, and (d) the many state loan programs.

These answers lead us to a third question:

3. What can be done to improve the functioning of Alaska's capital markets, and what role should the state budget surplus and the Permanent Fund play in the improvement process?

Our answer is that the state has the power to do a great deal to improve Alaska's capital markets. We suggest the state consider:

(a) abolishing all interest rate ceilings;

(b) abolishing the gross receipts tax;

(c) abolishing the 20% reserve requirement for state banks;

(d) passing a new Small Loan Act;

(e) abolishing all state loan programs.

We believe these actions would bring capital market efficiency in Alaska at least up to the national average, and perhaps beyond. We thus see no economic reason for the state to be involved in the loan business, and no need to view the

state budget surplus and the Permanent Fund earnings as pools of loanable funds. We thus suggest:

(f) that the budget surplus, for the most part, be distributed to Alaskans;

(g) that the Permanent Fund be managed to maximize the yield of its portfolio.

We further suggest that:

(h) the state subsidize people, not capital if the true concern is income and wealth distribution in rural Alaska;

(i) the state subsidize houses, not mortgages if the real issue is a socially unacceptable standard of housing in rural Alaska;

(j) the state Business Loan Program be evaluated;

(k) if the Alaska Housing Finance Corporation stays in existence it be required to promote innovative lending by buying price level adjusted and graduated payment mortgages;

(l) the state substitute a consumption tax for the income tax, effectively reducing the Federal income tax burden on Alaskans.

II. Conceptual Issues in the Capital Shortage Problem

We will now turn to an explanation of our conclusions and recommendations. First, I will discuss conceptual issues. Next, Dr. Fry will report on our empirical study of Alaska's capital markets. The conceptual issues are as follows.

Some basic terms must be defined. First, there is a distinction between real capital and financial capital. Second, capital can be considered as either a stock or a flow. A major distinction is between positive (market, economic) shortages or capital, which are defined in terms of the workings of free, efficient markets, and normative (social) shortages of capital, which are defined with reference to individual and group norms and values.

We will begin with the concept of a well functioning market. This is a market of many borrowers and lenders, none of whom have any power over terms and conditions of

loans. Equilibrium of supply and demand in this market will determine the interest rate and the amount of capital loaned and borrowed. This result will be economically efficient.

A positive (market, economic) shortage of capital is defined as an amount of capital less than would be found in a well functioning market. There are many potential causes of such capital shortages. These include:

1. temporary shortages due to changes in market supply and demand. In a free market the interest rate will soon adjust to eliminate such shortages.

2. permanent shortages due to interest rate ceilings. Interest rate ceilings make it illegal for interest rates to rise to eliminate shortages and thus can perpetuate shortages.

3. shortages due to monopoly power. A monopolist will find it in his interest to restrict lending and raise interest rates.

4. shortages due to the nature of infrastructure capital. Private capital markets will generally produce too little infrastructure capital because private investors cannot capture the wide spread public benefits produced.

5. shortages due to government created risk and uncertainty. Too little capital may be produced as private investors react to uncertainty about future taxes, regulations, and restrictions.

6. shortages due to taxes and regulation. Taxes and regulation which raise the costs of lending will tend to reduce the amount of lending and capital formation.

7. shortages due to lack of market mechanisms to deal with risk. If firms cannot insure against various types of risk, they will reduce the amount of investment undertaken.

This concludes our list of varieties of positive shortages. We now turn to the concept of normative shortage. The normative (or social) shortage is generally defined in terms of perceived "needs". If less capital than "needed" is produced by the market, then a shortage is perceived by those who have defined the needs. The needs concept is criticized by economists because (a) it is subjective, and the perception of needs varies from person to person, (b) it

ignores overall resource constraints, and (c) it ignores costs.

There are many potential sources of perceived normative shortages. These include:

1. shortages due to differences in borrower characteristics. Capital markets will discriminate among borrowers on the basis of amount of collateral and equity, evidence of business ability, and credit history. Those discriminated against may perceive a shortage of capital.

2. shortages due to transactions and information cost differences among borrowers. Capital markets will discriminate against borrowers presenting high information and transaction costs. Those discriminated against may perceive capital shortages.

3. shortages of capital confused with shortages of income. People who are poor lack capital among many other things. However, their basic lack is one of income and wealth, and giving them more capital is only one way to increase their income and wealth.

4. a shortage of capital confused with a shortage of work. Those who stand to benefit from large scale construction projects - workers, suppliers, transporters - often see a lack of such projects, and characterize this as a capital shortage. However, there is no economic shortage here unless there are available benefits which would generate net benefits.

5. a capital shortage confused with a shortage of subsidies. Government loan programs which offer subsidized interest rates or loose credit tests will face many eager demanders. But there will always be too few subsidies to meet this demand. Further, as government terms and conditions become seen as the norm, people will start to believe there is a shortage of private capital on reasonable terms.

This concludes our listing of varieties of normative shortages.

III. General Policy Considerations

Our specific policy suggestions have already been listed, and will be discussed in more detail in Dr. Fry's presentation. However, here at the end of this discussion on conceptual issues some general comments on policy are in order.

First, when positive capital shortages are found "the cure should fit the disease". That is, if a capital shortage has a specific cause then that cause should be attached directly. Unfortunately, though, government has a tendency to discover a problem, then pick a solution which expands the size of government and its role in the economy, whether or not that is the best solution. If capital shortages in Alaska are due to government policies, then the best solution is to alter those policies, not to get the government more deeply into the lending business.

Second, many attempts have been made by governments around the world to stimulate economic development by subsidizing capital in particular, and private enterprise in general. Unfortunately, many of their policies have had the unintended result of destroying profit-seeking, market oriented firms, and of creating in their place subsidy-maximizing firms. The subsidy-seeking firms will produce anything, anyway, anywhere, so long as it gains them a subsidy. When the subsidies end, these firms fade away, and it is discovered that no viable economic base has been created, despite all the resources used up and all the activity undertaken.

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

March 1980

INVESTMENT CAPITAL IN RURAL ALASKA

MAXWELL J. FRY

University of Hawaii

SUMMARY

1. Findings

(a) There is no evidence of any economic shortage of physical capital in rural Alaska.

Were there an economic shortage of physical capital in rural Alaska, then unexploited investment opportunities which would yield above-market returns must exist. The current perception of residents of rural Alaska and outside observers is that profitable investment opportunities are lacking in rural Alaska. We have found no evidence to contradict this view.

The best indication that unexploited profitable investment opportunities are not abundant in rural Alaska comes from the performance of the ANCSA (Alaska Native Claims Settlement Act) regional and village corporations. The conclusion must be reached that the 12 regional corporations and 205 village corporations have failed to locate unexploited profitable investment opportunities in rural Alaska. Corroborative evidence is also provided by the Small Business Administration's (SBA) activities in rural Alaska.

Rural Alaska has not witnessed rapid economic growth precisely because of the lack of profitable investment opportunities. Apart from the census division of Barrow, above-average population growth during the 1970s has occurred only

in Alaska's urban and contiguous rural areas, i.e. Haines, Matanuska-Susitna, Seward and Valdez-Chit-Whittier.

(b) Rural Alaskans may not be able to borrow as much as urban Alaskans because they have less wealth.

White families in the United States possess three to four times more net wealth than minority families at any given level of income. If urban and rural Alaskans hold the same proportion of their wealth in the form of deposits, the deposit holding differences will reflect differences in wealth.

Excluding public bank deposits, deposits of all kinds (bank, S & L and credit union) averaged $5,910 per urban Alaskan and $2,082 per rural Alaskan in 1977. However, this difference needs to be interpreted with considerable caution. For one thing, there is a substantial volume of banking by mail. The United Bank of Alaska claims that 65 per cent of its accounts are mail accounts. Furthermore, many Alaskans are known to bank out-of-state, particularly in Seattle.

Nevertheless, this three-to-one difference is consistent with the hypothesis that urban Alaskans may well possess three times the wealth of rural Alaskans at similar levels of income. The further implication about differential borrowing abilities is clear. Rural Alaskans may be able to borrow only one third as much as urban Alaskans, since ability to borrow is limited by the borrower's own equity in the prospective project.

(c) <u>There is no evidence that financial institutions discriminate against rural Alaskans</u>.

One can certainly live further from a bank in rural Alaska than would be possible anywhere else in the United States. Nevertheless, population per bank branch is not substantially higher in rural than it is in urban Alaska. Furthermore, the population per bank branch in rural Alaska of 3,609 is considerably lower than it is for the United States as a whole - 5,062. Even in states permitting statewide branching, as does Alaska, there are 4,868 persons per bank branch. Total per capita deposits in rural Alaska are only 37 per cent of the value of per capita deposits in urban Alaska. Deposits per rural branch are 47 per cent of deposits per urban branch. On these bases, Alaska has an above-average supply of bank branches even in its rural areas.

Economies of scale exist in the banking industry. Hence, unit costs of banking should be higher for rural than for urban branches of Alaska's financial institutions, since rural branches are much smaller than urban branches. These higher unit costs might be met in four ways: (a) Lower deposit rates of interest and higher service charges; (b) Higher loan rates of interest; (c) Fewer banking services; (d) Lower profits.

Deposit rates of interest, even on large certificates of deposit, and service charges are uniform across all bank branches in Alaska. Loan rates are not differentiated on a regional basis, nor are the credit standards applied to loan applicants.

Rural branches offer fewer services than urban branches. However, the branch banking system enables all clients to obtain specialised help and consideration - impersonally and with some delay - from head office. This solution is evidently viewed as a poor substitute for personal contact and local decision making autonomy.

It seems that rural branches are indeed less profitable than urban branches. This conclusion was corroborated by bankers interviewed during this study. For example, it was claimed that the National Bank of Alaska could never build its existing branch network if it had to start from scratch again today.

It was alleged by various interviewees that bank branches simply sucked deposits out of rural Alaska to Anchorage. Loan distribution data are unavailable. However, the Community Reinvestment Act of 1977 obliges regulated financial institutions to service the credit needs of the communities in which they are chartered to do business. Federal financial supervisory agencies are required to enforce this law. Responses from the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board indicated that all regulated financial institutions in Alaska had complied with the Act.

In conclusion, we could find no evidence that private sector financial institutions in Alaska discriminated against residents of rural areas.

(d) Government creates capital shortage in rural Alaska through subsidised credit.

There is a plethora of subsidised loan programmes in Alaska. The interest rate is deliberately set at a rate below the market equilibrium. Demand therefore exceeds supply and there is unsatisfied demand. Those who are not satisfied may rationally prefer to wait in the hope of a subsidy in the future rather than borrow now at market rates of interest. Subsidised credit programmes create their own economic capital shortage - there is always a shortage of gifts.

To the extent that greater subsidies have been given to rural borrowers, there is a greater capital shortage in rural than in urban Alaska. Capital shortage created in this way can be eliminated completely simply by abolishing the subsidised credit programmes. The only other way it to meet all loan demands at the subsidised rate. This necessarily involves eliminating all private supply of capital in Alaska.

(e) Government lending replaces private lending in rural Alaska.

Unsubsidised state lending supplants an equal volume of private lending. In this case, the interest rate on state loans is the same as the rate on private sector loans. Therefore, total demand for loans will be unaffected by the introduction of a state loan programme. If a borrower chooses the state programme, the state must in turn borrow the funds with which to

supply the loan. The increased demand for funds by the state is offset exactly by the decreased demand by the private sector financial intermediaries. Hence, aggregate demand remains unchanged here too. With no change in direct and derived demand for funds, the quantity supplied, i.e. aggregate saving, will be unaffected too. If the pool of saving remains unchanged, an increase in state lending to finance investment must be exactly offset by a decrease in private lending to finance investment, since saving equals investment.

This crowding in by state lending programmes will not be complete if state lending is subsidised. In this case, there will be an overall increase in saving and investment. The tax exemption of interest on bonds sold to finance state lending programmes is a subsidy illustrating this point. For example, the AHFC can sell tax exempt bonds and lend on these funds in the form of mortgages at below market rates of interest. As a result, the aggregate quantity of loans demanded increases. To be sure, this raises the market rate of interest so that the tax exemption is financed in part by all other borrowers. The main point here, however, is that the higher market rate of interest elicits an increase in the quantity supplied, i.e. in saving. Hence, both saving and investment rise.

It is not just economic theorising which provides these results. As part of this study, borrowers from the State Business Loan Program were surveyed. Of those borrowers who had approached a private sector institution before obtaining a

loan from the State's programme, only one was actually denied a loan elsewhere. Seventy-eight per cent of these borrowers simply preferred the lower interest rate charged by the State.

The rapid expansion of public sector lending in Alaska has thwarted growth of the private sector financial institutions. Since there are economies of scale in financial intermediation, state lending has kept the private financial institutions' unit operating costs higher than they otherwise would have been.

(f) Regulation causes capital shortage in rural Alaska.

Reserve requirements for state chartered banks, the franchise tax, interest rate ceilings, selective credit policies, and the Small Loan Act hold financial intermediation in both urban and rural Alaska below its optimal level, inhibits innovative lending which is essential in today's inflationary climate, and produces an economic shortage of financial capital, particularly of the high interest, high risk variety.

Below equilibrium institutional interest rates hold financial intermediation between savers and investors below its optimal level. Higher real institutional interest rates increase incentives to save and to invest, and also raise the average efficiency of investment. This is so because financial intermediaries raise real returns to savers and, at the same time, lower real costs to investors by accommodating liquidity preference, reducing risk through diversification, reaping economies of scale in lending, increasing operational efficiency and

lowering information costs to both savers and investors through specialisation and division of labour. When real institutional interest rates rise, disintermediation falls and financial intermediaries can use their expertise to allocate more efficiently the larger volume of investible funds which is then forthcoming.

2. Recommendations

(a) Subsidise people not commodities if the true concern is income and wealth distribution in rural Alaska (p.19).

(b) Subsidise houses not mortgages if the real issue is a socially unacceptable standard of housing in rural Alaska (pp.17-19, 29).

(c) Repeal the usury law, Small Loan Act, franchise tax and reserve requirements. Allow finance companies to accept deposits (pp.60-74).

(d) Abolish state lending programmes and selective credit policies (pp.63-70).

(e) If the Alaska Housing Finance Corporation stays in existence, require it to promote innovative lending by buying

price level adjusted and graduated payment mortgages (p.88).

(f) Evaluate the State Business Loan Program (p.90).

(g) Relieve Alaskans of federal tax on their saving, thereby effectively substituting a consumption tax for the present income tax. Should the state wish to encourage savings to stay in Alaska, the deduction and tax credit for federal tax on saving could, at some loss of welfare, be restricted to saving kept in Alaska (p.94).

(h) Distribute the state budget surplus to Alaskans (pp.96-97).

(i) Set the Permanent Fund management the sole objective of maximising the yield of the Fund's portfolio (p.99).

MARCH 1980

CAPITAL SHORTAGE IN RURAL ALASKA:

CONCEPTUAL ISSUES

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1. What is capital?

The term capital is commonly used to refer to at least two different concepts. Both are relevant for discussion of capital shortages. Real capital or economic capital refers to real factors of production, produced as a result of past investment, which have potential for continued productivity into the future. Concrete examples are tools, machines, buildings, roads, air strips, inventories, etc. It is not the physical nature of these things which makes them capital, but rather that (a) they are man-made and (b) they have expected future productivity. Raw land, for example, is physical, but is not capital by this definition, but any value of land over and above raw land value, which has been produced by draining, clearing, leveling, and so forth, is a capital value. Buildings and machines, although produced by human effort and investment, are not part of the capital stock, by the above definition, if they are located where they have no foreseeable economic use, or if they have been made obsolete by technology. Capital need not be physical. Human capital is an important part of the real capital stock. It is that part of human productive ability which itself has been produced by investments in health, education, and training.

This last point should serve to remind us that not all capital is owned by business firms or government--households also own capital. Equally importantly, households use capital in direct production of goods and services for their own use--housing, meals, auto repair, child care and so forth. Thus from an economist's point of view residential housing, chain saws, automobiles, kitchen stoves, and other consumer durables are all part of the real capital stock. This line of reasoning is particularly relevant for rural Alaska where much production is under-

taken by households, rather than by business firms, and is for direct use, rather than for the marketplace.

Financial capital, on the other hand, refers to financial instruments which represent either title to or claim to real capital and other useful resources. Standard examples are stocks, bonds, commercial bank business loans, trade credit, term loans, mortgages, and so forth.

The question of a capital shortage clearly involves propositions about both real and financial capital. Those who argue there is a capital shortage generally believe there is too little real capital in the industry or area of concern. They believe it would be both productive and profitable to have more real capital available to work with other factors of production. But while increasing the amount of real capital is in some sense the ultimate concern of those who believe in capital shortages (and sometimes the only concern, as when a shortage of infrastructure capital is seen as the problem), the immediate concern is usually with financial capital--with increasing the flow of both credit and equity investment which will allow firms to grow, develop, and acquire more real capital. Thus analysis of capital shortage problems usually comes down to questions of how well and efficiently various financial markets work in meeting the demands of business.

2. Capital: Stock vs. Flow

Real capital refers to man-made productive resources, produced as a result of an investment process. Since investment has been undertaken in the past a stock of capital currently exists. Thus a capital shortage may be defined in terms of the current stock of capital being smaller than the desired stock. As will become clear in the discussion to follow, the meaning and interpretation of the term "desired" is of some importance, particularly since desired capital is defined by some in terms of market demand, and by others in reference to normatively defined "needs".

Capital can also be defined as a flow concept, having a time dimension, as, for example, in speaking of the amount of real or financial capital per year flowing into a certain industry or area. A capital shortage in these terms would refer to too little capital growth in an area over some specified period of time.

Obviously the two concepts are related. People who believe there is a capital shortage often think (a) the capital stock in the area or industry in question is too small and (b) the flow of new capital to correct the situation is also too small. It is equally clear, though, that other combinations of views on stocks and flows are possible. For example, one might believe the capital stock to be too small, but be satisfied at the rate at which capital was flowing in to correct the stock shortage. Or, alternatively, one might believe the stock too small, yet simultaneously believe capital was flowing in too fast to be absorbed efficiently. A person holding this last set of beliefs would believe in a capital shortage in the stock sense and a capital surplus in the flow sense.

This discussion should alert us to the important reality that the capital shortage issue usually involves two somewhat separable questions, which are seldom well separated in public discussion: (1) what is the optimum stock of real capital for an area at a given time, and (2) what is the optimal time path of adjusting the actual capital stock to achieve the desired or optimum stock.

3. What is a capital shortage?

The question of what a capital shortage is, is more complex than it might seem. Capital shortages are many things to many people. To some people there is a capital shortage in an area if that area simply has less capital than some other area. This definition has little to recommend it. Shortage implies too little, and less is not necessarily too little. There is, for example, less capital in the middle of the Sahara desert than in industrial Detroit, but that fact could not sensibly be taken as evidence of a capital shortage in the Sahara.

Obviously, the concept of capital shortage should be rooted in some notion of the productivity of capital in alternative uses and places. It might, for example, be said there is too little capital in one place, and too much in another, if a net increase in output would result from transferring capital out of the second place and into the first. Likewise, it might be said there is too little new capital being created, and too much consumption being undertaken, if a diversion of resources from consumption to investment would improve social welfare, somehow defined and measured.

Unfortunately, though, when differences between area or regions are less striking than the differences between the Sahara and Detroit it is very common to find people declaring the existence of a capital shortage on the basis of a physical count of units of capital. More sophisticated approaches count capital per capita, or per dollar of income, or sales. But none of these definitions of capital shortage have firm analytical underpinnings, and none really come to grips with the question of what constitutes too little capital.

However, more useful definitions of capital shortage exist. In what follows several definitions will be presented and developed. The

central concept of shortage to be presented here is the economist's notion of a "positive" shortage. The term positive is derived from the school of philosophy known as logical positivism, and refers to concepts which have empirical referents and can be analyzed using the scientific method. Ideally, positive concepts are value-free, and thus the existence or non-existence of a positive shortage could be agreed upon by qualified observers of differing political or ideological beliefs. The positive shortage concept to be presented here is also often referred to as a market shortage.

The other major category of shortage to be examined here is the normative shortage. Normative shortages are defined with reference to the norms and values of an individual observer, and thus may be a matter of dispute between people with differing values. The term normative refers more to questions of what should be (value questions), than to questions of what is (scientific questions). Obviously, normative definitions of capital shortage abound, and must be addressed in any policy oriented treatment of the subject.

4. The concept of positive or market shortage

The market shortage concept will be defined here as a flow concept (that is, having a time dimension) and as it relates to financial investment capital. Simply put, a market shortage exists if the amount of investment capital available over some specified time period (a year, a decade, etc.) is less than the amount which would be forthcoming in a free competitive market.

As a preliminary to discussing the concept of a market shortage it will be helpful to develop the theory of a competitive market. Assume a free, competitive market for investment capital. The demand for capital comes from many individuals and firms wishing to acquire funds in order to make real investment expenditures. We assume so many demanders of funds that no single demander has any power over the interest rate charged; all must accept the market interest rate as given. Figure 1 shows a downward sloping demand curve for investment funds, meaning that more funds will be demanded as interest rates fall, everything else held constant.

The supply of capital comes from many sources, and is an increasing function of the interest rate, as shown by the upward sloping supply curve in Figure 1. Among the sources of investment funds are the investing persons and firms themselves, financing investment out of personal savings and retained earnings; other individuals willing to lend funds; and various financial institutions, such as commercial banks, savings and loan banks, venture capital firms, credit unions, and so forth. We assume the supply side of the market to be as competitive as the demand side, with no supplier of funds large enough to have any market power; instead, all must take market interest rates as given.

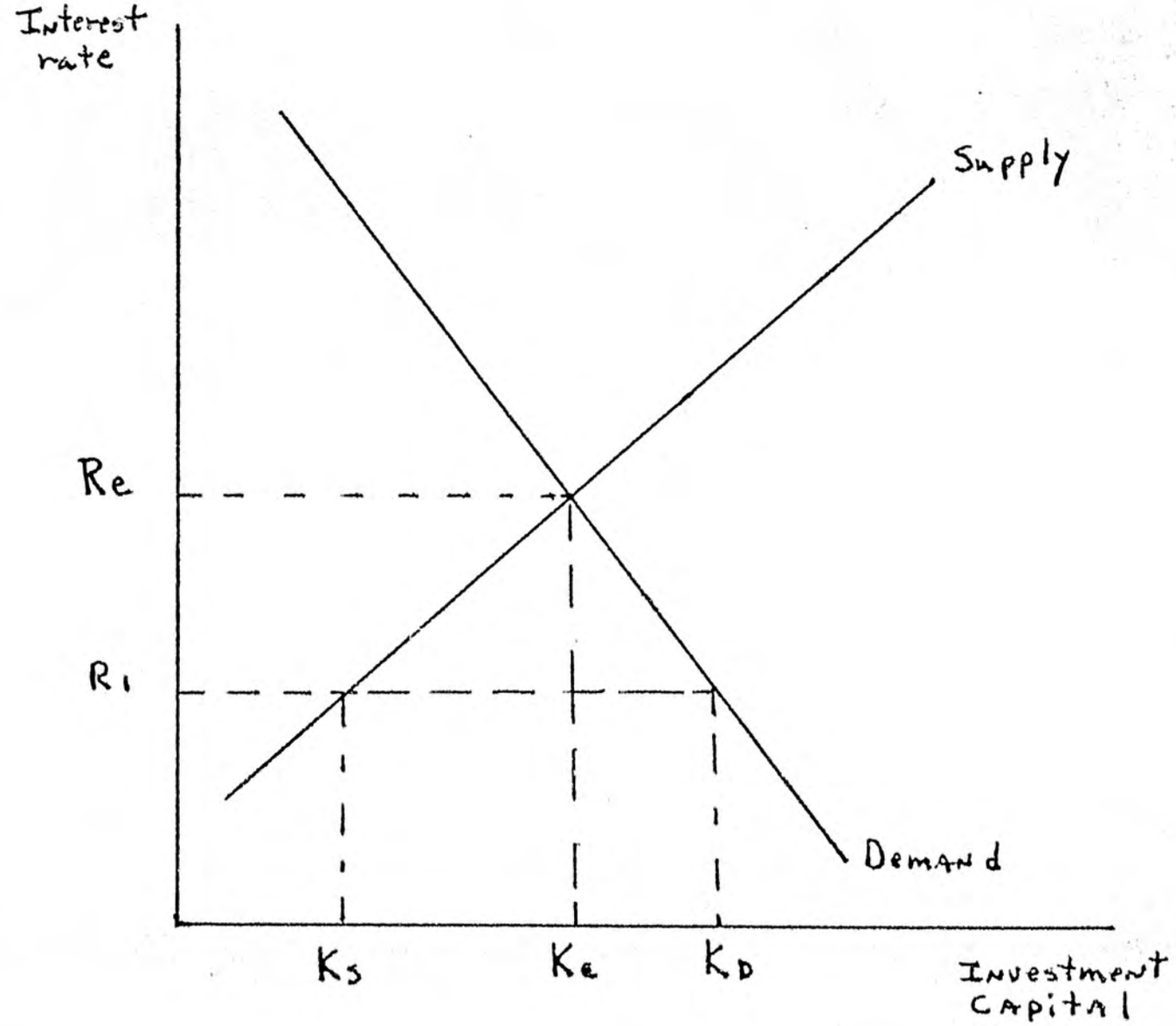
Interest rate
Supply
Re
R1
Demand
Ks
Ke
KD
Investment Capital

Figure 1

Equilibrium in the marketplace is established where supply and demand intersect. At the interest rate R_e the amount lenders are willing to lend equals the amount borrowers are willing to borrow. That amount is shown as K_e in Figure 1. In the situation just described the market clears. There is neither capital shortage nor capital surplus. The concept of positive or market shortage can now be defined with reference to the workings of a competitive market. A positive shortage is said to exist if the amount of capital actually available in the marketplace is any amount less than K_e, the equilibrium amount in a competitive market.

The efficiency significance of market equilibrium. Market equilibrium has now been described, and market shortage defined. In a moment causes of market shortages will be identified and discussed. First, though, it is important to understand why market equilibrium is generally considered economically efficient, and thus, conversely, why market shortages are considered economically wasteful and inefficient.

The market demand curve for investment funds is a schedule showing amounts of investment funds which will be demanded at various interest rates. More importantly for our purposes, though, the height up to the demand curve above any point on the quantity scale shows the maximum interest rate the most eager borrower is willing to pay for an incremental unit of capital. This willingness to pay is directly determined by the expected productivity of the would-be-investor's investment project. That is, someone expecting to reap a 20% return from a project would pay no more than 20% to acquire funding.

The market supply curve is, from one perspective, a schedule of amounts of investment funds which will be offered at various interest

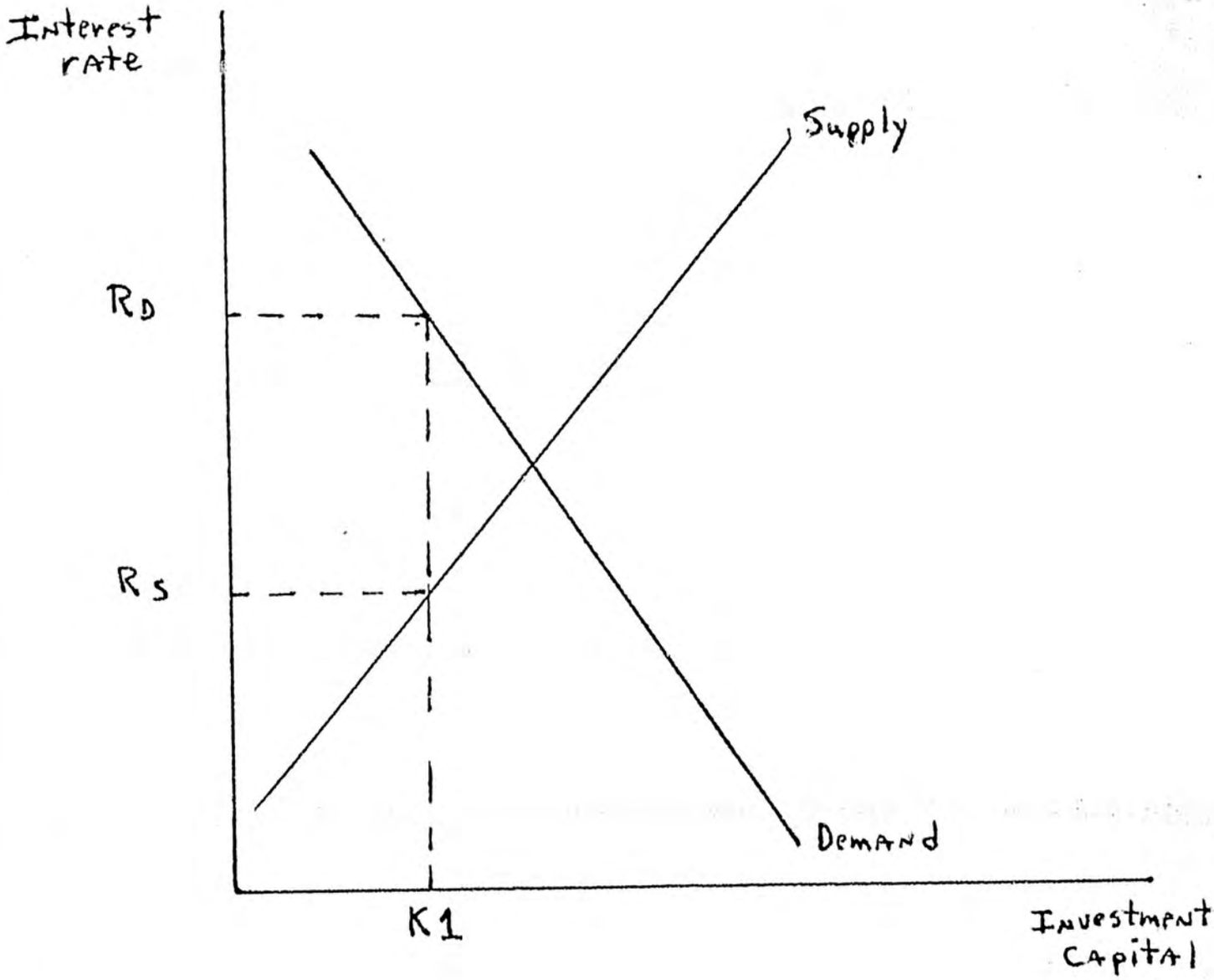

Figure 2

rates. However, for our purposes it is more useful to read the supply curve vertically. The height up to the supply curve above any point on the quantity axis can be interpreted as showing the minimum interest rate the most eager lender would have to receive to make him willing to offer an additional increment of investment funds.

Now, with the above as background, consider three market situations as shown in the following graphs. In the first case (Figure 2), the supply of capital to the market has stopped just short of the amount K_1. What are the consequences of suppling the next unit, K_1? It costs some lender the amount R_s to supply that unit. That is, some lender would have to be paid R_s to part with that unit, and presumably the amount he must be paid reflects the value he places on that unit because he has other uses for it (personal consumption, investment in his own firm, investment in markets in other areas, countries, etc.). However, if the unit is supplied to the highest bidder in this market it will go to someone who will invest it in a project yielding R_d return. Thus, if the unit is supplied it is transferred from a use yielding R_s to a use yielding R_d, for a social gain of $R_d - R_s$.

This gain would all be given to the lender if interest rate R_d was charged. If R_s was charged all gain would go to the borrower, and the gain would be split up various ways if various rates between R_s and R_d were charged. But no matter how the gain is split up the important thing is that potential for such a gain exists when supply has stopped anywhere to the left of equilibrium. Economic efficiency in the capital market, then, has to do with realizing such gains by seeing to it that investment resources flow from suppliers to demanders so long as R_d is greater than or equal to R_s. A free competitive capital market produces

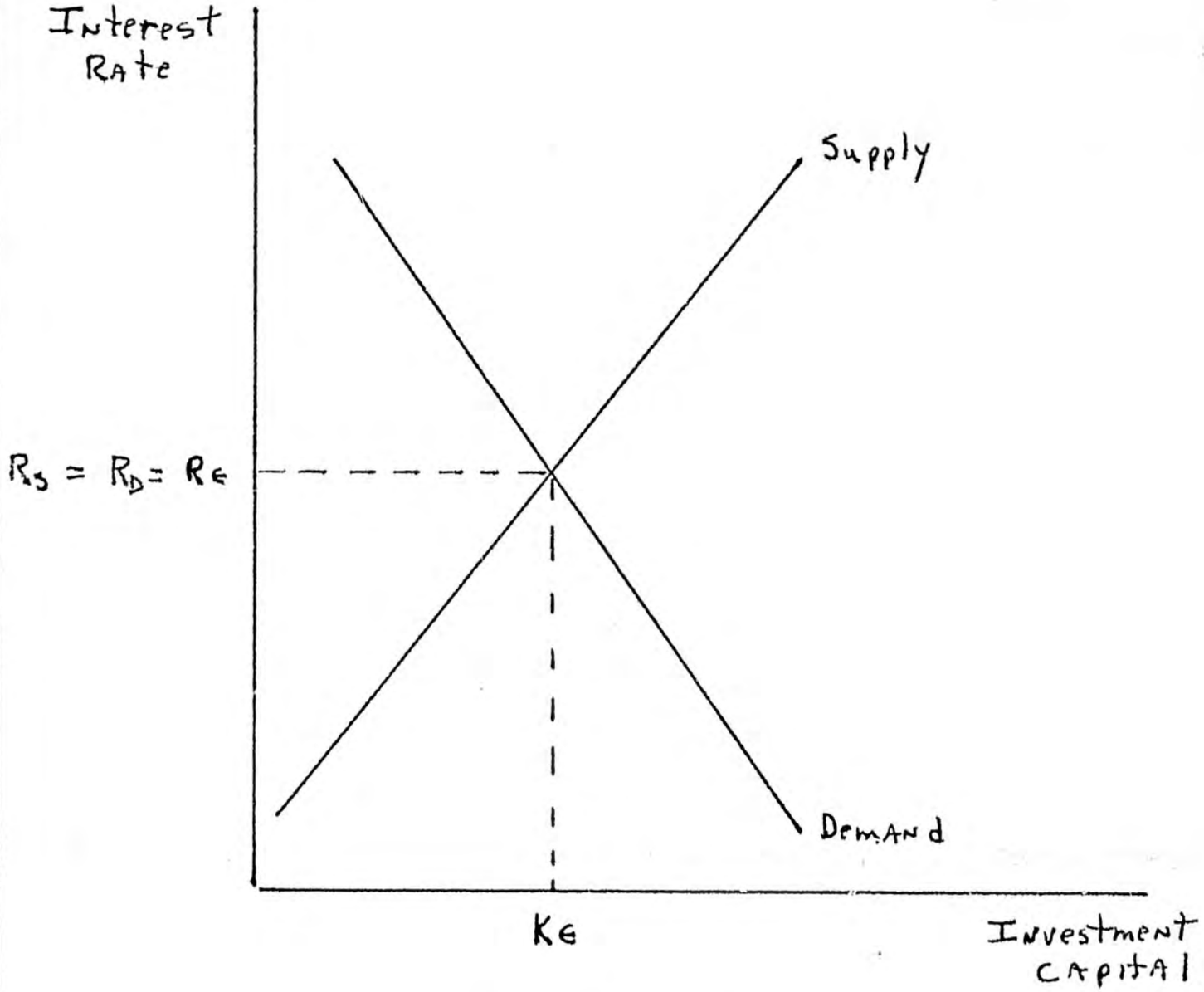

Figure 3

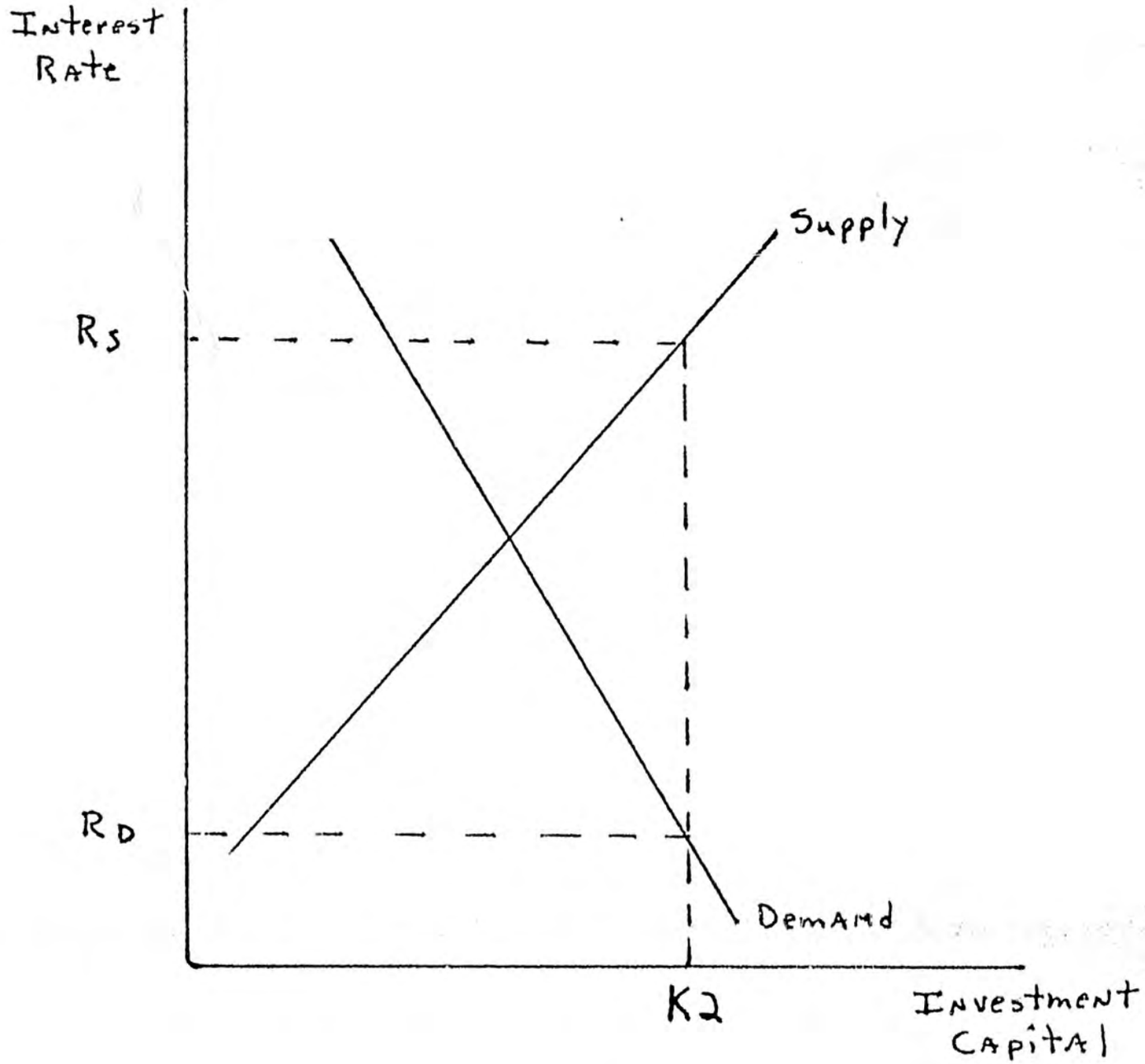

Figure 4

an efficient allocation of capital because it sees to it that the supply of capital does not stop at a point like K_1, but instead is taken up to the equilibrium amount, K_e.

Now consider Figure 3. Here investment has been taken up to the K_e unit. At this point the interest rate some borrower is willing to pay, R_d, is just equal to that some lender must receive (R_s) to supply the unit K_e. It makes no social difference whether this unit of capital is left in the hands of the lender or passed along to the borrower; the rates of return are the same in both uses.

Finally, consider Figure 4, which shows investment having been taken right up to the point where K_2 is the next unit of investment to be considered. If the K_2 unit is transferred from lender to borrower it leaves a use where it returns R_s and moves to a use where it returns the lower amount, R_d, for a social loss of $R_d - R_s$. It would be economically inefficient to make such a transfer, because it would lower the rate of return gotten from investment resources. The free competitive market will see to it that such transfers are not made, because it will settle at K_e, rather than moving up to points like K_2.

It should be clear from the above analysis that (1) market equilibrium has normative importance because it represents taking investment up to the point where no more social gains can be made through investment, and (2) that capital shortages (stopping the supply of capital anywhere to the left of K_e) are economically wasteful because they leave some social gains from investment unrealized, and (3) that excess investment (taking investment beyond K_e) is also wasteful, because it involves cases where funds are taken from higher valued uses and transferred to lower valued uses.

This last point should serve to warn us that public policies aimed at eliminating capital shortages should be precisely targeted, for if they overshoot they may be as wasteful or more wasteful of scarce resources as the condition they are meant to correct.

Capital shortages with their resulting waste of resources can be caused by a number of factors and conditions. We will now examine and analyze the most important of these.

Causes of market shortages. Number one: temporary shortage due to changes in market conditions. Assume the market is in equilibrium where S and D_o intersect at R_e, K_e as shown in Figure 5. Now assume the demand for investment funds shifts out to D_1. At the old interest rate, R_e, the quantity of funds supplied will remain at K_e, while the amount demanded will increase to K_d. This causes a gap between supply and demand of $K_d - K_e$, which is felt in the marketplace as a shortage. However, if interest rates are free to fluctuate in response to market forces, such a shortage will be temporary. The market interest rate will rise to R_1, restoring equilibrium where supply and the new demand are equal. This new equilibrium will have the same normative significance as the old one did. Given the new set of forces in the marketplace the combination of R_1, K_1 is economically efficient.

Causes of market shortages. Number two: permanent shortage due to legal interest rate ceilings. Assume events proceed exactly as in case number one, just analyzed, up to the point where the interest rate must rise to restore equilibrium. Now assume the interest rate has been legally pegged at R_e, so that it is illegal for the rate to rise to R_1. If the rate ceiling is enforced and effective then it will cause a permanent shortage. The efficient level of capital, given the new forces

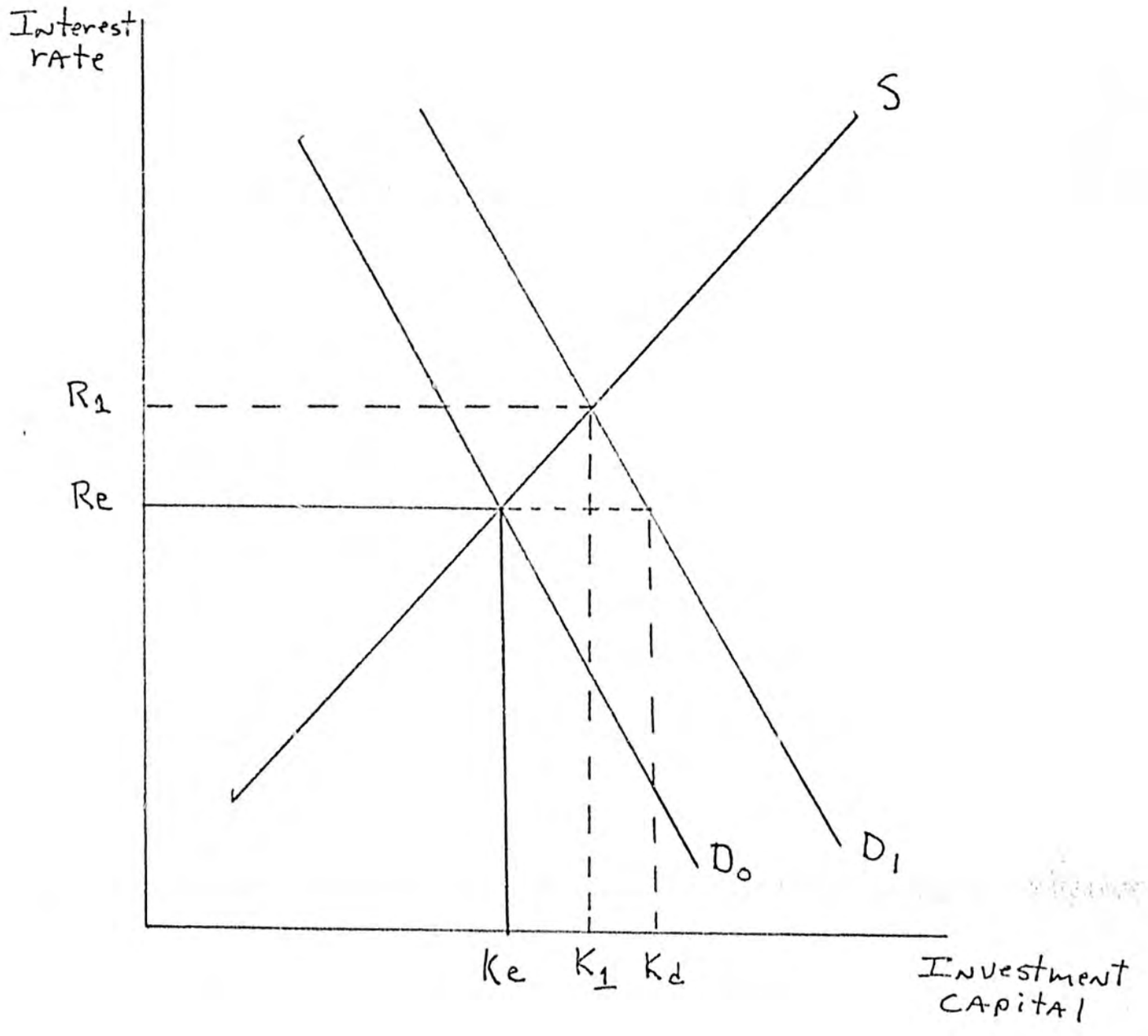

Figure 5

in the market would be K_1. However, due to the rate ceiling the supply of capital will remain permanently fixed at K_e, for a shortfall of $K_1 - K_e$. Further, the increase in demand at the low interest rate R_e will mean a felt shortage of capital of $K_d - K_e$. This permanent shortage of capital will be economically wasteful and inefficient in the sense defined earlier.

Causes of market shortages. Number three: temporary shortage due to short run monopoly power. If a particular market has only one supplier--a monopolist--rather than being competitive, then the general result will be a higher interest rate and a lower quantity supplied than would be the case in a competitive industry. This result is illustrated in Figure 6, where R_c, K_c is the competitive result, while R_m, K_m is the monopoly result. The monopolist reduces quantity and raises price in an attempt to increase profits. If he is successful and reaps a rate of return above that available in other markets he will attract new entrants eager to cut themselves in on the profits. In this particular case we assume free entry, which restores competition to the market, eraces the monopolist's power, and eventually drives interest rates down to the competitive level. Thus the shortage, $K_c - K_m$ is only temporary, and is ultimately eliminated by market forces.

Causes of market shortages. Number four: permanent monopoly power. Assume events proceed exactly as in case number three, above, to the point where entry of new firms is necessary to restore competition and eliminate the shortage. If, for some reason entry of new firms never takes place, then the monopoly survives and the shortage becomes permanent. Two possible sources of this condition deserve attention. First, it is possible that the monopoly may become permanent because the market

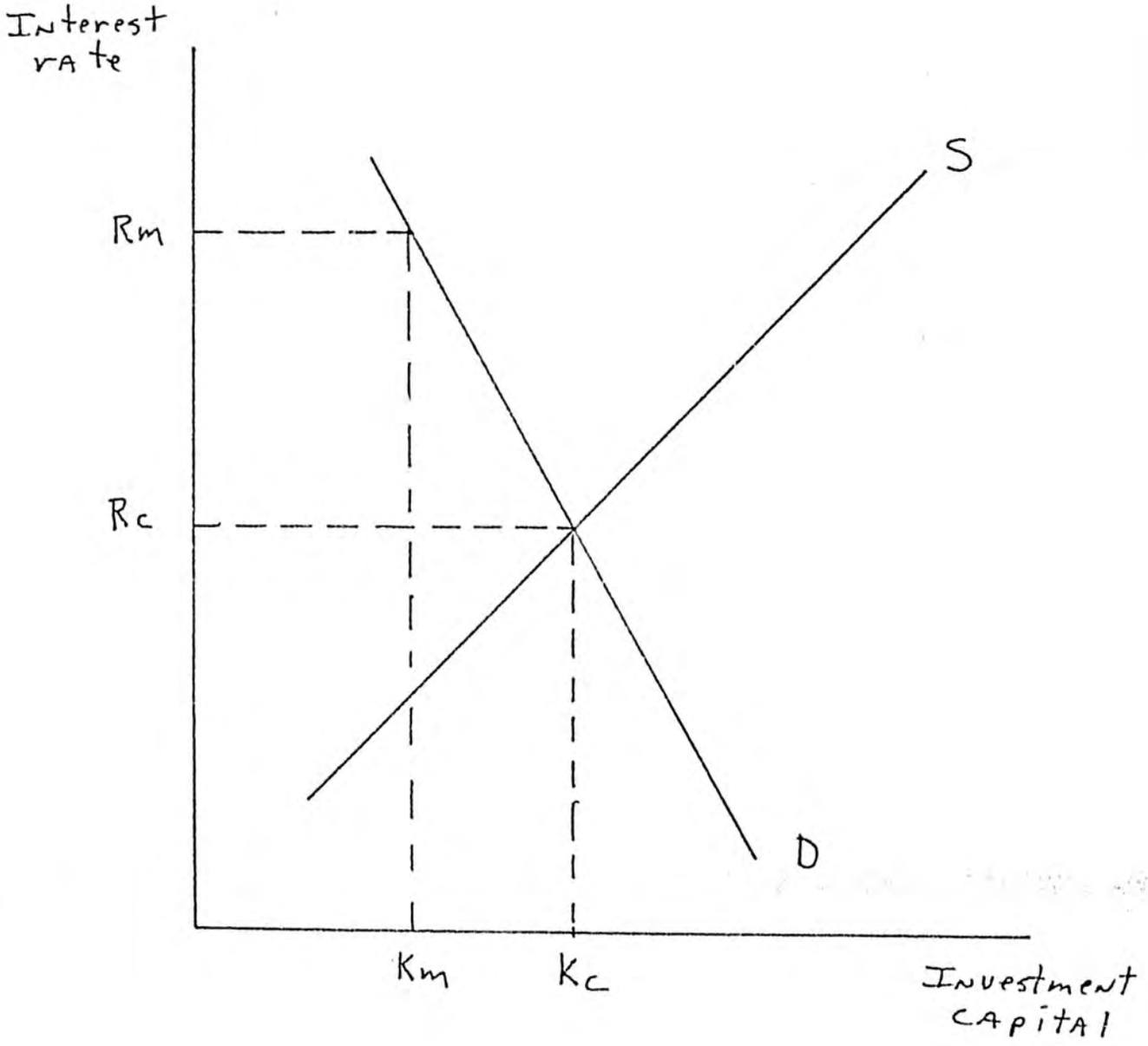

Figure 6

group policy. In medical insurance, to draw on that field for yet another example, the loading charge typically adds only about 10% to the premium for a group policy, but adds 50% to the cost of individual policies. Obviously, some people who would be willing to buy insurance if they could get it at group rates, would be unwilling to pay individual rates. (Others, of course, will insure against some risks even at very high cost, which provides a market niche for firms like Lloyd's of London.) Thus some forms of risk will remain uninsured because the market is unable to economically form groups, and must offer, instead, only individual policies at prohibitive cost.

Whether this constitutes a market failure is itself a matter of controversy among economists. Some, like K. Arrow (again) argue government as a "group" which encompasses all members of society can insure against most risks at a loading charge lower than that found in even large private group policies. Arrow thus argues much of the private insurance market fails by comparison with public provision of insurance. Critics of this position, such as M. Bailey and M. Jensen, argue that even if Arrow's position is correct in the abstract, in practice government has a history of providing services inefficiently and at high cost. Further, recent developments in the economic theory of government bureaucracy suggest that inefficiency and excessive cost may be inherent in bureaucratic behavior. In light of these criticisms it seems clear that there can be no a priori presumption that government can provide insurance more cheaply than the private market, and thus efficiently reduce business risk. Whether government can in fact do that would seem to be a subject for careful case by case study, focusing on realistic estimation of expected costs of government operation of insurance schemes.

is too small to support more than one firm. In this case potential entrants may be able to see that their entry will drive profits to below levels available elsewhere, and thus will choose not to enter the currently monopolized market. A second possibility, very relevant in many states, is that State franchising and branching laws pertaining to financial institutions may prohibit entry into particular markets, thus making competition illegal, protecting monopoly prices, and perpetuating local capital shortages.

Causes of market shortage. Number five: inadequate market mechanisms for risk pooling and risk insuring. Some economists, most notably K. Arrow, have argued that the market demand curve for capital is too far to the left because of the failure of markets to develop to allow firms to insure against risk and to pool various risks in a fashion which would reduce overall risk. Since firms must bear the risk themselves, it is argued, and since firms presumably consider risk a bad, they will react by undertaking fewer risky projects at every level of the interest rate. This shifts the market demand for investment capital to the left, as compared to a situation where all risk is pooled and insured against.

The market equilibrium with pooling and insurance is shown as R_e, K_e in Figure 7. The equilibrium with incomplete pooling and insurance is shown as R_1, K_1. The result is a capital shortage of $K_e - K_1$. Note, however, this is not a shortage which will be felt by firms which accept existing risk and risk-bearing arrangements as part of the economic facts of life, for the market will be responding to their demands for capital, and equating supply and demand. Rather, this is a shortage perceived by an outside observer who is looking at the world as it might have been, had institutions worked differently than they actually do.

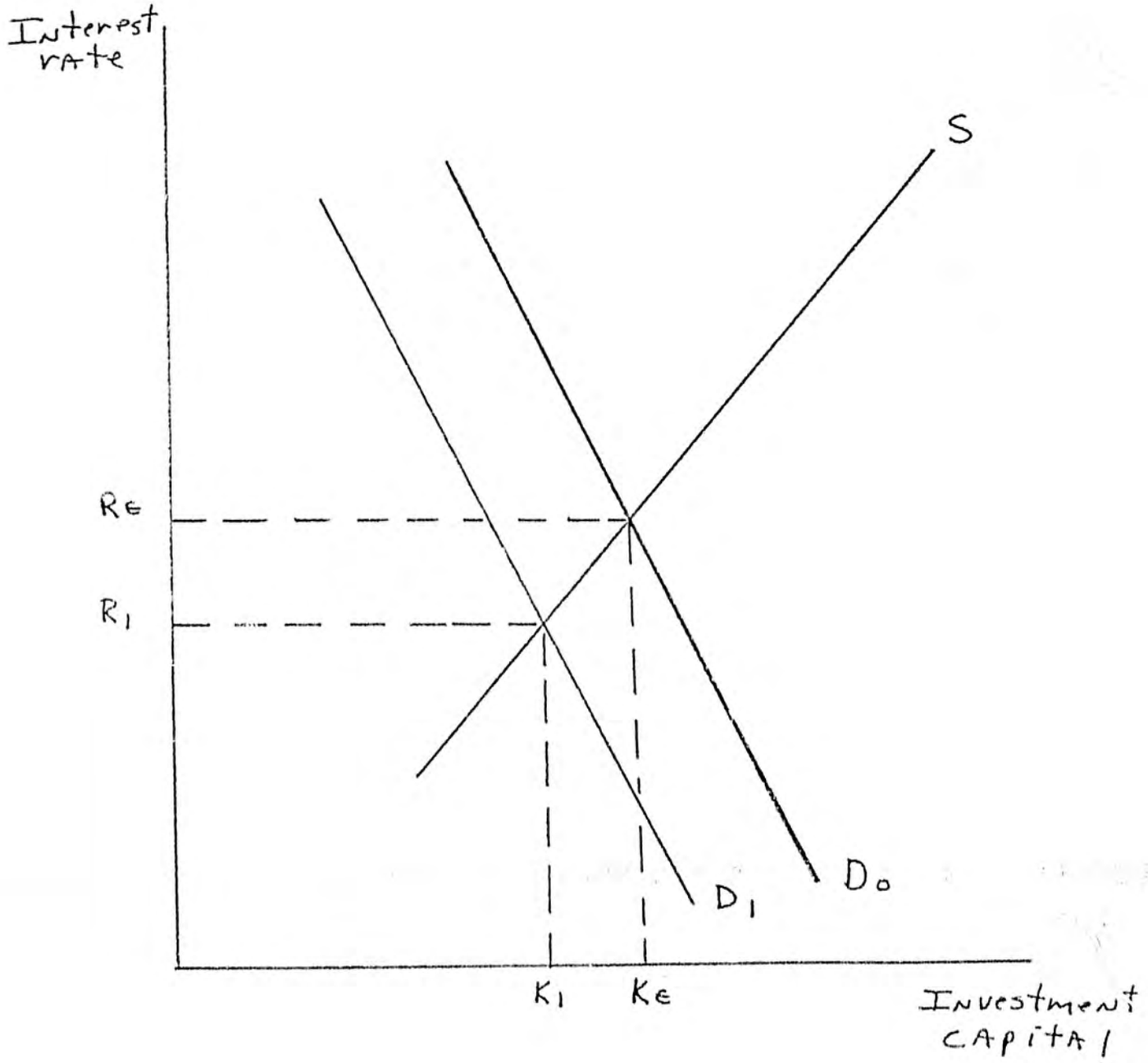

Figure 7

The existence, magnitude, and significance of this sort of market shortage is a matter of some controversy in the economic literature. This is primarily because it is not at all clear that all risks should be insured against. The two key questions are whether or not all risks are insurable, and whether the benefits of insuring against particular risks are significant enough to justify the real costs of insurance. These questions will be considered in turn.

To be fully insurable a risk must be random, out of the control of the insured. If not, then insurance will alter the behavior of the insured by freeing him from the consequences of his actions. This usually leads to the waste of resources. For example, a person's medical expenses are partly a function of the random occurrence of illness, and thus insurable; however, they are also a function of discretionary behavior of the individual--frequency of doctor's visits, following doctor's orders, choice of private hospital room rather than double room, and so forth, and thus to some extent are uninsurable. If insurance lowers the point-of-service price (to zero in many cases) patients will demand more and higher quality medical care. In insurance jargon this is known as "moral hazard". That is, the existence of insurance tempts the insured to take advantage of the lower price or cost of certain actions. Various devices such as deductibles and coinsurance have been developed to reduce the extent of moral hazard, but it is not possible to eliminate it completely, and as a result some risks are so closely related to the behavior of the insured that they remain essentially uninsurable.

Moral hazard is an extremely relevant concept for analyzing insurance of business risks. The risk of failure of certain capital investments may be partly related to things outside the control of the indivi-

dual firm--such as weather, national inflation, unforeseen changes in government policy, fishing or growing conditions, technological change, inflation of fuel and transportation costs, and so forth. However, failure of a capital investment may also be due to the firm's bad judgment, poor management, poor cost control, bad consumer relations, and so forth. If the firm is insured against loss, then obviously it has few incentives to be prudent and efficient. This moral hazard problem makes many business risks essentially uninsurable. The insurance markets will recognize this, and will not offer insurance for risks of this type. This will be economically efficient, and the absence of such insurance will not constitute a market failure.

A second reason why not all risks will be insured in the real world is related to the costs of providing insurance. A risk adverse person will always buy actuarily fair insurance. However, actuarily fair insurance will never be offered in the marketplace. Instead, all insurance premiums will include a "loading charge" to cover expenses, including a normal profit. If the loading charge (and thus the total premium cost) is large enough even a risk avoider will choose to self-insure (bear the risk), rather than purchase insurance.

Since there are certain minimum costs of designing and marketing insurance policies, premium costs will undoubtedly be too high to make insurance worthwhile for many small, relatively predictable, potentially insurable risks. The absence of insurance for such risks should not be considered economically inefficient. Another category of insurance which may get priced out of the market is insurance which must be written as a custom, individual policy, rather than a group policy. The loading charge will generally be much higher in an individual policy than in a

Causes of market shortages. Number six: shortage due to the nature of infrastructure capital. The market demand curve for investment funds reflects the willingness of firms to undertake real investment projects, and that willingness in turn varies with the firms' expectations of being able to reap the benefits of their investments. If firms are producing private goods (fish, shoes, etc.) which they can treat as their private property and sell in the marketplace, then they will be willing to undertake investment projects which they calculate to be potentially profitable. However, if particular projects generate primarily public benefits which firms cannot sell or otherwise capture, then such projects will appear unprofitable, and no demand for investment capital for such projects will be registered in the marketplace. In between these extremes are mixed goods, which generate both private, marketable outputs, and public, unmarketable benefits. If the private aspects are large enough, relative to costs, some of these projects may be undertaken, and a related demand for capital registered in financial markets. However, the demand will be understated from society's point of view, since the social benefits will not enter firms investment decisions. In more concrete terms, this will mean that mixed projects undertaken will tend to be too small and less extensive than optimal. If investment decisions on such projects are left purely in private hands, then, too little investment capital will be demanded, there will be a capital shortage as compared to social demands for capital, and the resulting real stock of capital will be inefficiently small.

It is generally argued that what is usually referred to as infrastructure capital is of this mixed nature, with the mix heavily weighted toward public benefits, and thus subject to serious shortages if

left to private capital markets. While this may generally be true, it is also important to be careful and cautious about categorizing projects as infrastructure. A project cannot be sensibly identified as infrastructure and thus the responsibility of the government on vague grounds that it would "open up" an area and stimulate development. Rather, it is necessary to estimate as precisely as possible the nature of the expected benefits, to classify those as private and public, and to make an explicit judgment as to whether or not private benefits are substantial enough to stimulate private investment in the project.

It would be generally incorrect, for example, to say that roads _per se_ are infrastructure. Particular roads may be. But other roads may have essentially private benefits which can be captured by private firms, and thus such roads will be efficiently produced by the market. Logging roads, for example, generally fall in this category. While logging roads are usually short and local, the length of the road, in and of itself, has little bearing on whether markets will correctly allocate resources to its construction. Rather, the key questions are who the benefits accrue to, and whether or not a private builder can capture or charge for those benefits. A long road to a remote mineral deposit, for example, crossing no other roads, railroads, or navigated rivers, might be of benefit primarily to the firm owning and exploiting the mineral deposit. Further, if the road would make feasible spur roads to other exploitable properties the firm would have an incentive to identify the potential beneficiaries and approach them about building the main road as a joint venture, or failing that, to administer the main road as a toll road, and thus collect for external benefits created.

It is also important to note that such market responses to infrastructure opportunities may be short-circuited by government action. If the government had an ongoing policy of road building to stimulate economic development the mineral-owning firm of this example might adopt a strategy of not building, in the hope that the government would eventually build the road and provide it free of charge to all users. In this case, government policy would be crowding out private investment and creating a capital shortage in the private market.

Causes of market shortages. Number seven: uncertainty about government policies. Firms undertake investments on the basis of expected profits (often, of course, considering as well the variance around expected mean profit). Prediction of expected profits from many investments may be uncertain at best, due to the influence of many real economic factors beyond the firm's control. When, in addition, the political process generates uncertainty for the enterpreneur about what the rules of the game will be when his investment comes on line and begins to pay off, then potentially profitable investments may be deterred, and the private capital market may come to an equilibrium level far short of what would have been achieved in a more stable political environment.

In this context the case of the country of Nepal is both striking and informative. In the mid-1970's Nepal's Agricultural Development Bank and the Agricultural Projects Services Center identified a number of agricultural investment opportunities they estimated would produce 30-35 percent return on investment. Strongly believing these projects to be in the national interest the Nepalese government took a number of measures to promote private investment in these areas. It required commercial banks to lend at least 5 (later 7) percent of their total

deposits to farmers and small scale enterprise. To assure farmers access to credit it subsidized the establishment of branch banks in areas previously lacking banks. The Credit Guarantee Corporation was set up to guarantee up to 80 percent of agricultural and industrial loans. Potential investors were given access to the technical services of government agencies expert in project appraisal.

Despite all these stimulative measures agricultural investment in Nepal remained at low levels. The best explanation for the failure of agricultural investment to respond to the above measures appears to be that while the government was giving with one hand, it was taking with the other. Its income tax assessments were arbitrary and unpredictable, its excise taxes were changed capriciously from year to year, it imposed price controls with the incompatible objectives of both raising prices to farmers and lowering them to consumers, it imposed controls over the movement of goods within its boundaries, as well as into foreign trade. In short, it constantly altered the rules of the economic game, and created great uncertainties for enterpreneurs about what prices, taxes, and trade restrictions they would face at any given time in the future.

Further, and even worse, the pattern of government action made it clear to entrepreneurs that most changes in policy were directed at industries and sectors which had begun to generate visible profits. Quite predictably, entrepreneurs responded to these conditions by refusing to make the investments and take the risks necessary to develop Nepal's agricultural sector.

The lesson here seems sufficiently clear. Government produced risk and uncertainty about the treatment of future profits can negate strong

development incentives, and slow or eliminate private capital formation. If government arbitrarily increases the taxes on any sector or industry just because it has become more profitable, enterpreneurs in other sectors will read this as a message that if they become successful they too will be singled out for special treatment. This will reduce their estimates of after-tax profits to be expected from various investments, and thus reduce the amount of investment they undertake.

Causes of market shortages. Number eight: effects of taxation and regulation. Government taxation and regulation of particular financial institutions will raise the costs of those institutions, shift their supply curves up and to the left, and cause the equilibrium amount of capital produced to be less than if such taxation and regulation had not been imposed. The policy relevant questions here are (a) whether the regulations serve any useful function, and if so, whether the same result could be achieved with some other policy tool which would have less effect on the output of capital, and (b) whether the taxes are actually charges for some social costs of the industry, or merely revenue raising devices, and if the latter, whether other taxes could raise the same revenue with less disruption of the capital market.

5. The concept of normative shortage.

Much popular and political conceptualization of capital shortage falls into the category of normative shortage. As noted above, a normative shortage is one which is defined with reference to individual norms and values. Rather than focusing on the demand for capital, the normative shortage concept usually centers on perceived "needs" for capital. Normative shortages can be perceived even when capital markets exhibit none of the problems described in the previous section.

The basic difference between a market shortage and a normative shortage can be easily understood with the aid of a simple graph. Let the equilibrium of a well functioning capital market be shown by the intersection of supply and demand in Figure 8. The equilibrium, economically efficient amount of capital generated in this market is Q_e. There is no market shortage. Assume, however, that some interested party believes that a particular amount of capital is "needed" in this market, at this time. Let that amount be K_n, and let the vertical line N be the capital needs curve implied by this person. This person will then perceive a capital shortage of $K_n - K_e$.

Several specific forms of the normative shortage concept will be discussed below. First, however, it will be useful to critically examine the notion of capital "needs". The needs concept is frequently used in public discussion of many different issues. We are told that we need more national defense, more school, highways, tennis courts, medical care, and so forth. This approach to public policy has been criticized by economists on a number of grounds. First, needs are subjective and individual. What one person sees as a need, another may not. Thus there is no way to objectively determine what public needs are for any particular good or service.

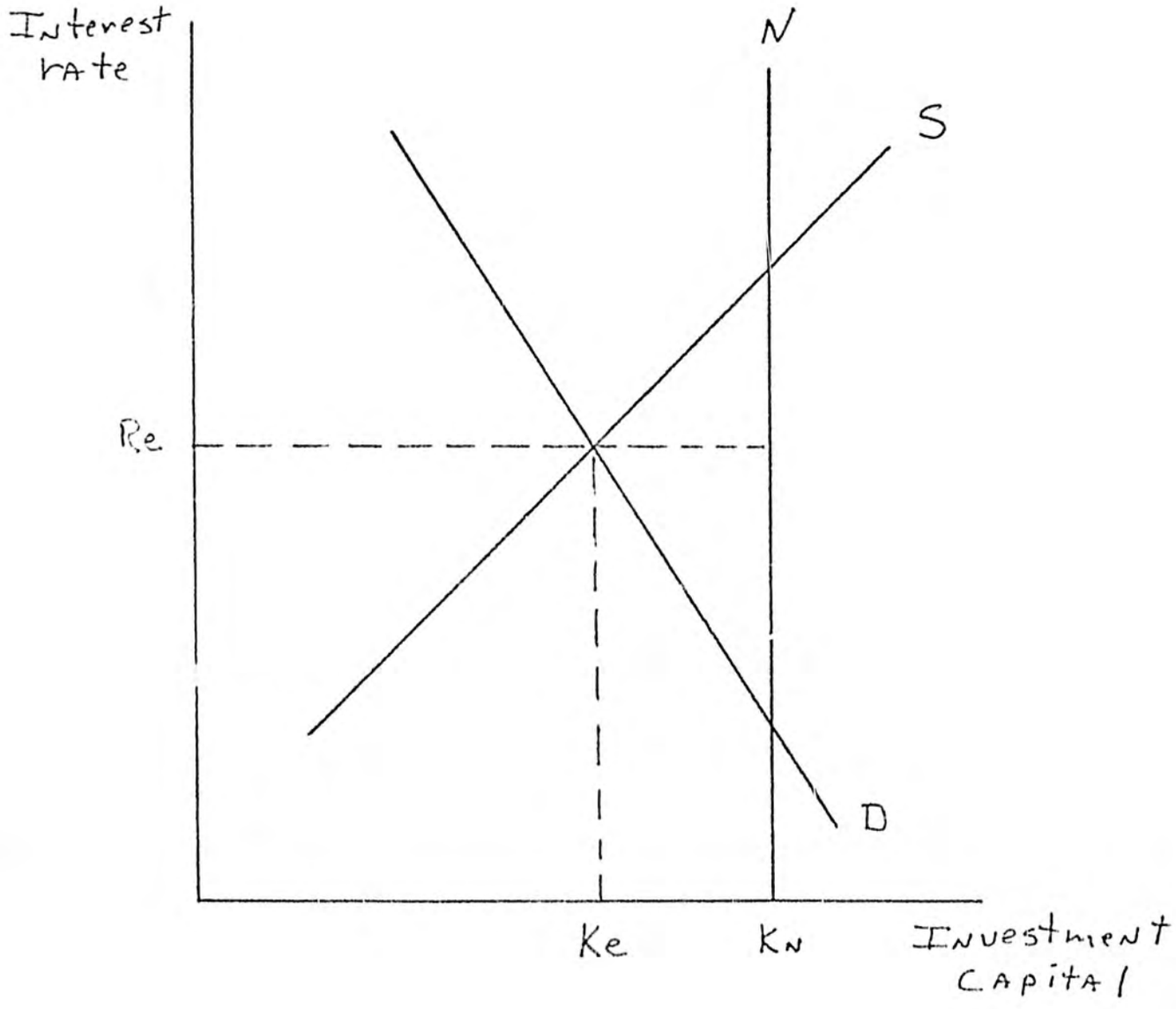

Figure 8

Second, needs are proclaimed as if there were no overall scarcity of resources. That is, if all the needs perceived by various parties were added up they would be found to far exceed the capacity of the economy to produce output. The needs concept itself provides no mechanism for deciding which needs are most important. When the reality of resource constraints is brought home to those who think in terms of needs they are forced to develop concepts of "urgent needs" and "high priority needs", but these are just ad hoc verbal expedients, which serve as crude, unsatisfactory, and unsophisticated methods of defining relative values.

Third, and perhaps most important, the needs concept ignores cost. Does an individual "need" a new car if cars cost $5,000? Perhaps. Would he still "need" only one if the price dropped to $2,000? How many would he need if price went to $20,000? Obviously, people do not behave as if they had fixed, absolute, immutable needs for various goods and services. Instead, they behave as if they had demands, which vary inversely with price. The same is true on the production side of the economy. Firms do not have fixed needs for particular amounts of labor, capital, land, raw materials, and other inputs. Instead, they have choices as to how they will organize production, and their actual choice will depend largely on the relative prices of various inputs. If relative input prices remain constant for a long period of time firms may get used to doing things a certain way in response to these prices, and there may be casual talk about needing a certain amount of, say, capital to get a job done, but it can be confidently predicted that in most cases if capital becomes more expensive relative to other inputs firms will soon find ways to economize on capital, and some of their "need" for capital will melt away.

The same line of reasoning holds on a social level. The concept of public or social needs is at least misleading, and usually wrong. There are no needs for anything. There are only demands, which vary with price. Does society, for example, need more doctors, because we need better health? The questions to be asked are these. Do we individually, and as a society, want a given amount of improvement in health, no matter what the cost, or are we willing to improve our health more the less it costs us, and less the more it costs us? If we have set a target level for improvement in health do we need a given number of doctors to achieve that target or do we have the option of producing health using fewer extra doctors and more extra physician's assistants, nurses, machines, drugs, and so forth, or of producing health through changes in individual patterns of diet, drink, smoking, exercise, etc? And if we have such options should we not, as a society, explore their cost and choose the cheapest method of achieving our objectives? Once public choice problems are phrased this way "needs" seem somehow to evaporate, and the needs concept stands revealed as an impediment to clear thinking.

Having looked in the abstract at some problems inherent in the notion of normative shortage we now turn to analysis of specific normative shortage arguments.

Normative shortage arguments. Number one: infrastructure shortage. As earlier noted, private capital markets will generally fail to produce optimum amounts of the kind of infrastructure investment which produces widespread public benefits. Thus there can be positive or market shortages of infrastructure capital. In addition, though, the infrastructure concept can be a useful ploy for special pleading by groups

standing to benefit from large scale government investment. Thus arguments are advanced that certain projects are "needed" to open up an area, create jobs, and develop the economy, even though economic analysis would show the costs of these projects to exceed the benefits.

That these arguments are often influential is due to several factors. First, many people are confused about the difference between costs and benefits. In popular discussion, for example, jobs and economic activity are usually touted as benefits of government spending, whereas, in fact, from a social point of view, they are costs. The benefits of capital investment projects are the goods and services which ultimately are produced as a result of the projects. The costs are the resources used up and the opportunities foregone in undertaking the project. Thus the use of labor time, raw materials, machine hours, managerial time, and so forth in a project is a social cost, because those resources are used up, and thus unavailable for other productive purposes. Clearly, the government in its fiduciary responsibility to the public has an obligation to minimize these cost, rather than maximizing them by pursuing policies of job "creation".

Jobs represent private benefits to those holding them. Orders for concrete, steel, new machines, earthmoving services, transport services, and so forth represent private benefits to those receiving them. But for every dollar of these benefits there is a dollar of private costs; every dollar paid to workers, suppliers, and transporters must come out of someone else's pocket. Thus from the viewpoint of a society defined to include both receivers and givers, payment for work and contracts on infrastructure capital just represents a transfer of income from some groups in society to others.

Whether such transfers have been socially productive cannot be determined without looking at the output which actually results from the projects undertaken. The least favorable case is the boondoggle, leaf-raking sort of project which creates no socially valued output. In this case, society has incurred the costs of using up various valuable resources, and has gotten in return only a transfer of income from some groups to others. Analytically this sort of project is indistinguishable from public welfare, and should be judged by the same standards as other welfare programs, namely, its progressivity, its cost compared to other redistribution mechanisms, and its indirect effects on various social indicators such as crime, alcoholism, and divorce statistics. The boondoggle is obviously a real danger in infrastructure expenditure. It may take the form of construction of "white elephants" in rural areas, or, subtly, of building things too big, too fine, too strong, or too heavy.

More common, though, is the infrastructure project which does create some socially valued output, e.g., a dam which produces electricity, navigation, irrigation, and flood control benefits, but which costs more to construct than the benefits are worth. In this case, part of the cost of the project is recovered through the production of benefits, and thus part of the payment to workers, suppliers, transporters and others represents compensation for value received, but the remaining part is pure cost, and is a form of public welfare for those receiving it. Advocates of spending on capital "needs" in such cases often emphasize the "public interest" in their presentations, because they can now point to r[illegible] benefits which will be forthcoming if their pet projects are undertaken. The groups previously identified will be joined in this

advocacy by any others who can reasonably expect to enjoy the coming benefits free of charge or at subsidized rates. Implicit in all such advocacy is the implication that the existence of any benefits at all is sufficient to justify public investment. This implication, of course, cannot survive the light of day; public investment is justified only if net benefits will be produced, and, further, is best justified at the project level where net benefits are maximized.

A second reason why normative capital shortage arguments often succeed has to do with the distribution patterns of the costs and benefits of public investment. Typically, the private benefits of income earned from construction projects are heavily concentrated in a relatively few workers, suppliers, and transporters. These persons all have big stakes in seeing that various projects are funded, and thus find it worthwhile to invest in political action, lobbying, campaign contributions, and so forth to see that their views get full hearing and consideration. The costs of government spending, though, are usually spread thinly through the population via the tax system, and thus few individual taxpayers have much to lose from a decision to undertake any one project, or much to gain from informing themselves and taking political action to block wasteful projects. The net result is a political bias in favor of closing various normatively defined capital gaps.

Normative shortage arguments. Number two: an income shortage viewed as a capital shortage. Income disparities exist at national, state, and local levels. It is not unusual to find those concerned about the poor advocating, at all three levels, capital spending in low income regions to first, provide income from jobs, and second, provide improved living standards once the real physical capital is in place. Sometimes

this advocacy is based on an argument that there has been a market failure and that capital spending will produce real benefits in excess of its costs. But more often this policy is proposed out of a normative argument that such spending should be made irrespective of narrow economic calculations, just to help the poor.

If the plea for more capital spending is based on a positive argument then the alleged capital shortage should be investigated just as any other, to determine whether it actually exists, and, if so, how serious it is. On the other hand, if the shortage is normative then it should be pointed out that the real shortage of concern is one of income, not of capital, and that providing capital is just one of several ways to provide more income. The alternative ways of providing more income in a particular case should be identified, and their pros and cons analyzed and weighed. There is no a priori presumption that providing capital is the most effective or efficient way to deal with an income shortage.

In general, the alternatives to capital grants are cash grants, income in kind, subsidized goods and services, price and wage controls, and retraining and relocation subsidies. Issues to be considered in choosing among the alternatives are their effects on work and investment incentives, their effects in terms of real resources used up, their effects on the welfare of givers relative to the welfare of recipients, and their effects in terms of displacing private, voluntary economic activity. A brief survey of these issues will be useful.

Incentive effects. Any program of income redistribution will have effects on the incentives of both givers and recipients. It is generally argued that taxing higher income groups reduces the return to them

from work and risk-taking, and thus will reduce both their work effort and their willingness to invest in risky undertakings. At the other end of the income scale, it is argued, giving income to the poor reduces their incentive to help themselves out of their plight. None of this is to say income redistribution is undesirable. It is merely to point out that there are costs involved in income redistribution, in terms of effects on the overall level of economic activity. The question of real importance, though, is how those costs vary with the mechanism of income redistribution chosen.

Some mechanisms are notorious for their negative effects on work incentives. Unemployment insurance, for example, nearly destroys a recipient's incentive to take a low paying job because all unemployment benefits stop when work resumes, and thus the net gain from working may be negligible. One detailed study estimated unemployment insurance to have the same effects as an 86% marginal tax rate--a rate far in excess of that levied on the highest income people in our society. Another mechanism of income redistribution, price supports, often has the opposite effect--it stimulates more work and investment. Unfortunately, though, the work and investment are usually misdirected, and lead to overproduction and unneeded surpluses of particular goods--agriculture price supports and the resulting commodity surpluses of the 1950's are the classic example. On the other hand, a third mechanism, the negative income tax, was explicitly designed with work incentives in mind and has built in flexibility in the amount of incentive desired.

Use of real resources. Any program of income redistribution will have some effects on the use of real resources because it will cause the givers to reduce consumption, and allow the receipients to increase con-

sumption, and these effects will generally not be symmetrical, so some industries will suffer and others will make net gains. In addition to this, though, individual income redistribution mechanisms may have their own special effects on resource use. Price ceilings, for example, cause resources to flow out of the price-regulated industry, while price floors generally cause resources to flow in. In both cases, if the markets were competitive to begin with, the change in resource use will be wasteful and inefficient. Income redistribution via public production of housing, medical care, etc. also directly uses up resources, and usually uses up more resources in bureaucracy and administration than if the same goods and services had been produced in the marketplace. The negative income tax, on the other hand, requires only the extra real resources necessary to expand existing income tax systems to handle negative income tax calculations and payments.

Givers vs. recipients. One important consideration in determining the form for income redistribution to take is conideration of whose tastes and preferences are to be served by redistribution. That is, given that a specified amount of money is to be used for redistribution to a certain group, is it to be provided in the form the recipients most prefer, the form the givers favor, or in a compromise form?

Economists generally argue that if the purpose of redistribution is to improve the welfare of the recipients, as they themselves see it, then redistribution is best made in cash, because cash allows individuals the fullest freedom to buy the goods and services they rank highest. If instead redistribution is in the form of goods and services themselves there is no guarantee the mix of goods and services provided will be the one recipients would most prefer, and a certainty that some re-

cipients will receive less than maximum satisfaction if recipients themselves differ in tastes and preferences, but are all given the same mix of goods and services.

On the other hand, if redistribution is made to improve the welfare of the recipients as judged by the givers, or if redistribution is made to cater to the wishes of the givers by removing visible manifestations of poverty which affront the givers, then cash is generally not the preferred form of redistribution since it removes control of the ultimate mix of goods and services consumed from the hands of the givers. Here grants of specific bundles of goods and services are generally to be preferred. Examples would be food stamps, public housing, education, and medical care. Even when income grants are made in kind, of course, funds freed from purchase of the subsidized goods may then be diverted by the recipients to other uses which the givers do not approve of--luxury goods, alcohol, drugs, gambling, etc. But unless the granted goods are fully marketable and can be resold by recipients at full market prices, the diversion of granted income to meet the preferences of the recipients will generally be less than if cash were given.

Closely related to the issue of whose preferences to satisfy is the question of who should act as the entrepreneurial and purchasing agent for the poor. Assume that the poor want to spend part of their income grants for schools, community TV antennas, and other capital improvements. One alternative would be to simply give individuals cash grants and then leave it up to them to use local government and quasi-government organizations to pool resources and contract for the construction of the desired capital. Another alternative would be to have the granting level of government act as the pooling, planning and contracting agency for the poor, and simply make the grant in the form of capital

improvements. The hidden problem here, of course, is that for its own reasons the political system may use this line of reasoning to make capital grants even when that is not the first choice of the poor.

Displacing private economic activity. Almost any system of government income redistribution will discourage one voluntary activity, namely, private charity. This is so because helping the poor has public goods characteristics. If anyone, private or public, helps the poor, all who value this action benefit, whether they contribute or not. This situation creates the usual free rider motivation and leads to undersubscription to private charity. The failure of voluntary charity to undertake the optimum amount of income redistribution creates a role for government to correct this failure. However, when government enters the income redistribution business many individuals reduce or cease their contributions to private charities, feeling that government is going to do the job anyway, and now viewing part of their taxes as a charitable contribution. This effect has been very strong in the U.S. in this century, with government charity crowding out much private charity.

In addition, though, specific mechanisms may have additional impacts on economic activity. Public housing, for example, often crowds out private housing. The simplest way for this to take place is for public housing to be rented at subsidized rates well below market rates. Private housing cannot compete, while public housing has a waiting list. The queue of eager would-be renters convinces public officials that there is a shortage of public housing, so they expand the stock of public housing, further crowding out private housing. A more roundabout way of crowding out public housing is to institute rent controls, which

drive down the rate of return on investment in private housing and eventually lead to a reduction in the private housing stock due to reduced maintenance and a lack of new construction. Then public housing is instituted to relieve the housing shortage.

Capital grants. How, then, do capital grants as a means of income redistribution stand up when evaluated in terms of these issues? First, capital grants clearly create work incentives, both for those directly receiving the grant, and through job creation. However, if the projects undertaken have no net benefits, much of the work undertaken must be considered wasted, unless one ascribes a value to work per se. A second problem is that the work may not go to the poor, although this can be controlled to a considerable extent by tying various hiring provisions to the grant. Second, capital grants clearly use up real resources in producing some form of physical output. Whether the use of these resources is desirable, of course, depends, again, on whether the projects undertaken generate net benefits. Third, it is not at all clear that capital is the form recipients would most like to receive their extra income in. Cash grants would probably be preferred. Givers, however, evidently feel differently. Fourth, capital grants are usually made at subsidized interest rates and thus attract many would-be borrowers who already have access to private capital markets. To the extent these applicants are successful, public lending crowds out private lending. Further crowding out may take place if unsuccessful applicants do not return to the private market, but instead defer investment plans, hoping to get subsidized government loans the next time they are eligible.

Normative shortage arguments. Number three: a shortage of subsidies. Government loan programs themselves can create normative capital short-

ages. Assume there are no positive shortages; the capital market is in equilibrium with supply equal to demand. Now the government starts up a small program of subsidized loans. The demand for these loans far exceeds the supply. Disappointed applicants feel there is a shortage of subsidized capital. Rather quickly people come to feel that the subsidized rate should be the norm and they speak of capital being available in private markets only at "high" rates. Complaints of capital shortage become common. Further, the government loan programs may have lower standards for screening applicants than do private suppliers. Soon people take the government standards as the norm, and begin to speak of private lending standards as excessive. Over time this characterization can metamorphisize into the belief that capital is "not available" from the private sector. In sum, if governments do not supply all the subsidized capital people want, on easy terms and conditions, people will begin to perceive a capital shortage, even if the private capital market was working perfectly before the entry of the government into the lending business.

Normative shortage arguments. Number four: the role of information and transactions costs. The fact that capital markets take into account information and transactions costs differences among loans of various types and from various sources gives rise to at least two additional normative shortage arguments. First, there are those who argue in effect that would-be borrowers should not be discriminated against on the basis of the above factors. When they observe that groups, areas, and industries get less capital on less favorable terms when they are high information cost and high transactions cost borrowers, they claim these borrowers are suffering from a capital shortage.

Second, there are those who argue that the mere existence of information and transactions costs means markets are "imperfect", and generate too little investment and capital in equilibrium. These arguments will be considered in turn.

All economic transactions involve information and transactions costs. Information costs are the costs to both buyer and seller of acquiring and processing information necessary to make decisions. Transactions costs are the costs of arranging, formalizing, and enforcing contracts, making exchanges, conducting transactions.

In capital markets the would-be borrower must invest time, energy, thought, and money to discover where loans are available, what terms and conditions they are available on, the amount and competence of service and advice offered by various lenders, any differences between lenders' stated policies and actual policies, and so forth. Lenders, on the other hand, must collect information relevant to evaluation of the economic prospects of the would-be borrower, to the character, creditworthiness, and managerial competence of the applicant, and so forth. These are real costs and will play an important role in determining lending patterns. Information costs will increase with the geographical distance between parties, with the infrequency of contacts between parties, with cultural differences between parties, with the unusual or unique nature of an applicant's business or specific project, with the lender's unfamiliarity with the applicant's community or industry, and so forth.

Lenders must charge interest rates which cover all their costs, including information costs, and still allow them normal profits. Thus higher interest rates will be charged to higher information cost bor-

rowers, and, in the extreme, if lenders estimate that there would be insufficient business from various groups, industries, and areas at the levels of interest rates they would have to charge to cover information costs, they may not seek or accept business from those quarters. This can obviously be frustrating to individuals in these categories who believe themselves to be honest, hard working, creditworthy people with good ideas and good business prospects. However, if this is the result arrived at by a competitive capital market then it is economically efficient, and does not constitute a positive capital shortage. Any definition of it as a shortage must be normative, and based on some notion that people should not be penalized in the capital market because there are high costs of doing business with them. What this sort of position seems to ignore is (1) if interest rates to high information cost borrowers do not cover all costs, then interest rates to low information cost borrowers will have to be raised to compensate for this, and there is no obvious argument which says this is fair to low information cost borrowers, and (2) forcing low cost borrowers to subsidize high cost borrowers will reduce the amount of investment undertaken by low cost borrowers and generally reduce the expected rate of return from any given amount of investment undertaken.

All the above arguments apply to transactions costs in capital markets as much as to information costs. Transactions costs will increase with the same variables that increase information costs. Perhaps from the perspective of this study the most important and relevant of those variables is geographical distance between parties. Distance slows communication, raises its cost, and often effectively precludes face to face dealings between lender and borrower. This is very serious

from the point of view of the lender when he contemplates problems of servicing a loan and dealing with borrowers who get behind in their payments. The experience of bankers is summarized in their rule of thumb: "never loan where you cannot go".

Here, again, transactions costs are real costs. Anyone who argues that those costs should not be paid by high cost borrowers must face the reality that if high cost transactions are undertaken, someone must pay the costs. And if someone has to pay, who better than the person responsible for those costs being high?

The second general normative shortage argument related to information and transactions costs is on a somewhat different level than the first argument. It is the contention that the mere existence of such costs implies capital markets are "imperfect" and thus misfunction and produce too little capital. This contention can be dismissed rather easily. Essentially, it reveals a confusion about the terminology of microeconomic theory. The basic microeconomic theory of markets was developed some years ago assuming, among other things, zero information and transactions costs. Unfortunately, the terms "perfect market" and 'imperfect market" were applied, respectively, to markets meeting all the assumptions of the theory, and markets falling short on some assumptions. An "imperfect market" in this terminology, then, just means a market which is not well described by the basic theory. It does not necessarily mean a market which fails to function well, or which is a good candidate for government intervention.

Some imperfections, such as monopoly and externalities, do distort the workings of markets and cause misallocations. Other imperfections, such as transactions and information cost are not seen as distorting, in

and of themselves. Further, the basic core of the theory of markets has since been expanded to more complex market models which treat information and transactions costs as normal cost, pretty much on an equal footing with say, production and distribution costs. Transactions and information cost are now generally seen as part and parcel of all economic activities, not as imperfections necessarily having market failure implications. (Although certain kinds of information may have public goods characteristics, and thus raise the market failure implications usually associated with that category of goods.)

The most interesting public policy questions related to information and transactions costs have to do with the relative efficiency of various institutions in dealing with such costs. Here, two fallacies are often encountered. The first is implicit in the above discussion. It is known as the nirvana fallacy. It consists of comparing whatever institution currently exists to the nirvana world of "perfectly" functioning markets, and labeling the existing institution as deficient because it does not come up to the standards of the model. The temptation to follow up the first fallacy with a second is seldom resisted. The second fallacy is the grass-is-always-greener fallacy. It consists of asserting that since the current institution is imperfect it is clear that it sould be discarded in favor of a new institution. Obviously, it is easier to make this proposal if one is completely innocent of any experience with the alternative institution. In reality, of course, we live in an imperfect world, and all institutions have "imperfections". Thus the relevant choice is between these imperfect institutions, not between one of them and an ideal, with another winning by default. In the real world institutional changes should not be made lightly. If

we are going to trade one set of imperfections for another, we had better find out beforehand what the terms of trade really are, rather than assuming that they are favorable.

6. General policy considerations.

Specific policy suggestions for Alaska's capital shortage problems will be made in the next section. Here, though, at the end of this discussion of conceptual issues, some general comments on policy are in order.

A first, very important, point to be made is that "do nothing" is always a relevant policy option if capital shortages are found to exist. Doing nothing would be an excellent policy choice in a number of circumstances. In some cases nothing should be done because the problem is minor, and not worth the cost of correcting. (And there can be no doubt that all active policies involve costs--costs of designing, implementing, and monitoring policy, plus compliance and avoidance costs imposed on private parties.) Unfortunately, this counsel often falls on deaf ears. Every economist knows of cases where a molehill of a problem has been used to justify a mountain of policy.

In other cases nothing should be done to correct capital shortages because the problem is temporary and self-correcting, and an active policy might actually slow down the correction process, or even perpetuate the problem. This is generally agreed to have been the case, for example, in Federal regulation of transportation, where temporary, local monopoly power of some railroads was used as a basis for developing an institution, the Interstate Commerce Commission, which as largely functioned to repress competitive forces throughout the transportation sector.

A second important policy notion is that "the cure should fit the disease". If capital shortage has a specific cause then that cause should be attacked directly. While this sounds obvious and sensible,

it is not the course of action typically taken by government. More often than not government discovers a problem and then systematically selects a solution which expands the size of government and its role in the economy, whether that is the best solution or not. The case of urban housing shortages, previously mentioned, can be cited as a prime example. The most serious urban housing shortage in the U.S. is, and has been for some time, in New York City. The primary cause of this shortage is rent control, a government policy. Instead of attacking the shortage by attacking rent control, the political system has responded by getting government into the housing business--an expensive, inefficient, and ineffective reaction to a serious problem.

This line of argument is directly relevant to the capital shortage problem in rural Alaska. Whatever capital shortages exist in rural Alaska appear to be largely, if not completely the result of policies of the Federal government and the State of Alaska. The relevant cure is to alter or abolish those policies. Instead, we see both levels of government reacting by getting deeper and deeper into the business of lending money. Much of this government lending supplants rather than supplements private lending. It thus has the effects of reducing the size of the private lending industry, reducing the number of lending institutions and thus reducing competition, and perhaps raising per unit costs of lending through a reduction in the average size of lending firms.

A third general policy consideration is that it is seldom a good idea to develop policy by looking at what has been done elsewhere, by other governments, to deal with similar problems. Other governments may be making serious policy mistakes, may be using institutions which do not achieve what they are supposed to, which have huge, hidden costs,

but which survive because they have bought political constituencies through the subsidies they provide. Do not take survival, or strong political support for an institution as evidence that the institution "works". To determine whether or not an institution works in any meaningful sense it is necessary to determine how it has actually improved the problem it was supposed to deal with (and that involves determining what portion of improvement in a situation is due to the institution, and what to other factors), and it is necessary to develop a full assessment of the costs, open and hidden, of operating the institution. On these grounds many government institutions, commonly described by the political system as "working" are actually miserable failures.

In this connection it is important to take a hard look at the pattern of government evolving in the U.S. which generates growing numbers of special interest subsidy programs, each of which concentrates benefits heavily on some group, and spreads the costs thinly through the population via the tax system. This pattern of government has many drawbacks. First, as a system for redistributing income this arrangement of multiple subsidies is hopelessly complex and nearly impossible to fully comprehend. Ideally we would like to know whether our income redistribution effort is on balance progressive or regressive. But a system of subsidies works at cross purposes. Any individual may benefit from several subsidies, but have to pay higher prices and taxes because of others. The net effect is not easy to determine for the individual, or for areas, occupations, or income classes. It is no exaggeration to say we really have almost no idea what we are really accomplishing with this hodge-podge of subsidies. From this point of view we would be better off to abolish all subsidy programs and redistribute income simply and directly by tax and transfer.

A second, closely related problem is that a system of subsidies fails on one of the fundamental principles of public finance--the principle that equals should be treated equally. Subsidies are almost always tied to characteristics of people other than their income levels, and thus fail to treat people with equal incomes equally.

A third criticism of subsidies is that they generally have net costs to society. That is, they do not simply transfer income from one group to another, leaving total income unchanged. Rather, they distort peoples' decisions about what to produce and how to produce, and end up putting resources to inefficient use, and thus reduce the total income the economy can generate from its resource base. Examples previously cited, which are quite representative in their effects, are agricultural price supports, which waste resources in production of surplus crops, and rent controls, which waste resources by causing deterioration and abandonment of buildings, and by forcing construction resources out of rental housing into less valued uses.

A fourth, and major, effect of subsidies is specific to the provision of capital and other subsidies to promote economic development. Many governments around the world have tried to stimulate viable economic development through complex and far reaching programs of capital subsidy. In many cases these governments have recognized the tremendous productive potential of private enterprise and have tried through subsidy to harness that potential to achieve development goals. Seldom have such efforts succeeded. For the most part subsidy programs rather than harnessing the energy and productivity of free enterprise have destroyed it. The destruction has been at the very heart of the market system, for what government policies have done is transform profit maximizing firms into subsidy maximizing firms.

The profit maximizing firm tries to produce products that will sell, tries to hold costs down to increase profits, is constantly alert for new products, new production methods, new markets--for anything that will give it an edge. The subsidy maximizing firm, on the other hand, doesn't care what it produces, doesn't care whether it holds costs down, or whether it uses capital intensive or labor intensive methods of production. All its energies are devoted to doing whatever will allow it to qualify for subsidies; it produces what is subsidized, it uses lots of whatever inputs are subsidized most generously, it locates wherever it can get the most subsidies. It is alert and aggressive, and looking for opportunity--but opportunity is defined in terms of anticipating where the government subsidy spigot will next open up.

The real tragedy, of course, is that subsidy maximizing firms do not provide a viable economic base for a country. They have no real substance, and when the subsidies stop, they melt away, leaving an undiversified, weakened economy.

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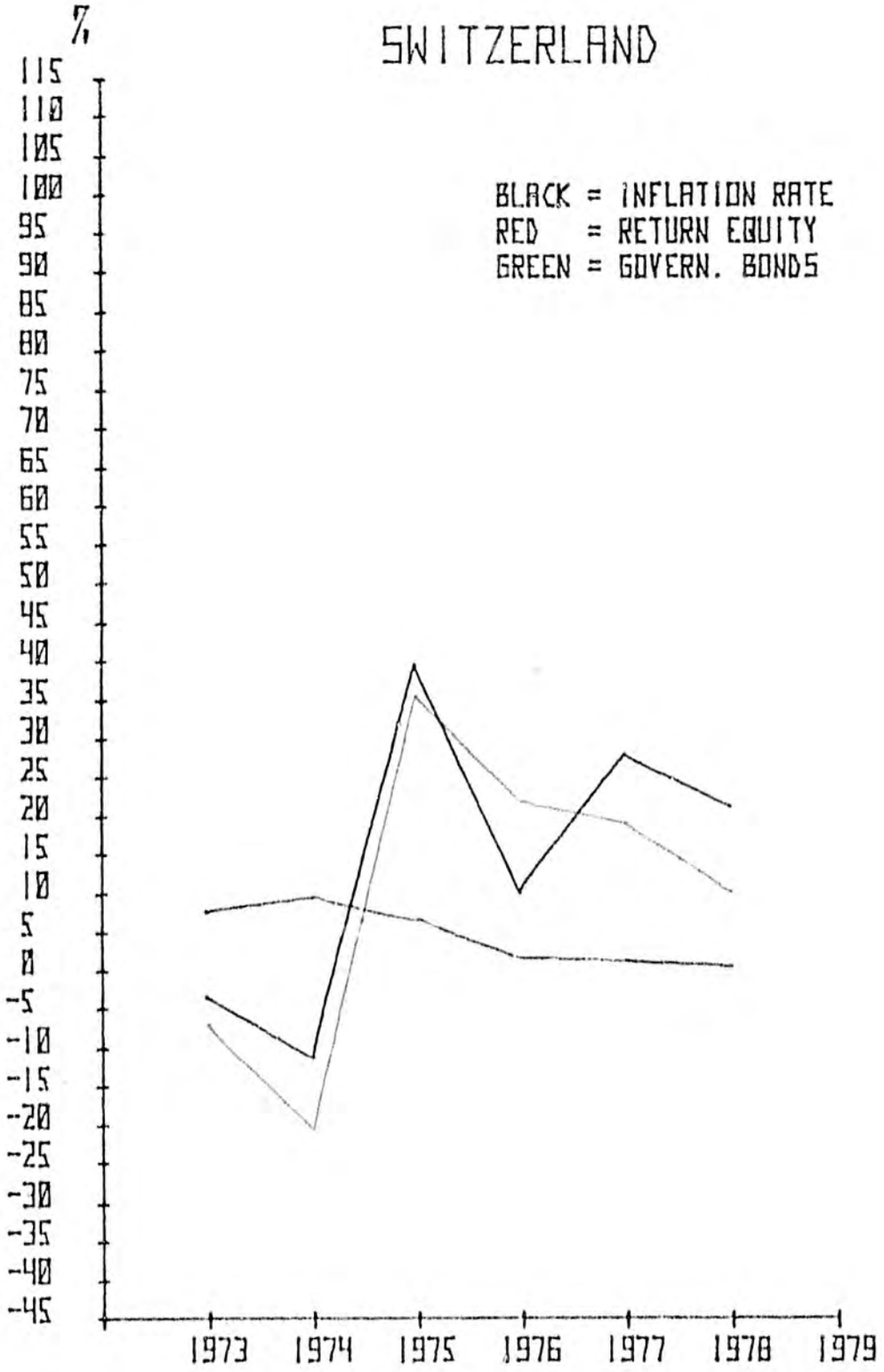
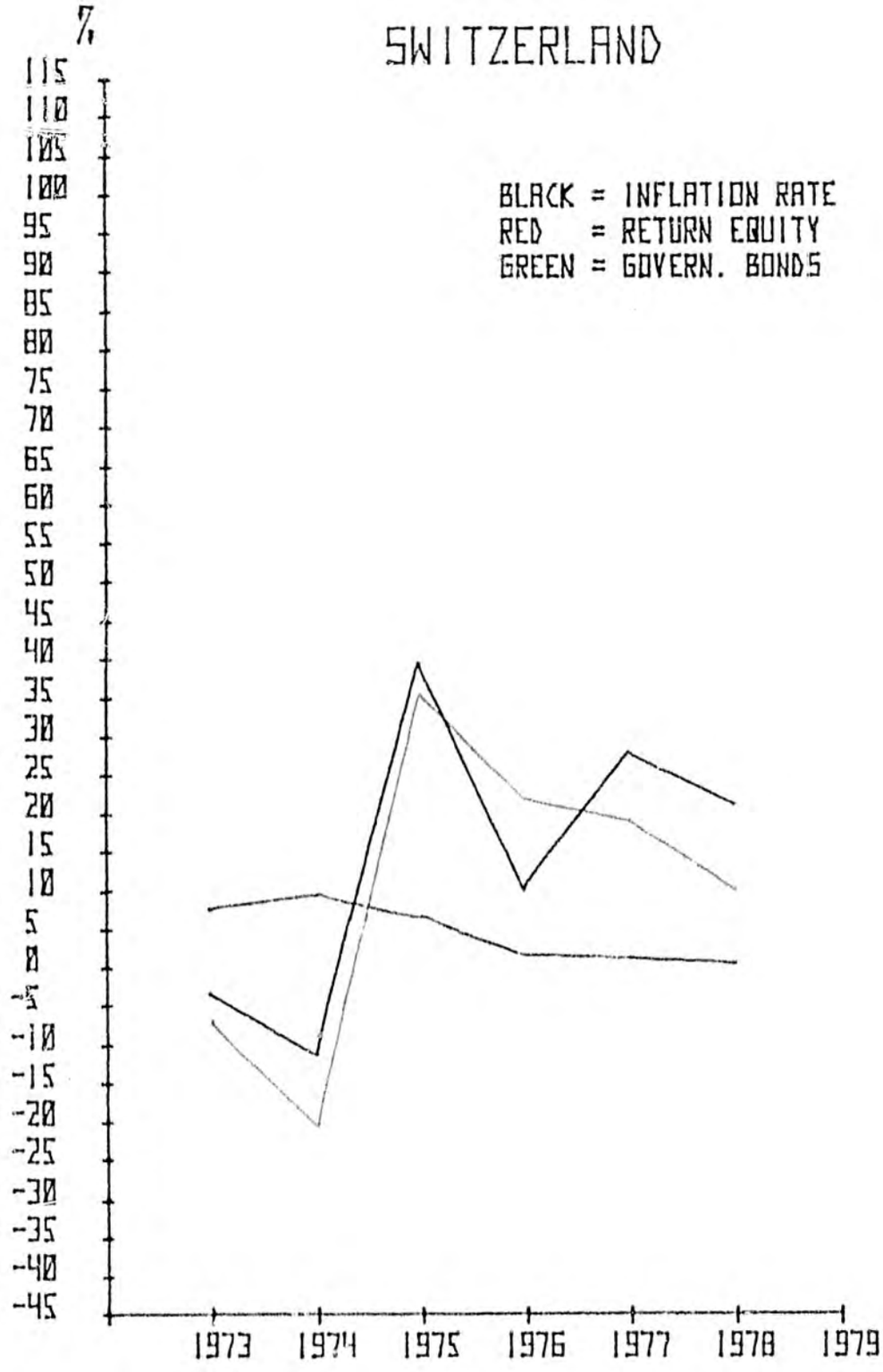
Bob Greiley - consultant

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Permanent Fund requires some independence from the executive. On balance, the provisions in HB-300 seem appropriate given the stipulation of confirmation by the legislature, and removal only "for cause".

Given the small size of the policy board, the requirement of a two-thirds quorum is particularly important to ensure an active and vital policy group in which a substantial number of the members are consistently present.

I would suggest that you consider some mix of users among the seven public members of the policy board. One user might be a representative of a municipality, another might be a representative of a regional or local development corporation, another might represent a major primary sector of industrial activity, and one might represent a distributory sector, especially in the community or regional development area. The financial community is appropriately represented on the investment committee, but users might well be similarly represented on the policy board.

I also suggest that you reconsider the soundness of having the president serve as the chairman of the policy board. The president has sufficient power as the chief executive officer. It is more common development banking practice for the chairman to be a widely-respected public member, either appointed from among the public members to serve as chairman at the pleasure of

the governor or to be chosen by the policy board itself. Having the chairman serve at the pleasure of the governor, drawn from the public members, is one method for helping to integrate the Permanent Fund's planning into state development planning. In any event, for the protection of both the president and the institution, I suggest a separation of the chairman's and the president's functions.

Also, in my judgment, all meetings of the policy board should be public, particularly in light of the fact that the policy board does not itself make specific investment decisions. Only the personnel actions of the policy board with regard to the president should be held in executive session, and then publicly announced.

The provision in HB-300 to pay policy board members $250 per meeting day, as well as per diem and travel expenses, is a good one. The policy board function is enormously important, in which the members carry great responsibility. It is common practice to pay private board members a fee for performing that function; the same should be true of a public development bank such as the Alaskan Permanent Fund.

The Duties of the Policy Board (Section 60) are well drawn. The distinction between your policy board and investment committee is remarkably similar to the distinction between the policy

board of the Massachusetts Industrial Development Authority and its subsidiary investment review boards.

It may be wise to point out in precise language that the policy board cannot impose an investment decision upon, or override an investment decision of, the investment committee. It can only determine, on a periodic post-audit basis, that investment decisions made by the investment committee were within the overall annual operating and financial plan approved by the policy board.

The Structure and Duties of the Permanent Fund Investment Committee (Sections 70 and 80) are also quite sound. Here I think it is not only appropriate but essential that the president of the Permanent Fund serve as chairman of the investment committee. I would suggest, however, that at least one of the members of the Permanent Fund investment committee have "recogized competence and wide experience in" community economic development.

The Structure and Duties of the Permanent Fund President (Section 90) are also generally well articulated, although there are a few matters here which call for some clarification. For example, I wonder if I am the only one confused by the apparent contradiction between a Permanent Fund president to serve for "a term of five years," while at the same time serving "at the pleasure of the policy board." In my judgment, the Permanent

Fund can only be effective if in fa[illegible]he president is subject to employment at the "pleasure of the policy board."

Similarly, the provision in Section 170 which states that "members of the policy board are prohibited from all attempts to influence the investment committee, president, officers and staff in the discharge of their ordinary operating duties. The president, officers and staff of the Permanent Fund, in the discharge of their offices, owe their duty entirely to the Permanent Fund and no other authority," seems to me to confuse the respective responsibilities of the policy board, investment committee and president, rather than clarify them.

Finally, I am pleased that this generally good draft recognizes the importance of empowering the president of the Permanent Fund with the sole responsibility for "the organization, appointment, dismissal, and remuneration" of all other staff. The policy board wants to be able to hire and fire a president who is then held wholly accountable for all of the other operations of the Permanent Fund.

The Provisions for Technical Assistance in Section 160 are another area in which I would suggest some reconsideration by the Permanent Fund committee. This provision, however well intended, runs counter to my own experience in designing development banks. In fact, in all recent development bank legislation I have

drafted, we have specifically prohibited the development bank from "providing financing for pre-investment activities including feasibility studies." The reasoning behind this prohibition is simple: we want to hold separate the developer function from the banker function. If the development bank invests in its own pre-investment feasibility studies or technical assistance there is a tendency on the part of the development banker to become prematurely "married" to what may turn out to be an unsound idea.

On the other hand, this kind of technical assistance is essential--particularly for many regional and local community development projects. Therefore an alternative solution has been to create a separate technical assistance agency which is specifically in the business of using "soft" tax dollars rather than "hard" investment dollars to make these pre-investment studies and then to bring the developed proposal to the development bank for an arm's-length banker review. Section 160 deserves further thought and review in light of this experience.

Intervention in the Case of Default: The apparent contradictions between Section 130 (2) (3) and Section 130 (b) need to be resolved so the management of the Permanent Fund has full power to protect its investments, including the exercise of voting rights.

D. What Capital Structure is Necessary to Ensure that the Alaskan Permanent Fund Has the Financial Capability to Achieve These Purposes?

The capital structure of a development bank is intimately tied to the goals of the institution. Different kinds of management and different kinds of capital are both required in order to carry out the different purposes. Both international and domestic development finance experience makes it emphatically clear that for the very reason we don't want venture capitalists to make unsecured inventory loans and for the very reason we don't ask commercial bankers to make thirty-year, fixed-asset land, plant and equipment loans, we need to keep the risks, managements, and funds of the development bank separate to carry out separate tasks. Thus, the World Bank Group, for instance, separates the International Finance Corporation (an equity investing vehicle) from the World Bank itself (a market-rate debt vehicle) from the International Development Authority (a subsidized, below-market granting and lending vehicle). In Massachusetts, the Technology Development Corporation and the Community Development Finance Corporation, which are both high-risk equity and venture capital vehicles, are capitalized, managed, and insulated from each other and from the operations and risks of the long-term secured lenders such as the Industrial Finance Agency. In public development

finance as in private finance, the terms, the cost, and the character of the sources of funds must match the uses of the funds.

It is for this reason that I suggest that operational principle number 9 which empowers the Permanent Fund to "make investments in financial intermediaries . . ." might be more precisely defined to isolate several compatible but operationally distinct tasks on a functional basis. Specifically, I suggest that the business plan of the Permanent Fund consider the possibility of establishing separate subsidiary financial intermediaries to carry out several possible specific functions of the Permanent Fund, including:

a technology development corporation to invest in technologies which would reduce the cost of value-added and refined production of both renewable and nonrenewable resources in Alaska;

an intermediate and long-term financing agency to collaborate with commercial banks and savings banks in providing debt and debt guarantees in support of greater intermediate and long-term capital for medium and small-sized enterprise;

a community development finance corporation to co-venture with regional and local community development corporations and municipalities in providing equity as well as debt and debt guarantees to finance income-producing community

development projects particularly in lower-income and rural areas of Alaska; and

a central development bank for locally-owned cooperative banks which would be initially capitalized by the Permanent Fund but eventually repurchased by local cooperatively-owned user banks in order to support rural and community development in outlying areas of Alaska.

Each one of these four areas of activity would have its own investment review board appointed by the policy board (much like the investment committee) with persons of "recognized competence and wide experience" in the specific investment area. Their chief executive officers would be directly appointed and directly responsible to the president of the Permanent Fund, but the day to day decision-making would be the province of the investment review board and the staff of the subsidiary institutions. The policy board, the investment committee, and the president would retain the same direct power over these subsidiaries that any private corporation holds over its subsidiaries. As the Central Bank gradually became owned by its users, this authority in time would pass from the Permanent Fund to the users.

Two major areas of activity would be directly retained by the Permanent Fund:

First, those productive private investments which are of

such a large scale and such a relatively high risk as to be beyond the capability of the private market acting alone;

Second, large-scale infrastructure investments deemed critical to the overall development of the Alaskan economy. Any subsidies necessary to finance the infrastructure, however, would be borne by the Alaskan General Fund rather than the Permanent Fund. Operational principle number 4, Section 130, implicitly suggests that any subsidies would be made by special appropriation of the legislature. I think that additional consideration might be given to the retention of income on investments by the Permanent Fund for a third purpose beyond overhead and reserves--that purpose being the explicit provision of subsidies for specific kinds of social overhead capital investment, community development, and infrastructure development. A specific prior authorization by the legislature should be required before the income of the Permanent Fund could be released to those purposes by the policy board.

Section 130 (8) could also be used to create subsidiary financial intermediaries on a geographic basis to encourage some more sensitivity to the needs of lesser-developed regions in Alaska. In our highly complex political economy, it is not necessary that capital mobilization and decision-making take place at the same level. This has been amply demonstrated in the

operations of the Federal Home Loan Bank System and the Farm Credit System at the federal level. Similarly, there are increasing numbers of development finance intermediaries at the state and local level which operate on a decentralized basis so that decision-making is more sensitive to local conditions. Local investment decision-makers will be better able to assess the risk, service the risk, monitor the risk, and deal with problems of default than a more distant investor. International, national and private market financial experience supports this concept.

Finally, my limited exposure through memoranda to the existing thirteen revolving loan funds now operated by the Alaskan state government suggests that they might be more efficiently managed as subsidiary development finance intermediaries under the overall policy guidance of the Permanent Fund. This is another matter that calls for further review.

The Provision for Reserves in Section 120 is a good start which does not go far enough. The legislature should consider establishing specific differential reserves for different kinds of equity, debt or debt guarantee activity. For instance, reserves for community development equity investments by the Massachusetts Community Development Finance Corporation are projected to be 100 percent. Similarly, no state has established long-term industrial debt guarantee programs without limiting the

state's exposure through a ceiling on reserves in ratio to total guarantees outstanding.

The Provision for Borrowing Powers in Section 40 is a very important provision in terms of the future growth and development of the Permanent Fund. The dedicated oil revenues initially capitalizing the Permanent Fund's equity base at $2 or $4 billion should be compared to the capital base of the World Bank or the Canada Development Corporation. If the Permanent Fund is soundly managed, the opportunity to leverage additional equity or debt in worldwide money and capital markets on top of that equity base is substantial, as has been the experience of the CDC (in equity markets) and the World Bank (in international bond markets).

MODELS AND OPTIONS
FOR THE
ALASKA PERMANENT FUND:
FUNCTIONS, REGIONALIZATION AND ACCOUNTABILITY

Report Number Two

September 14, 1977

Belden Hull Daniels
Department of City and Regional Planning
Harvard University

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4 types of Accountability

MODELS AND OPTIONS FOR THE ALASKA PERMANENT FUND: FUNCTIONS, REGIONALIZATION AND ACCOUNTABILITY

September 14, 1977

INTRODUCTION: Some Models and Options

My first report of July 11, 1977 raised many questions concerning the purposes, functions, sources and uses of funds, management and accountability of the proposed Alaska Permanent Fund, based on the accumulated experience of several hundred development banks over the last one hundred years.

This second report takes the next step, and provides a beginning look at a number of development banks whose experience and functions seem particularly relevant to potential public purposes of the Permanent Fund. In selecting development banks to analyze in detail, I have been guided by two factors: first, institutions which would compliment reports already prepared for the State Investment Advisory Committee by Price Waterhouse and White, Weld; second, institutions whose purposes and functions seem particularly relevant to key potential Fund goals.

Each of these institutions have been analyzed and compared in terms of: I. Purposes; II. Sources of Funds/Capitalization; III. Uses of Funds/Operations; IV. Management; V. Accountability; VI. Evaluation; and VII. Relevance to the Alaska Permanent Fund.

In addition to this look at functional models for the Fund, two key structural issues are outlined in some detail, based on domestic and international experience: regionalization; and accountability to the taxpayers, legislature, and executive. In both instances, a conceptual approach is developed out of a range of

domestic and international experiences. This experience and the conceptual framework will probably raise more questions for your further consideration.

Again I would like to note that as an outsider, I feel competent to suggest detailed operating experience which may be relevant to the Permanent Fund's purposes, but not competent to suggest what those purposes should be. There is an old Asian proverb which says that after one trip to India foreigners write a book, after two they talk in quiet whispers, after three, they say nothing at all. This is my second trip to Alaska.

It is with special gratitude that I thank my research associate, Mitchell Rosenberg, for his extraordinary care in helping to prepare this report. One of the pleasures of teaching and working is witnessing younger colleagues and friends grow in competence to encompass their vision. I wish Mitchell well in his year in Germany.

My sense is that this second report, like the first, will raise more questions than it answers. For this reason, I have noted it a "discussion draft", and look forward to responding to the further issues it raises.

I. FUNCTIONS

A. ALASKA OWNERSHIP OF LARGE SCALE ALASKA ENTERPRISE

I. PURPOSES

The CDC is an investment bank operating in the private sector of the Canadian economy. Created in 1971 by an act of Parliament, its initial capitalization was provided by the Canadian treasury in the form of a purchase of over $250 million in common stock. Such an institution had been proposed by government officials as early as 1958 in response to concern over the high level of foreign ownership and control of Canadian business. This condition, they felt, discouraged the development of native entrepreneurial talent necessary for economic growth and job creation. The proposed use of financial mechanisms to achieve such goals met with strong opposition from the Canadian business sector and allied politicians. When the CDC bill was passed after 15 years of debate, none of these social objectives were included in the institution's statutory agenda.

Legislative Goals

The three main objectives of the CDC summarized in the act are:

1) to help develop and maintain strong, Canadian-controlled and managed corporations in the private sector of the economy;

2) to widen the investment opportunities open to Canadians; and

3) to operate profitably, in the best interests of all its shareholders, public and private.

The investment policies by which these goals are to be achieved were left purposefully broad in the act in order to accommodate conflicting views of the proper role for the institution in passing the legislation and to provide maximum managerial discretion. This is similar in concept and language to the draft of the Permanent Fund developed by the Investment Advisory Committee. However, the "Objects" section of the act, various documents of the debate prior to its passage, and statements of company officials provide a clear picture of the CDC's investment criteria and their rationale.

Management Interpretation of Goals

CDC management interprets its role as a provider of the equity capital necessary to mobilize Canada's material, human and capital resources to bring domestic industry up to internationally competitive scale in the long run. The management's investment policies following from this view are:

1) emphasis on large, longer-range development projects, particularly those involving upgrading of resources, a high technological base or good potential for building a Canadian-controlled presence in international markets.

2) Profit potentials must be commensurate with perceived risk. This is the one criterion mandated in the act, similar to the current draft of the Permanent Fund. As a rule of thumb, the Board proposed targeting investment to sectors in which predicted growth exceed twice that of GNP. Acknowledging the long-term nature of their mode of investment, the directors declare, "CDC is prepared to be patient, recognizing that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings buildup."

3) CDC in a manner again similar to the current Permanent Fund draft, does not seek to duplicate or preempt activities in the private capital market. Thus it does not lend, debt capital presumably being readily available to large-scale enterprises in the Canadian private market. It is, however, prepared to play a catalytic role in joint ventures with foreign or domestic investors.

4) CDC seeks controlling positions, through the purchase of voting stock, in the companies in which it invests--this in order "to take measures necessary to protect and increase the value of its holdings." Such measures connote input into top-level strategic and corporate planning decisions, not day-to-day management. The Permanent Fund draft is unclear on this point.

5) CDC seeks to concentrate its activities in sectors where Canada holds competitive advantage on an international

scale or can achieve such position through consolidation of markets.

6) Roles the CDC specifically rejects include buyer-of-last-resort for faltering firms, buy-back agency for foreign-controlled firms or high bidder in take-over contests where foreign firms are involved.

In order to pursue these policies, CDC has been granted a very broad range of powers. It may invest in any asset or security, promote companies, lend or guarantee funds. It may even invest in firms not carrying on any part of their business in Canada when, in the opinion of the Board of Directors, such investment would further the aims of the company.

II. SOURCES OF FUNDS/CAPITALIZATION

Authorized - CDC is authorized to issue 200 million common shares without nominal or par value, of which the first 30 million were subscribed by the Canadian government from 1971 to 1975 at prices averaging slightly over $10 a share. The company is further authorized to issue up to $1 billion in preferred stock with such convertibility, voting and interest features as the Board determines. CDC is under no statutory debt limit. Management has chosen a target level of 40 percent of paid-in capital, a conservative policy designed to compliment CDC's risk-oriented

investment policies. This scheme indicates a potential capitalization of $5 billion.

Capitalization Goals

CDC wishes to finance further investment through the public issue of shares. Its aims in so doing are:

1) to decrease the government share of ownership to 10 percent within 10 years. The government currently holds 65 percent of all CDC stock outstanding.

2) to offer opportunities for equity investment in Canadian industries to Canadian investors. Political support is an expected by-product of such a policy.

Reliance on public support reinforces the profit criteria for investment, since continued growth will depend on investors' perception of CDC as a safe and profitable investment.

Actual History of Capitalization

1971 - CDC was originally capitalized by the Cana ian government's purchase of 25 million shares for a price of slightly more than $250 million. The government increased its holding incrementally over the subsequent four years until it held about 30 million shares valued at slightly more than $300 million in 1975.

1974 - CDC placed 10 million non-voting redeemable preferred

shares with institutional investors. These preferred shares sold for $10 and carried a dividend of 5 3/4 percent. The proceeds of this issue were used, in part, to pay off bank debt incurred to finance start-up operating costs. The shares are redeemable at the option of the holder or CDC after five years.

1975 - CDC marketed 1.5 million preferred voting shares to some 20,000 individual, institutional and governmental investors. These shares sold for $100 and carried an 8 percent dividend. They were convertible for 10 shares of common stock with further share bonuses for early conversion. They are redeemable at the option of the holder or CDC after five years. This was the largest public stock offering in Canadian capital market history.

Despite CDC's profit orientation, its performance has not yet inspired sufficient investor confidence to support the subscription of common stock on the basis of capital gains alone.

In 1975 CDC also issued about 950,000 shares of common stock to the Canadian government as the final $10 million payment for the Crown Corporation, Polysar.

Outstanding debt of wholly-owned subsidiaries stood at $250 million at the end of 1975.

III. USES OF FUNDS/INVESTMENT OPERATIONS

CDC has used its funds primarily to invest in established

businesses either through buying the enterprise outright or through purchase of a significant portion of its outstanding securities. CDC's holdings in 1975, by industrial sector, were as follows:

Petrochemicals - CDC acquired Polysar Ltd., a manufacturer of rubber and petrochemical products, from the Canadian government. The negotiated price for the Crown corporation was $62 million plus $10 million if certain profit targets were met. As of year-end 1975, Polysar's assets were $602 million. In 1975, CDC, through Polysar, joint-ventured with Canadian banks to finance the construction of the Petrosar naphtha cracking plant, a $575 million, world-scale facility.

Mining - In 1973, CDC acquired, through tender, 30.2 percent of the stock of Texasgulf, Inc., the American-based energy and mining firm. At the time of this acquisition, 68 percent of Texasgulf's earnings were generated by enterprises located in Canada.

Oil and Gas - In 1975, CDC acquired 60 percent of the Canadian assets of Tenneco. These assets include gas and oil processing plants and vast areas of oil, gas and bituminous tar producing properties. These assets are valued at $135.0 million.

Health Care - CDC has purchased several drug companies and research facilities in an effort to build a consolidated Canadian-

owned complex in the health care field. The flagship firm of Connlab Holdings Ltd. is Connaught Laboratories, a research facility formerly attached to the University of Toronto. Since the consolidation of these companies in 1974, Connlab has shown steady losses.

Venture Capital - CDC's directors have acknowledged the crutical role of financial support for technological innovation in economic development. They have not found it appropriate, however, to undertake the complex and time consuming services of venture capitalists themselves. Instead, CDC has purchased large amounts of stock in three existing venture capital firms, leaving their management free to administer the newly expanded funds. These firms invest in a wide variety of enterprises at the conceptual or early development phase.

Pipelines - CDC has advanced $3.8 million to a consortium planning the construction of a North-South natural gas pipeline.

Looking over CDC's investments, it is apparent that they meet the institution's criteria of being in sectors where Canada holds a comparative advantage (natural resource extraction and processing) or which have experienced high growth (medical supplies and equipment). Unfortunately, statistics which would permit an estimate of CDC subsidiaries' presence in their respective sectors are not available. We can, however, get some idea of the

impact of these investments on the extent of Canadian control of these sectors by comparing 1968 statistics on total assets, Canadian and foreign held, in major sectors which appear in a 1973 government report on foreign investment in Canada to CDC's current holdings.

In 1968, assets employed in the petroleum/natural gas sector totaled $9.2 billion, of which Canadians held $3.7 billion (38 percent). Even given growth in this sector between 1968 and 1973, CDC's Petrosar undertaking is a sizable net addition to Canadian holdings in this sector. None of CDC's other undertakings have nearly so large a quantitative impact.

IV. MANAGEMENT

The Corporation is managed by a Board of 21 Directors drawn mostly from the business community. While the government holds over 50 percent of the stock, two Deputy Ministers are ex officio Board members with no voting power. The government may choose to appoint four Directors rather than casting its ballots at Shareholders' Meetings. Such power has not been exercised to date. The government has stated both publicly and privately that it does not intend to interfere with the affairs and management of the Corporation.

The Board's policies are administered by a highly profes-

sional central staff of twenty. Subsidiaries' production decisions are to be made independent of CDC input. The staff was kept small to encourage flexible response to problems. Specialized matters are often referred to consultants.

V. ACCOUNTABILITY

The CDC act, elements of Canadian corporate law and the political climate in which the Corporation was implemented combine to leave the CDC Board and staff in virtual total control of company operations and investment.

Legislative Accountability

By statute, CDC is not subject to Parliamentary oversight. Parliament's latitude for intervention is restricted to voting changes in capital authorization and certain exceptional by-laws concerning CDC's objectives. Given the Corporation's immense initial capitalization, it is unlikely that Parliament will have the opportunity to exercise any constraints on CDC short of closing it down.

CDC is not a Crown Corporation, i.e., a public corporation formed under the Canadian Financial Administration Act "that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs." Although it is publicly capitalized, it

is subject to no ministerial oversight or control. Rules governing disclosure for Canadian corporations have been widely attacked for being unduly lax; these are the accountability standards to which CDC is being held.

Executive Accountability

The federal government does hold a certain amount of de facto power through rules governing the distribution of shares. No association, a term defined operationally by the Board, may hold more than 3 percent of the outstanding voting stock. The federal government may hold 10 percent. Therefore, its voting position may always be dominant, given an absence of block coalitions. However, the government has chosen to maintain a hands-off stance towards CDC operations. Investment policies and priorities, for example, were set by the Board with no government input. With its current holdings, the government could exercise control through the removal of Board members, but has chosen not to do so.

The government has eschewed other control mechanisms which have been applied to mixed enterprises in Europe, where this kind of structure has a longer history. These mechanisms include having government officials as voting members of the Board of Directors, actively exercising voting shares, statutory regulation of investment operations and maintaining a permanent or intermittent

public body to audit the activities and reports of the public financial institution. The CDC act provides for none of these supervisory measures. According to most observers, such lack of government input and control eliminates CDC from use as a tool in any centrally planned economic development effort.

VI. EVALUATION

Recalling the three purposes of the institution (p. 3), how has CDC performed? Before attempting an answer, we must recognize that evidence is limited to skimpy annual reports covering only four years of operating experience.

Regarding the creation and maintenance of strong, Canadian-controlled industries, CDC has followed a policy of expansion and consolidation of existing firms. CDC's equity presence in Polysar allowed the company to incur debt to finance capital expansion at a much quicker rate than was realized under government ownership. In assembling Connlab Holdings, CDC seems to be creating a vertically-integrated drug complex covering research, production and distribution. What these policies will mean in terms of rationalization, investment and employment remains to be seen.

CDC has increased investment opportunities open to Canadians only marginally. Its one public stock issue was in the fairly large denomination of $100/share and was apparently bought in

blocks averaging 75 shares. Clearly, this kind of marketing will not broaden participation in equity ownership. Quantitatively, however, this was a very big issue. During the decade previous to the issue, gross new issues of Canadian preferred stock averaged only $132 million, compared to the $150 million sold in one shot by CDC.

CDC has shown some profit in terms of earnings per share every year.

CANADA DEVELOPMENT CORPORATION

Year	Capitalization[1]	Value of Holdings[2]	Earnings/Share
1975	708	857	$0.31
1974	548	549	$0.81
1973	344	465	$1.89
1972	138	200	$0.57

[1]Capitalization = Capital stock plus retained earnings, in $000's.

[2]Value of Holdings = Investments plus fixed assets of wholly-owned subsidiaries, in $000's.

Given the $10+ price of shares, earnings have been modest. They have fluctuated with the general conditions of the Canadian economy and have been well below the CDC Board's stated profit target of 15 percent.

CONSOLIDATED BALANCE SHEET
December 31, 1975
Canada Development Corporation

	1975	1974
ASSETS	(thousands of dollars)	
Current Assets	$ 378,430	$ 321,811
Investments	354,581	332,354
Fixed Assets of Subsidiaries	502,792	216,271
Other Assets	41,73	29,155
TOTAL	$1,277,537	$899,591
LIABILITIES		
Current Liabilities		
Short-term loans	$ 95,198	$ 97,484
Accounts payable and accrued liabilities	95,674	74,752
Dividends payable	4,280	1,437
Income and other taxes payable	15,222	3,575
Long-term debt due within one year	10,416	15,672
Total	220,790	192,920
Long-Term Debt	250,358	137,439
Deferred Income Taxes	25,337	9,744
Interest of Minority Shareholders in Subsidiaries	73,218	11,172
Total	569,703	351,275
SHAREHOLDERS' EQUITY		
Capital Stock	564,563	422,000
Retained Earnings	91,699	74,744
Excess of Book Value over Cost at Date of Acquisition of Subsidiary	51,572	51,572
Total	707,834	548,316
TOTAL	$1,277,537	$899,591

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

In analyzing the relevance of the Canada Development Corporation to the Alaska Permanent Fund we will review the major headings in this memorandum in order: Purposes, Sources and Uses of Funds, Management, and Accountability.

Purposes: The purposes of the Canada Development Corporation appropriate for consideration by the Permanent Fund are:

1) to encourage the establishment and maintenance of strong Canadian controlled enterprises;

2) to widen investment opportunities for Canadian investors; and

3) to operate for a profit.

The achievement of the first two goals is conditioned by and dependent on the third. Profit is the operational goal most frequently and explicitly mentioned by management in its official reports. They attempt to make a case for their pursuit of profit by claiming that the partially public benefits of the first two goals will never be realized unless a rate of profit and growth higher than that enjoyed by foreign controlled elements of the Canadian economy are achieved. In the first annual report, management stated,

> If we as a nation are to increase the Canadian content of our economy, it must be essentially by encouraging the sound growth of Canadian-controlled enterprises at a pace which exceeds that of their non-resident-owned competitors.

In the case of altering the balance of Canadian/Foreign control of Canadian industry, the statement above amounts to a tautology. In terms of providing wider investment opportunities in Canadian enterprise to Canadians, the statement is true to the extent that CDC issues must out-perform competitive securities in order to be attractive to investors. Canadian investors have access to international capital markets, and, in 1970, 40% of the securities held by institutions and individuals in Canada were of foreign issue.

The achievement of extraordinary profits by an investment holding company like CDC is unlikely. Recent work in investment portfolio theory and the experience of the securities industry in the past decade have demonstrated the futility of attempting to "out-perform" the market in the long run.

CDC may even be compounding its difficulties by investing in as few enterprises as it does. This investment strategy may lead, and in CDC's case has led, to unstable earnings and cash flow. Such a situation may inhibit the planning of future operations.

CDC's investment operations raise issues of control over the exploitation of natural resources, operations of the Canadian capital market and ownership structure of major industries, all of which are legitimate concerns of the Federal government and the Canadian people. The proponents of CDC in its present form

convinced Parliament that it was necessary to give up control over these matters in order to achieve the more limited goals in the statute. However, what the government got for relinquishing such controls is of questionable value. Lack of government input into CDC operations is the major weakness of the institution.

Sources and Uses of Funds: The management of the Canada Development Corporation has intentionally developed a strong equity base with only 40 percent debt in order to undertake the kinds of long-range, high-risk strong ownership positions which are essential to carry out its purposes.

On the other hand, the Canada Development Corporation must maintain a very strong return on its invested capital in order to attract the substantial private investment in the Canada Development Corporation which it is seeking. The Permanent Fund will not have such a constraint, which has both negative and positive aspects. From a positive standpoint, it will not be forced to get such a market return; from a negative standpoint, it will not have the correction of the marketplace monitoring its investments quite so carefully.

Management: The Canada Development Corporation has the kind of strong, independent, professional staff necessary to any successful development bank. The Canada Development Corporation follows the wise course of only overseeing the major strategic

planning decisions of its subsidiaries and affiliates, and not involving itself in day to day decision making.

Also, the Canada Development Corporation management has been given the very broad managerial discretion to make investment decisions which is contemplated in the current draft of the Permanent Fund.

Accountability: On the other hand, the Canada Development Corporation is a preeminent example of a development bank which does not have sufficient accountability to either the executive or the legislature.

INTRODUCTION

The National Enterprise Board, established under the Industry Act of 1975, is a public financial and promotional institution whose principal objectives are to assist the economy of the U.K., to promote industrial efficiency and international competitiveness and to expand opportunities for productive employment.

From 1968 to 1971, the British government operated a public financial institution with a similar purpose--the Industrial Reorganization Corporation (IRC). IRC's functions were limited to promoting and providing finance for mergers which the directors felt would help effect the rationalization of an industry. (Many of Britain's manufacturing sectors are characterized by firms too small to compete on an international scale.) IRC generated a great deal of opposition from private financial interests which felt that they were being subjected to unfair competition. The institution was disbanded by the newly elected Tory government in 1971. NEB, which incorporates the functions of IRC into the comprehensive program described below, began operations in November 1975.

I. PURPOSES

In order to meet these broad objectives the NEB carries out several different functions. Some observers feel these functions

are not consistent with each other. In planning its investments, the Board is to apply standard commercial criteria of profitability. On the other hand, it is viewed by government and its own directors as an instrument of national industrial policy and is therefore responsible for meeting various public policy criteria in its operations. The implications of NEB's mixed agenda will be examined in the detailed enumeration of the institution's purposes below.

NEB's operations fall into four conceptually separable classifications:

a) Finance for Industrial Investment - NEB acts essentially as an investment banker, purchasing the equities of private firms where it feels the investment will show a reasonable return, will help effect the purposes of the Act and will not displace private investment. NEB also makes loans on commercial terms.

b) Industrial Holding Company - NEB is responsible for the strategic management and financial monitoring of several large nationalized firms.

c) Assistance to Companies in Financial Difficulty - NEB administers capital assistance to firms in temporary financial difficulties. Funds for this activity are provided by the Secretary of State for Industry who is also responsible for deciding which firms will be considered for such assistance.

d) Promotional Acitvity--NEB offers assistance in procuring foreign contracts for British firms or groups of firms and in coordinating the activity of regional development authorities.

Each of these four purposes is analyzed below.

a. Finance For Industrial Investment

NEB's main function is the provision of finance for industrial investment, particularly for the expansion and modernization of productive facilities in manufacturing. In addition, finance or advisory services may be provided to promote industrial restructuring. Finance is normally provided in the form of equity, but loans at commercial rates of interest may also be provided.

NEB's investment policies are shaped by an interim statement of guidance from the Secretary of State for Industry, which is now pending statutory enactment. Except for those investments made at the direction of the Secretary* (see Section c), profitability, defined as the projected discounted rate of return to capital, is to be the main investment criterion. Subsidiary to this are certain public policy considerations, including:

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*Note: In this profile, "Secretary" denotes the office of the Secretary of State for Industry.

i. preparing for growth by action to increase longer-term capacity in key seccors of manufacturing industry;

ii. increasing exports or savings imports; and

iii. where there is a choice of location, creating new jobs in areas of high unemployment.

NEB devoted considerable time to identifying sectors where its assistance would be most beneficial in terms of promoting efficiency. They incorporated data and analysis from the White Paper accompanying the Industry Act and a 39-sector industry study by the National Economic Development Councils into their annual investment plans. NEB intends to use these studies and other analysis provided by the Secretary to guide future investment policy.

b. Industrial Holding Company

The NEB acts as a holding company for a number of shareholdings previously held directly by the government. The portfolio will be added to from time to time as a consequence of the NEB's role as a provider to new equity finance and through the purchase of existing shares in companies. In addition, the NEB has power under the Act to set up new enterprises or to participate in joint ventures with the private sector.

The basic job of the NEB as shareholder is to ensure a proper

return is secured to the taxpayers who provide capital through the Consolidated Fund, the general tax revenues of the British government. In so doing, the Board does not intend to participate in day to day management. Their oversight consists in most cases of making arrangements for the provision of regular monthly information to the NEB on performance and financial prospects, for the provision of annual and long-range plans for the approval by the NEB and for the submission (in the case of subsidiaries--wholly-owned companies) of major capital investment proposals, acquisitions and disposals for approval.

Many of the "transferred companies'" problems have arisen from unstable industrial relations resulting from the inability of management and labor to work out satisfactory wage and productivity provisions. There are three high union officials on the NEB's ten-member Board of Directors. Their presence may be interpreted as a move to force some rapprochement between labor and management, given the Board's responsibility for strategic management and oversight of the troubled enterprise.

c. Assistance to Companies in Financial Difficulty

The NEB may be directed by the Secretary to assist a company in financial difficulties which needs to be restored to a sound state for reasons of employment or industrial policy. In some

cases, the Board will consider the provision of funds in some combination of commercial and subsidized terms. In such cases, the NEB will be reimbursed specifically for their involvement; and to ensure that their financial discipline is not undermined, these activities will be accounted for separately.

d. Promotional Activities

Foreign Contracts - In keeping with its policy to expand exports, the NEB attempts to use its central organizing and financial capabilities to help British industries compete for large foreign contracts. According to the Directors' analysis, "Overseas contracts are becoming so large in value, and the conditions attached to them so onerous, that many UK companies do not have a big enough asset base to undertake the risks; in addition there is a tendency among developing countries to favour tenderers with some form of government backing." NEB has announced that it is willing to joint venture with firms or groups of firms competing for such contracts. In 1976, it assisted in two such projects. The contracts were, however, awarded to other bidders.

Regional Activities - The Secretary's interim policy statement directed NEB to give particular weight to creating jobs in areas of high unemployment. In accordance with this direction, NEB has set up officies in Liverpoool and Newcastle. The Regional

Directors' initial task has been to establish their offices, to build up close relations with public and other bodies concerned with regional development and industrial investment in their regions, and to seek out companies with potential which might require finance from the NEB to fulfill their modernization and expansion plans.

II. SOURCES OF FUNDS/CAPITALIZATION

NEB's investments are financed wholly by the national government. NEB may draw on two sources within the government: the National Loans Fund, and "public dividend capital" appropriated annually by Parliament to the Secretary of State by the Treasury for use in industrial investment. The National Loans Fund is a revolving fund to be used to make loans to private firms. The amount of money in the fund and the annual volume of loan activity is set by Parliament; it is administered by the Secretary. NEB may borrow from the Fund at private commercial rates and lend this money to the firms in which it invests. NEB must repay these loans on a fixed schedule set in advance in consultation with the Secretary. NEB may charge a small interest ra e differential to its borrowers to cover its costs in originating and monitoring the loan.

Public dividend capital is another pool of investment funds

made available to the Secretary by Parliament, with controls similar to those exercised over the National Loans Fund. Repayment of these advances are flexible. Dividends and recovery of capital are set by the Secretary in consultation with NEB on a yearly basis. In 1976, NEB paid no dividends on the public dividend capital it received and subsequently invested in the firms it financed. Returns on public dividend capital are to be paid into the Consolidated Fund.

The Secretary and the Treasury must approve all advances from both the National Loans Fund and public dividend capital. The Board must supply accounts of the application of these funds to both offices.

The Treasury may authorize the use of general tax revenues to guarantee repayment of loans undertaken by NEB. The Treasury must notify Parliament of all such guarantees.

As of December 31, 1976, the breakdown of funds received by NEB was:

Public Dividend Capital

Debt assumed from the government upon transfer of investments; Directed by Secretary of State to be treated as public dividend capital:	Subsidiaries	418.4
	Associates	6.2
	Others	1.2
		425.8
Issued to NEB during 1976		54.0
Total		479.8

Loans

Capital debt assumed from transferred companies:	77.8
New loans issued to NEB during 1976	21.3
Total	99.1

(All figures in £ million.)

Since NEB does not market securities, debt/equity ratios are not material to its success in obtaining further funds for investment. More important will be its return on capital and the performance of its subsidiaries. These factors will figure prominently in the Secretary's decision to continue providing investment funds to NEB.

III. USES OF FUNDS/INVESTMENT OPERATIONS

NEB's assets consist largely of investments and loans to five large public corporations transferred to it by the government. All of these companies have suffered financial, managerial and labor problems in the last few years. They have been only marginally profitable or have shown losses. The book value of these companies' assets was £624.1 million at the time of transfer. Their negotiated price, discounted for their market problems and used for calculating returns to NEB, was £495.7 million. During 1976, NEB made £40.41 million in new equity investments and £20.13 million in loans to these companies.

The operating status of NEB's major industrial holdings as of the date of transfer from the government was as follows:

British Leyland Ltd.

	12 months to Sept. 1975	15 months to Dec. 1976
Sales	£1,868 mill.	£2,692 mill.
Profit (Loss), Before Tax	(76.1)	70.5
U.K. Employment	191,000	183,000

British Leyland is a major manufacturer of motor vehicles and allied products. The companies comprising this conglomerate had shown steady losses during the Sixties. They were consolidated and nationalized in 1973. British Leyland's small profit in 1976 is attributed to higher export margins resulting from the decline of the pound. The firm's major problem is that it has been unable to produce enough vehicles to meet demand. This is due mainly to disrupted labor relations. During the 15 months ended December 1976, 7.1 million man-hours were lost due to strikes and subsequent layoffs.

Data Recording Instrument Co. Ltd.

	12 months to Sept. 1975	15 months to Dec. 1976
Sales	£10.15 mill.	£8.50 mill.
(Loss) Before Tax	(0.14)	(0.09)
U.K. Employment	923	1,030

Data Recording is a young firm producing computer peripheral equipment. Some 60 percent of its output is sold overseas. Its management has announced expansion plans calling for a doubling of employment in the next four years. However, the sales figures above do not seem to warrant such optimism.

Ferranti Ltd.

	12 months to Sept. 1975	15 months to Dec. 1976
Sales	£86.3 mill.	£108.5 mill.
Profit (Loss) Before Tax	(0.5)	4.1
U.K. Employment	16,651	15,576

Ferranti is a conglomerate producing many lines of heavy electrical equipment and electronic instruments. Its operations are international, with subsidiaries in Canada, Brazil and Scotland. As of the end of 1976, divisional management was being decentralized in an attempt to accelerate the increase in profitability indicated above.

Herbert Ltd.

	12 months to Sept. 1975	15 months to Dec. 1976
Sales	£49.7 mill.	£49.4 mill.
Profit (Loss) Before Tax	(13.4)	(0.7)
U.K. Employment	6,716	6,017

Herbert is one of Britain's largest machine tool manufacturers. This industry had been particularly hard hit by the recession of the early Seventies, and the firm had been forced to postpone planned equipment modernization. As of the end of 1976, domestic and foreign orders were increasing. Herbert was planning to complement upgrading of its capital with wide-reaching decentralization of divisional management responsibility and worker participation in plant-level management.

Rolls Royce Ltd.

	12 months to Sept. 1975	15 months to Dec. 1976
Sales	£602.1 mill.	£620.2 mill.
Profit (Loss) Before Tax	4.5	(21.9)
U.K. Employment	62,375	59,758

Rolls Royce Ltd. produces aircraft engines and industrial turbines. The automotive division was separated from the firm upon nationalization in 1971. Recessionary declines in demand for air travel and electricity cut severely into the derived demand for Rolls Royce's products. Declining sales leading to increased unit costs forced management to close three plants and curtail subcontracting business. Despite steady international orders for military aircraft engines, PR intends to continue cutbacks in capital expenditure and production.

During 1976, NEB also invested in new and existing smaller firms, mostly in the machine tool, computer and metalworking industries. These investments amounted to £11.51 million in equity and £21.18 million in loans.

IV. MANAGEMENT

NEB is managed by a Board of Directors consisting of two full-time and eight part-time members. The two full-time members, Chairman and Deputy Chairman, are former senior executives of industrial enterprises. Of the eight part-time members, five are business executives and three are union officials. The Board is the ultimate authority in investment decisions except in those cases reported in the "Functions" section.

The Board is assisted by a professional staff of 47, headquartered in London with regional branches in Liverpool and Newcastle.

V. ACCOUNTABILITY

Accountability to the Executive

The NEB is subject to a great deal of oversight by the Secretary of State for Industry and the Treasury. NEB must satisfy these officers that its investments are sound by commercial criteria (except in the case of investments directed by the Secretary).

NEB STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the period from 20 November 1975 to 31 December 1976

	Note		
Source of Funds			
From Her Majesty's Government			
Public dividend capital	14	53.97	
National Loans Fund	15	21.29	
			75.26
From Her Majesty's Government upon the transfer of investments and loans under Section 5 of the Industry Act 1975			
Public dividend capital	14	425.79	
Capital Debt	15	77.84	
			503.63
Application of Funds			
Overall Excess of Expenditure over Income	7		1.09
Less Depreciation			.05
			1.04
Purchase of Fixed Assets	7		.65
Purchase of investments			
Subsidiaries	9	40.41	
Associates	11	10.70	
Others	10	.81	
			51.92
Loans to			
Subsidiaries	9	20.13	
Associates	11	.76	
Others	10	.42	
			21.31
Investments transferred by Her Majesty's Government			
Subsidiaries	9	418.36	
Associates	11	6.24	
Others	10	1.19	
			425.79
Loans transferred by Her Majesty's Government			
Subsidiaries	9	74.59	
Associates	11	3.25	
			77.84

It must also make an effort to fulfill a rather long list of public policy responsibilities as well. These include:

1) location of new facilities in areas of high unemployment;
2) ensuring the furthering of democratic managerial practice;
3) ensuring that the use of funds is consonant with anti-inflation policy;
4) ensuring that public corporations maintain financial discipline;
5) assisting and coordinating activities with regional planning agencies; and
6) ensuring protection of consumer interests.

Commercial standards for investment are well understood, and there exist permanent agencies within the government to monitor NEB's performance on this account. No standards or mechanisms of oversight have been brought forth by which to judge NEB's performance on the social criteria or to hold it accountable.

In setting guidelines for NEB, the Secretary acknowledged that the institution had to be left with enough discretion to respond flexibly to quickly changing investment opportunities. Thus, government oversight is to be exercised through the review of three-year investment plans submitted annually to the Secretary. The plan is to include sections dealing with:

a) existing NEB holdings (with particular attention to the activities of large companies);

b) acquisitions, joint ventures and new ventures; and

c) assistance operations;

with a discussion of the balance between these various activities.

The Secretary may enforce his decisions through two mechanisms discussed above, regulation of certain investment activities and control over the amount of investment funds available to NEB. Should the policies of the Board and the Secretary seriously diverge, these provisions could become powerful sanctions on the discretion of NEB management. At the moment, however, relationships between NEB and the government seem more collaborative than adversary.

The overall framework of the NEB's accountability to the government on matters of public policy and financial goals is given above. Here we list certain types of investment operations which require notification of or approval from the Secretary of State.

Notification of the Secretary is required when:

1) commitments exceed £10 million or the investment raises new or significant policy issues;

2) NEB acquires more than 10 percent of the voting shares of a company; and/or

3) the acquisition may require investigation under monopoly laws.

Approval is required when:

1) NEB wishes to dispose of securities;

2) commitments exceed £25 million; and/or

3) the costs of acquiring share capital exceed £10 million or confer upon NEB more than 30 percent of voting stock in a company.

Most of these restrictions on investment activity were enacted in order to assure the business community that NEB would not use its access to large amounts of government funds to compete at an advantage with private investors. NEB is subject to the same laws regarding ownership acquisition and disclosure that apply to private investors; it may not make use of privileged information such as planning agreements worked out between the government and private firms; it may not compell private owners to sell out.

Legislative Accountability

NEB is only indirectly accountable to Parliament through ministers appointed by them. Parliament also controls the amount of National Loans Funds and public dividend capital available to all recipients.

VI. EVALUATION

The most remarkable aspect of the NEB is the array of conceptually separable functions it is to fulfill and problems it is to address. After only one year of documented activity, it is impossible to assess the Board's performance. We can, however, review NEB's functions and design to make some prognosis on its chances of success. First we must review interpretations of Britain's present industrial difficulties.

Since 1960, the post-tax rate of return on physical capital to British commercial and industrial companies has fallen from 8 percent to near zero. The cause most frequently identified by commentators on this phenomenon is lack of sufficient reinvestment to maintain capacity. However, recent studies have shown that Britain's rate of reinvestment has been stable and comparable to those of other Western industrialized countries.

Recently, attention has been focused on the low productivity of labor as the major cause of unprofitable manufacturing activity. In manufacturing and utility sectors, Britain's enterprises rank consistently lowest in international comparisons of output (sales) per unit of manpower employed. This condition is particularly acute in the nationalized industries where, for example, British Leyland uses about twice as much manpower/unit as its continental counterparts producing similar cars with similar

equipment. Frequent strikes cut further into productivity of capital. For obvious political reasons, both Labour and Tory governments have been obliged to maintain employment and have thus subsidized losses in nationalized enterprises and in larger private manufacturing companies as well. Unions, therefore, face few constraints, in terms of membership job loss, in pressing for more and more costly wage and benefit settlements. Nationalized industries have also been subject to price controls in the face of continuously rising factor costs.

These are only a few of the problems facing large-scale industry in Britain; they face conditions weighing on all import-dependent industrial economies. They do, however, have the advantages of a relatively modern industrial plant and a highly trained technical and managerial elite.

What are the prospects for NEB's various roles given the simplified analysis above? Taking them one at a time:

Provision of Investment Capital: NEB's operations are a substantial improvement over previous British systems of capital assistance to private firms. Under older programs, the Treasury had to be petitioned for virtually every disbursal of investment funds, bureaucratic response tended to be slow to the point of obstructing the completion of deals. Furthermore, most assistance was in the form of loans with inflexible repayment terms.

Recipients often had to petition for further assistance to pay off their government loans.

Within rather high per investment limits, the NEB may act on its own initiative, without executive approval. Since its own source of capital for new investments is predominantly public dividend capital (76 percent of the total funds available to it in 1976), it may advance equity to the companies it invests in. Thus, NEB can absorb long gestation periods necessary for new enterprises or new operations within existing enterprises to show profits.

Holding Company: The problems facing Britain's nationalized industries are too complex, too embedded in historical patterns of class, social and economic relations for any super-managerial authority to turn around in the forseeable future. The NEB may provide one of many desperately needed forums in which labor and management representatives can be induced to address common problems.

Assistance to Financially Troubled Companies: This is NEB's least enviable and least-to-be-emulated function. To the extent that the analysis above holds true in individual cases, provision of additional capital under any terms is economically inefficient. It may, however, be politically necessary. NEB keeps separate accounts for such activities and is reimbursed for them. Thus,

the "subsidy" nature of these activities is acknowledged in NEB's records, allowing for the application of other-than-commercial standards in judging performance.

Promotional Activities: Both the foreign contract and regional development functions seem to be sensible approaches to creating markets and encouraging coordination, particularly in sectors dominated by small units. Coupled with NEB's financial powers, these could be particularly effective services for increasing Britain's international competitiveness.

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes: The British National Enterprise Board, like the Canada Development Corporation is relevant to the Alaska Permanent Fund in that its central function is to finance the restructuring of ownership to ensure that assisted firms are efficiently operated under British management control.

Like the Canada Development Corporation and like the proposed draft of the Alaska Permanent Fund, the British National Enterprise Board is required to return a profit on investment that essentially meets the norms of the marketplace. On the other hand, the British National Enterprise Board statute goes one major step beyond that of the Canada Development Corporation in requiring that any subsidies are borne directly by the British General Fund and not by the National Enterprise Board. That implication exists in the current draft of the Alaska Permanent Fund but should be made more explicit.

Finally, the principal weaknesses of the British National Enterprise Board are the conflicts in incompatible goals. As was emphasized in the July 11 memorandum to the House committee, this is a principal danger of an improperly structured development bank. Any separate goals such as the separate and conflicting tasks of the British National Enterprise Board should

be separated into subsidiary institutions which have sources and uses of funds and management capable of dealing with those distinct functions.

Sources and Uses of Funds: The British National Enterprise Board is, of course, 100 percent financed by the British government. Unlike the Canada Development Corporation, it does not have to float its stock issues or bonds on the private market. Therefore it does not have a market sensitivity.

The Canada Development Corporation is too sensitive to the marketplace; the British National Enterprise Board is not at all sensitive to the marketplace. The result is that the British National Enterprise Board can and does make unsound investments which are unproductive and in the long run a disservice to the British economy. The ideal is a mixed public and private financing in which the initial capitalization of the government provides flexibility but the subsequent financing is from the marketplace and is market sensitive as, for instance, in the case of the European Investment Bank. The Alaska Permanent Fund can be organized to create a substantial multiplier of private financing on its public capital which will both improve its performance and make more efficient use of its resources.

Management: The British National Enterprise Board, like the Canada Development Corporation, does not involve itself in the day to day management decisions of its affiliates or subsidiaries, a policy which should again be followed by the Alaska Permanent Fund.

It is also important to note the balance among government, business and labor on the British National Enterprise Board, a balance which may or may not have any relevance to Alaska.

Accountability: The British National Enterprise Board statute and its executive implementaiton provide some of the most striking models for the legislative and executive oversight of a large and powerful development bank.

First, NEB's financial reporting standards are extremely rigorous. Even in its Annual Report, all accounts are unconsolidated, so that the performance of subsidiaries and special purpose funds is apparent from casual perusal. For example, the conversion of a large portion of Rolls Royce government debt to public dividend capital was duly noted. This was a relaxation of financial discipline contrary, perhaps, to NEB's stated policy. However, this information was picked up by the British financial press and used by members of Parliament to bring political pressure to the struggle to impose stricter standards on nationalized industries. Since the solutions to

Britain's industrial problems must be worked out in the political as well as the economic and financial spheres, the informed participation of the interested public may serve as an important control on NEB's activity.

Secondly, day-to-day investment activities are subject to regulations designed to ensure that NEB is not displacing private market investment. While the success of these regulations is impossible to measure, it should be noted that CDC is under no such control.

Thirdly, and most importantly, NEB must justify its requests for investment funds on an annual basis to the Secretary of State for Industry, who makes the final decision on the disbursal of these funds. The Secretary is, in turn, accountable to Parliament, which appropriates the money. On one hand, this ensures that NEB's management is using its funds in a manner consonant with national policy and financial responsibility (to the extent these two goals do not conflict). On the other hand, such approval mechanisms may involve bureaucrats far removed from the operations of the assisted firms. They may also inhibit the timely provision of funds necessary to negotiate and effect deals. However, this does not seem to have been a problem so far.

INTRODUCTION

The Connecticut Development Authority (CDA) is one of many independent state agencies in the United States designed to assist existing small- and medium-sized firms in obtaining long-term debt financing for expansion and upgrading of physical plant and equipment. Created in 1973 by an act of the Connecticut state legislature, its operations to date are noteworthy on several accounts:

1) They have been self-sustaining. All operating expenses have been financed by service fees and float from efficient cash-flow management.

2) Screening procedures have been rigorous. Virtually all CDA service users have been financially successful.

3) Management has been innovative in harnessing the private money markets to provide finance to firms which, due to their small size, have had restricted access to capital on suitable terms, particularly during tight money periods.

I. OPERATIONS: PURPOSES, SOURCES AND USES OF FUNDS

The Authority manages five programs, each of which deals with a somewhat different aspect of providing expansion capital to small- and medium-sized firms. The volume of these operations in the past three years is shown in Table i, in terms of number of loans closed or insured and their total dollar amounts. Since

Table I

$ AMOUNTS IN MILLIONS

Program	Self-Sustain	Umb. Bond	Ind. Mort. Ins.	Small Business	Contractor
Year					
1974 #	37	18	2	5	-
$ amount	172.4	5.1	4.4	.09	-
1975 #	19	8	3	9	-
$ amount	48.6	4.3	5.2	.10	
1976 #	11	10	8	5	2
$ amount	35.3	4.9	21.2	.09	.04
Total #	67	36	13	19	2
$ amount	256.3	14.3	30.8	.28	.04

sources and uses of funds are functionally tied to each other by these financial mechanisms, these two important topics will be discussed in the context of the individual programs rather than summarized separately as in the other profiles in this series.

CDA's three major programs, both for volume of business and for purposes of illustrating the match of perceived need for financial services to program design are:

1) The Industrial Mortgage Insurance Program which insures loans made by private institutions to finance the purchase of plant and equipment;

2) The Self-Sustaining Revenue Bond Program through which the CDA administers a conventional state-wide industrial revenue bonding system; and

3) The Umbrella Loan Program, a direct industrial mortgage lending operation financed by revenues bonds of the Authority.

The Umbrella Program is the most innovative and aggressive of these operations and, for purposes of program design, the most important.

A. Self-Sustaining Revenue Bonds

In Connecticut, industrial revenue bonds are sponsored at the state as opposed to the local level. IRB's are a mechanism by which a state or municipal authority may transfer the tax-

exempt status of the interest it pays on borrowings to bonds of private industrial concerns. The recipient firms usually use the proceeds of such issues to finance new plant or pollution control facilities. These securities are evaluated in the market solely on the financial condition of the borrowing firm. Thus, state involvement lowers the interest cost, but not the risk, information or transaction costs--factors influencing the availability--of such capital. Hence the term self-sustaining. CDA charges a fee to cover the legal, investigative and administrative costs of such issues. These fees are used to cross-subsidize the more costly and time consuming operations involved in the other programs managed by CDA.

B. Industrial Mortgage Insurance

Purpose

Commercial banks tend to view smaller firms as risky borrowers due, mostly, to the volatile nature of the markets in which they operate. Larger firms are favored borrowers for several other reasons, including:

1) They offer the prospect of entering into larger, more profitable customer relations with the lenders for services such as business accounts (compensating balances).

2) Loan origination costs per unit of earning assets tend to be less the larger the loan.

3) Commercial banks are seldom willing to make loans with long repayment periods appropriate for the financing of plant and equipment, and small firms do not have access to the corporate bond and private placement markets which provide long-term finance to larger firms. CDA claims that banks have been willing to extend their typical five to seven year terms when participating in the insurance program. This reduces the borrowers' annual debt burden.

4) Small firms often cannot afford the downpayment on an asset required by banks under reserve requirements. Insured loans are not counted against reserve requirements under certain circumstances. Thus banks are induced to lower their up-front requirements of small borrowers.

Salient Features of the Service

Recent empirical studies show that, during periods of high loan demand, loans to small businesses are the first to be curtailed. In order to counteract the reluctance of commercial banks to lend on favorable terms to smaller businesses, CDA offers to insure all payments, interest, principal and property insurance, on loans for up to 90 percent of the value of new or expanded real assets and 80 percent of the value of equipment. Loans to recreation and commercial projects are not eligible for

coverage, nor are working capital loans. All loans must be secured by a first mortgage on the asset. Eligible borrowers include firms wishing to locate or expand facilities in Connecticut, community foundations, private developers or realty holding companies. Other important features of the service are:

Eligible projects: Manufacturing and processing or research facilities and offices or warehousing attached thereto;

Project limits: Real property - $10 million
Equipment -

Maximum terms: Real Property - 25 years
Equipment - 10 years

Application Fees: Sliding scale determined by loan amount.
Maximum - $7,500
Minimum - $300

Premiums: Real Property - 1/2 percent of outstanding balance
Equipment - 1 percent of outstanding balance.

Screening and Review

A bank which agrees to be the primary mortgage lender to a firm seeking an insured loan applies to the CDA for coverage on behalf of the borrower. The CDA screening process includes a review of the borrower's eligibility under the programs and a brief review of the firm's financial condition and plans. The bank

performs the usual assessment of the borrower's ability to repay the loan. The program rejection rate is approximately 10 percent.

Financing

The CDA supports its obligations under insurance contracts through an insurance fund in which all premiums are deposited. As of December 31, 1976, this fund stood at $2.4 million. Should this fund prove insufficient to meet its obligations, CDA may request that the State Bond Commission authorize the issue of general obligation bonds up to $100 million in order to cover defaulted payments.

Operating expenses of the program are covered by application and commitment fees.

Operating History

The Mortgage Insurance Program was begun in 1961 under the management of the Connecticut Industrial Building Commission. It was taken over by CDA in 1973. As of July 1976, the program had insured 123 loans (not including loans made under the Umbrella Program), and had suffered only three defaults. Through cooperation with creditors in disposing of insured property, none of these defaults ever led to a charge on the insurance fund. Bond authorization for $600,000 was used in one case to finance the

acquisition of a defaulted property. The CDA has been able to lease the repossessed facility at rates which more than cover debt service on the bonds.

Volume of activity under this program for the past three years has been three, two and eight loans per year, respectively. For the prior 10 years, the average number of loans insured was 11. The decline in insurance contracts may be traced to a cyclical loosening of the market for loan funds and to competition in similar services from the CDA's Umbrella Bond program. Because the Umbrella program has been used to deal with loans below $1 million, the average amount of the loans in the Insurance program has risen.

C. The Umbrella Bond Program

During the period 1970-1972, when markets for commercial loans to small companies were particularly tight, the management of CDA determined that it was necessary to take more positive action (than that permitted by an insurance program) to address the problems enumerated in the previous section. The CDA now issues tax-exempt bonds, the proceeds of which are used to provide long-term loans to small companies seeking first mortgage finance for plant and equipment. The process by which this is accomplished is rather complicated and might best be understood through a brief, step-by-step outline.

The Process

1) CDA solicits and receives loan applications from small firms with eligible projects.

2) After screening similar to that of a commercial bank's, applications are submitted to the Board of Directors for approval.

3) If the loan application is accepted, the borrower is issued a conditional loan commitment which (s)he uses to help procure temporary financing from a private institution for the construction of the project. The Authority may only make loans secured by completed projects.

4) Upon completion of the project, the Authority takes a mortgage from the borrower, the proceeds of which are used to pay off the construction loan. Umbrella program borrowers are required to participate in the Industrial Mortgage Insurance program. In order to finance this loan, the Authority has procured a $12 million line of credit with two commercial banks. Before the success of this scheme had been demonstrated, the Authority had issued Bond Anticipation Notes to cover interim financing. The line of credit reduces uncertainty over the terms and availability of interim financing, which in turn makes it less likely that CDA will violate IRS rules pertaining to arbitrage. During this period before a bond is issued to provide permanent financing for the mortgages, the Authority may charge its borrowers an interest rate of 1/2 percent above its own cost of funds.

5) When a sufficient number of loans have been made such that their repayment would secure a marketable revenue bond issue (about $10 million--minimum), the loans are consolidated into several series on the basis of size and maturity. (Series cannot exceed $1 million due to IRS regulations.) These revenue bonds are then sold to the public.

6) A portion of the proceeds of these bonds is used to pay off the interim creditors. The borrower's terms are then restructured so that interest rates under permanent financing are 1/2 percent above the Authority's cost of funds under the bond issue. After costs of issuance are paid, the remainder of the bond proceeds are placed in a Special Capital Reserve Fund whose function is described below. Principal and interest payments on the bonds are so structured that repayment of the loans should cover them.

Salient Features of the Service

Other features of the service are similar to those of the Insurance Program. The only significant difference is the project limits: $500,000 for real property, $400,000 for equipment. Besides being necessary to meet IRS requirements for unconsolidated reporting and filing, this limit targets services to smaller firms.

Screening and Review

The screening process used by the Umbrella Bond program is considerably more stringent than that at a commercial bank. Besides the usual financial records and projections, independent asset appraisals, security checks, insurance on principals, personal pledges and on-site investigations are required. These policies have paid off in that there have been no defaults during the program's five-year operating history.

Authority officials claim that the extra cost imposed on borrowers to meet these requirements are more than compensated by reduced interest and more favorable repayment terms of Umbrella loans.

Financing

In order to facilitate sales in an already crowded market for tax-exempt securities, the Umbrella Bonds have extensive financial backing. Should loan payments be insufficient to cover debt service, the first pool of funds to be tapped is a Special Capital Reserve Fund maintained at the level of one year's debt service. Should this fund fall below the required level, the Authority must use the Insurance Fund to make up the deficit. This fund is backed by general obligation bonding authority. Should these resources be insufficient to restore the Reserve Fund to its required

level, money from the general fund of the state is "deemed to be appropriated" at the end of each calender year to make up the deficit. Since this backing requires no legislative approval, it is a good deal stronger than the "moral obligations" which underlie most revenue bond issues. In some states, this arrangement is likely to be unconstitutional.

Operations are financed by the 1/2 percent spread between borrowers' interest rates and the Authority's cost of funds, application and commitment fees and float generated by deposit of loan payments prior to disbursement of debt service.

Operating History

The Umbrella program was established in 1972. As of January 1977, 173 firms had submitted formal applications of which 80 had been rejected or were voluntarily withdrawn. Seven were in process and 86 had been approved. Of these, 67 had been closed, and 66 were outstanding with a balance aggregating $24.4 million. Approved loans not yet closed totaled about $6 million.

These loans have been financed by two bond issues; one in 1975 for $23.5 million, of which $20 million was applied to permanent mortgage financing; one in 1977 for $19.5 million of which $9.2 million will be applied to permanent financing. The average loan size has been about $300,000 with the majority being for 25

years. Interest rates to borrowers, including insurance premiums, were 9.38 percent for real property and 9.3 percent for equipment on the first issue, and 7.23 and 7.73 percent for the second issue. Commercial interest rates without insurance coverage at the time of these issues were approximately 10.5 and 9.5 percent, respectively.

Considerable delay and difficulty accompanied the first bond issue, despite its AA rating due to the dislocations in the tax-exempt market caused by New York City's financial difficulties and the unprecedented form of the issue itself. The second issue, however, went off smoothly, the bonds being well-accepted in the marketplace.

D. Other Operations

CDA also administers, for the Connecticut Department of Commerce, two smaller programs funded by occasional general obligation bond issues of the state.

Cooperative financing of 502 Local Development Corporations - Under this program, the CDA lends 50 percent of the front-end investment which a local development corporation must raise in order to receive either SBA or EDA long-term financing. CDA is empowered to lend up to $2 million of its resources for this seed money financing. As of July 1976 it had made $228,000 in such loans.

Contractor's Loan Programs - The CDA has provided small loans on a contract by contract basis to construction firms who demonstrate a need for working capital to carry out procured contracts. CDA accords priority to minority businesses.

II. MANAGEMENT

The CDA is a subdivision of the Connecticut Department of Commerce. However, it is an independent agency whose operating decisions are made by a seven-member Board of Directors. The Board consists of the Commissioners of Finance and Commerce, the Treasurer and four members appointed by the governor, who have tended to be executives in private financial institutions. The Board is assisted on all Umbrella Loan decisions by a nine-man screening committee composed of experts in various sub-areas of industrial finance. Each loan write-up is submitted to three members of the committee who review the proposal and return a recommendation to the Board. These outside reviewers are compensated by a set fee for each loan reviewed.

The professional staff of ten, which performs most of the screening loan evaluation and program administration functions, consists of an Executive Director, managers for the programs, and loan officers. The fact that this staff is subject to state civil service regulation has caused some operating problems.

Because the state civil service commission regulates the Authority's hiring practices and the salaries it may offer, CDA has found it difficult to hire staff in the timely manner required by professional financial operations. It has also found it difficult to retain qualified personnel since the private market provides higher salaries and more opportunities for advancement to those with commensurate skills.

Although CDA is an independent agency, it is very much tied to the Connecticut Department of Commerce in which it is housed and whose Commissioner is Chairman of the Board. On one hand, this close connection is beneficial in that the Department's promotional activities are a source of new business. On the other hand, differences of opinion concerning professional judgment on financial matters have arisen between the Board and the Staff.

III. ACCOUNTABILITY

To The Executive

The Authority's operations are, for the most part, unencumbered by executive oversight or control. Approval of the Treasurer and the State Bond Council is needed in order to issue bonds, and yearly reports must be submitted to the Commissioner of Commerce. Indirect power may be exercised through appointments to the Board. However, any sanctions go into effect only if the

Authority is in financial trouble or wishes to expand its already generous program limits. Given CDA's record, this situation is not likely to arise soon.

Given the stringency of IRS regulations on disclosure and arbitrage and the competitiveness of an already-glutted tax-exempt market, it would appear that CDA is more fully accountable to the IRS, the banks with whom it cooperates, and its investors than to any state governmental body for its financial performance.

In terms of public benefits, CDA does require loan applicants to submit employment estimates for their projects. However, the Authority makes no attempt to analyze the incremental impact of their operations (new as opposed to retained jobs, replacement of private sources of investment funds, etc.). Authority managers state bluntly that these considerations are secondary to maintaining the financial credibility of CDA operations.

To the Legislature

CDA is not required to report its activities to the state legislature. This body exercises no sanctions over the operations of the Authority.

IV. EVALUATION

The CDA has been particularly effective in countering the

informational and cyclical money market problems which many observers feel account for recurrent contractions in the long-term debt market for small firms. The benefits of the Authority's services can be divided into two classes: assistance in making capital markets more efficient, the pecuniary benefits of which accrue mostly to banks and investors; and assistance to firms receiving financial services, to the extent that these services would not have been offered on as favorable terms, or at all, by the private market.

Making Capital Markets More Efficient

Numbers of applications for CDA services have been highest during periods of tight money, indicating that the Authority picks up the private institutions' lower priority customers. Yet the Authority's borrowers and insurees have not been bad credit risks. In fact, the default rate on CDA's portfolio of "risky" loans is considerably lower than that of most banks'. This constitutes some evidence that the Authority is tackling informational problems sloughed off by banks and investment houses which prefer to lend to bigger customers. Through the Insurance Program and the Umbrella program, CDA reduces the information costs involved in adequately assessing the creditworthiness of small firms to banks and individual investors. The expenses for this

service, however, are borne by the borrowers through fees and premiums and by the taxpayers who must somehow make up revenues foregone due to the use of tax-exempt financing.

Benefits to service users have included access to capital during a period of universally-recognized shortage in the case of the first Umbrella Bond issue and access to capital on extremely attractive terms in the case of the second. Participants under both the Umbrella and Mortgage Insurance programs enjoy lower down payments and decreased annual debt burden, both of which may be important factors for firms with uncertain or variable cash flows. The size of these benefits, however, is nearly impossible to estimate.

Finally, it should be remarked that the CDA's success and integrity are due to the efforts of its management rather than to any features of its legal structure or capitalization. Similar arrangements have led to unproductive allocations of capital and serious defaults in mortgage insurance programs in other states and most notably in special-purpose public authorities with tax-exempt bond issuing powers.

V. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes: The principal importance of the Connecticut Development Authority to the Alaska Permanent Fund is as the best North American model of a state-sponsored development bank financing intermediate- and long-term capital for medium and small business on a collaborative basis with the private marketplace. The Connecticut Development Authority has been extremely efficient in carrying out that purpose.

The Connecticut Development Authority, however, need not take 90 percent of the risk in all of its financing. In that regard, the Massachusetts Industrial Finance Agency (modeled after the Connecticut Development Authority in most respects) is pursuing a course much more like that of the European Investment Bank in taking only 40 percent of the risk, once again ensuring local and private market participation in both the risk and the resources.

Sources and Uses of Funds: The sources and uses of funds of the Connecticut Development Authority are again the ideal model for this purpose of appropriate state backing to ensure that virtually all of the used funds are raised in the private market. The Alaska Permanent Fund will be able to set up the same kinds of reserves with its own capital resources without the

need of any Alaska General Fund backing, in my judgment, given the vast size of the Alaska Permanent Fund's paid-in capital resources.

Management: The Connecticut Development Authority has built up an extremely fine management, but has tended to lose good staff or not be able to hire them in the first place because of the constraints of a Civil Service salary structure. Were the Connecticut Development Authority capable of hiring independent professional staff as does the Canada Development Corporation or the European Investment Bank, it might be an even stronger institution.

The Connecticut Development Authority has also made good use of professionals from the private market both on its board and on its investment committee to ensure that its decisions are sound.

Accountability: CDA is essentially unaccountable to any division of the Connecticut state government. Any sanctions reserved to the executive are activated only in the event of severe financial crisis, say the default of a substantial number of insured or umbrella loans. Even the token legislative oversight entailed in "moral obligation" arrangements has been relinquished. This

insulation from democratic scrutiny and control has not left CDA operations free of political influence. The Executive Director of the Authority has reported confidentially that professional staff judgment on loan applications has been compromised, on occasion, by pressure from appointed officials to take on the deal.

C. COMMUNITY DEVELOPMENT IN UNDERDEVELOPED AREAS

INTRODUCTION

The Community Development Finance Corporation (CDFC) is a state-owned institution designed to provide equity investment in enterprises sponsored by community-based economic development organizations in depressed areas of Massachusetts. It was created by an act of the Massachusetts state legislature in 1975. It is funded by a $10 million general obligation bond issue authorized in 1976. At present, the CDFC Board of Directors has been appointed; counsel and accountants have been selected. However, the institution is not yet staffed, nor has it undertaken any investment activities.

Despite this lack of actual operating experience, CDFC is of considerable interest to policy-makers concerned with state assistance to community-based economic development in depressed areas. The institution has been the object of a great deal of interaction, not to mention controversy between government officials, businessmen, community leaders and academics. All these groups sought to have their political and economic interests in the design of CDFC's structure and operations. Some of these concerns have been addressed in the definitions, statements of purpose, required findings and operating procedures specified in the CDFC bill. Others, less easily-specified, will have to be worked out on a case-by-case basis when operations begin.

The basic issues discussed in this profile are:

1) The nature of the financial needs of firms likely to locate in depressed areas; why these needs are seldom met by conventional financial institutions; how CDFC's proposed structure and operations are designed to meet these needs.

2) The mechanisms by which investment funds are to be targeted to eligible areas and projects. Where is investment likely to produce the greatest good in terms of increased employment and its concomitant benefits? What organizations are likely to be most capable of managing the investment?

3) The methods by which financial responsibilities and rewards will be distributed among CDFC, the management of the ventures it finances and the local public organization sponsoring the venture. How can the motivations of the key participants be balanced: the desire of the management of the enterprises financed for an adequate return on investment of time, energy and capital; CDFC's claim to a return on its investment sufficient to maintain operations; and the local organization's wish to ensure that substantial benefits accrue to its constituents?

4) By what standards, financial and social, can CDFC's performance be measured, and how can the various participants be held accountable?

I. PURPOSES

CDFC's purpose is to help increase levels of employment, capital ownership, tax revenues and overall economic activity in depressed areas by providing financial services to firms located or intending to locate in those areas. (See Section B for the legislative definition of depressed areas.) The plan for the type of financial services CDFC would offer proceeded from an analysis of the type of firms that could operate efficiently in depressed areas and their financial needs. The elements of this analysis were drawn from academic and empirical work on the determinants and patterns of business location and from the operating experience of financial, non-financial and governmental managers in Massachusetts. The argument for CDFC's planned operations is as follows:

1) Massachusetts employment, particularly in the manufacturing sector had been declining rapidly for at least 15 years prior to the formulation of the CDFC idea. The effects of this decline were particularly visible in cities and towns dependent on one or a few manufacturing plants for their economic activity. These towns contained high levels of surplus, semi-skilled labor and abandoned or underutilized physical plant.

2) Empirical analysis of the composition of employment level change, taking the individual states as the unit of observation, demonstrated that:

a) The creation of new firms and the expansion of existing firms contributed most of the increases in the number of jobs in a given state.

b) The contraction or closing of existing firms composes the greatest portion of the decrease in the number of jobs within a given state.

c) Interstate movement of business activities, despite the publicity such incidents received, accounted for little change in employment levels in the states of origin or destination. Most interstate moves were accounted for by the relocation of branch plants of corporations serving a national market. These moves were usually in response to conditions such as differential factor costs and proximity to markets which state governments, acting independently, were powerless to affect.

4) The actual location of smaller and newer firms was not adequately explained by cost-minimization. In the absence of such behavior, their location might be influenced by active state promotion and financial assistance. These firms accounted for approximately 80% of the manufacturing employment in Massachusetts.

5) At the time, CDFC was first proposed, the United States was suffering its worst recession since the Great Depression. New stock issues had slowed to five per year, and venture

capitalists were reluctant to invest in any company in its early stages of development. Without such investment, firms were unable to develop products, markets and operations to the point where they could attract debt financing from conventional sources.

6) The experience of business and financial people in Massachusetts indicated that there were many businesses, falling into several distinct categories, whose potential viability would be greatly enhanced by the provision of equity capital, but which could not offer the potential for return (30% is a frequently mentioned rule of thumb) sufficient to attract commercial venture capitalists.

The categories of firms were:

a) Manufacturers of high-technology products who needed time, money and freedom from debt burden to develop products and markets.

b) Firms in manufacturing industries which had been bought and subsequently mismanaged by national corporations and were now threatened with closure. In some cases, local management had fought to restructure ownership and control, re-establishing the plants as viable enterprises. Equity financing was essential to such deals in order to obtain favorable treatment from lending institutions.

II Evolution of the Alaska Permanent Fund

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

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

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

Another bill, which would have created a permanent fund by statute, passed the legislature in 1975. However, because of a disagreement with the legislature over constitutionality, the governor vetoed it. The 1976 legislature passed House Joint Resolution 39, calling for a constitutional amendment to establish the Alaska Permanent Fund. The voters approved that amendment in November 1976 by a margin of nearly nine to one.

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

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

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

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

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

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

In March 1977, two bills were introduced in the State House to begin debate on the structure of the Permanent Fund. Both bills would structure the Permanent Fund essentially as a development bank. Both measures propose a two-board management system, a policy board with overall policy-making power, and a committee under the policy board to approve investment proposals. Both bills also give the president of the permanent fund corporation strong executive power and sole responsibility for presenting investment proposals to the investment committee. Both proposals require that at least 40 percent of the fund must be placed in high-grade securities, but allow up to 30 percent of the assets to be invested in Alaska development loans and another 30 percent in community projects and private dwellings. Except for the appointment of the policy board members (who are subject to legislative confirmation under only one of the bills), both proposals would allow the fund to operate rather independently from the executive and legislative branches.

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

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

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

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

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



Robert Leveller

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

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

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

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

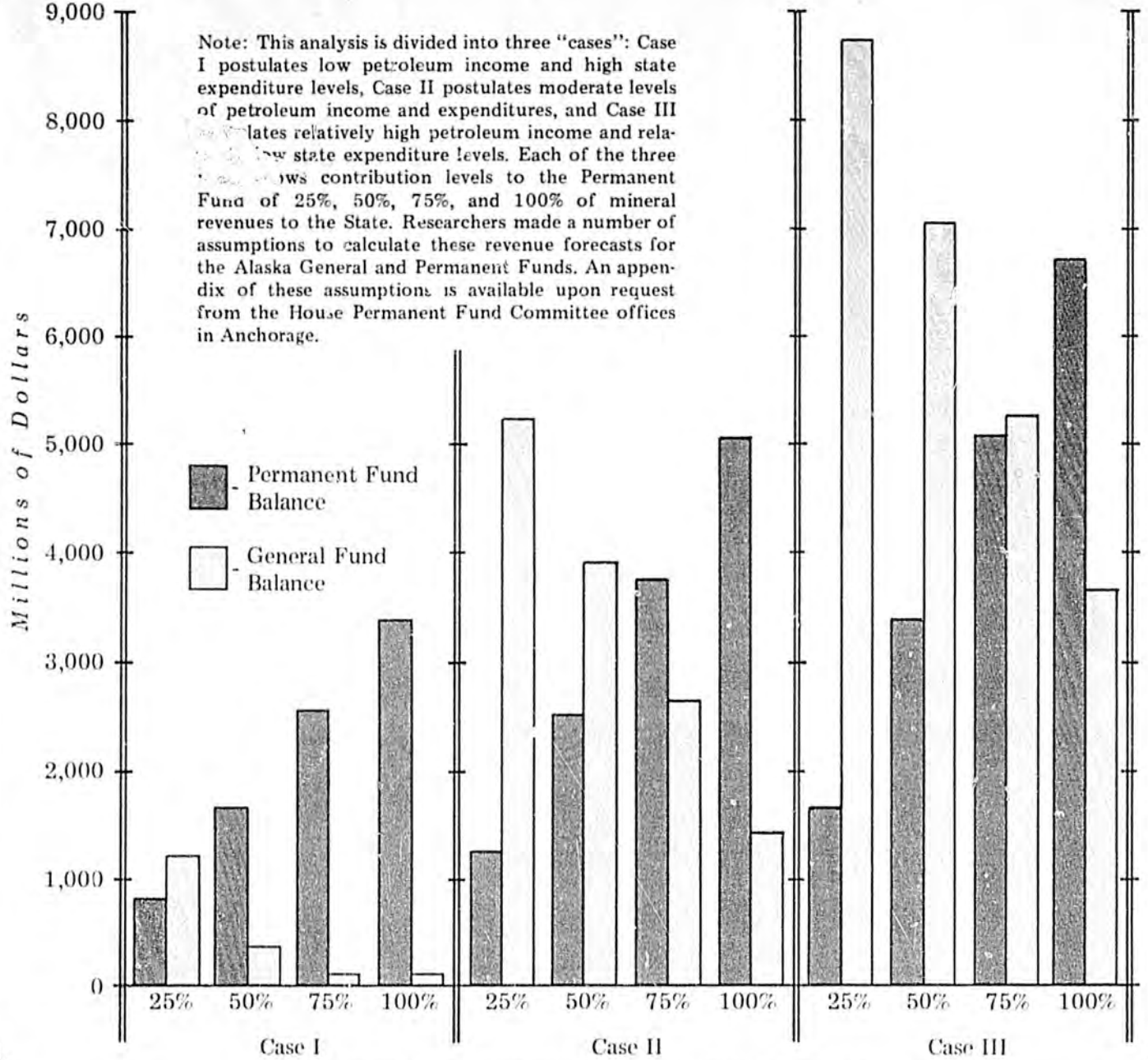
The Permanent Fund is one of several tools policy makers can use to achieve public objectives. Each year the legislature appropriates money from the General Fund to finance state activities. As required by the constitution, the General Fund is the sole repository (with the exceptions of the Alaska Permanent Fund and the Renewable Resources Development Fund) of all state revenues from all sources. The legislature is the only body empowered by the constitution to appropriate money from the General Fund.

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

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

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

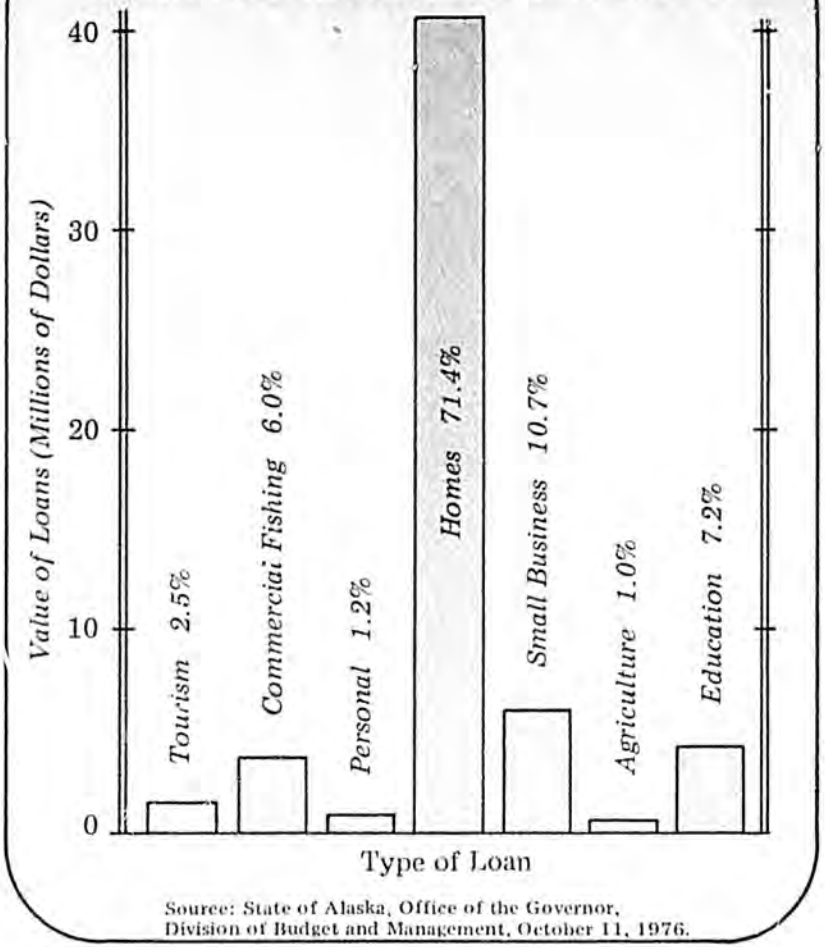
Figure 1
Revenue Projections through 1985



Note: This analysis is divided into three "cases": Case I postulates low petroleum income and high state expenditure levels, Case II postulates moderate levels of petroleum income and expenditures, and Case III postulates relatively high petroleum income and relatively low state expenditure levels. Each of the three cases shows contribution levels to the Permanent Fund of 25%, 50%, 75%, and 100% of mineral revenues to the State. Researchers made a number of assumptions to calculate these revenue forecasts for the Alaska General and Permanent Funds. An appendix of these assumptions is available upon request from the House Permanent Fund Committee offices in Anchorage.

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

Figure 2
Loan Fund Activity: Fiscal Year 1976



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

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

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

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

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

(4) The Division of Business Loans administers five revolving loan funds and two public corporations—the Small Business Revolving Loan Fund, the Tourism Revolving Loan Fund, the Commercial Fishing Revolving Loan Fund, the Child Care Facilities Revolving Loan Fund, the Water Resources Revolving Loan Fund, the Alaska State Development Corporation, and the Small Business Development Corporation. These five loan funds enable qualified businesses and public utilities to obtain long-term financing for developing, expanding, or modernizing their operations.

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

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

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

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

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

IV Objectives for Permanent Fund Investment

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

The proposals listed below have emerged from the Alaska Public Forum, the State Investment Advisory Committee, survey research, and concerned individuals. The list is not exhaustive, nor are the proposals or objectives mutually exclusive. Remember that the types of investments made will determine the amount of income the fund earns.

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

Figure 3
Possible Objectives and Implications for Investment Proposals

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

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

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

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

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

Investment Proposal	Possible Objectives	Possible Implications
Loans to or bond guarantees for municipalities for capital improvements.	—Provide more financing for public projects.	—Lower return due to tax-exempt status of government borrowing. —Increase in municipal budgets for operating expenses. —Provide more amenities, stabilize communities. —Decentralizes actual investment decisions.
Loan or loan guarantees for energy development: A. Large-scale: hydroelectric, geothermal, tidal, wind. B. Small-scale: wind, solar, heat exchange, hydroelectric.	—Decrease dependence on fossil fuels. —Increase availability of power throughout the state.	—Large-scale investments may be locked up for long periods of time. —Will attract high energy-consuming industries. —Potential stimulus for immigration. —Possible environmental degradation and subsequent industrialization. —Cheaper electricity for consumers. —Small scale promote energy efficiency. —Lower energy costs.

V Use of Fund Income

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

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

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

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

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



Yvonne Mozée

VI Objectives for Control and Management of the Permanent Fund

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

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

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

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

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

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

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

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

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



National Park Service

VII Permanent Fund Questionnaire

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

_____

_____

_____

Place
Stamp
Here

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

VII Permanent Fund Questionnaire

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

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

2. What objectives are achieved by your proposal?

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

4. What may limit the effectiveness of this proposal?

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

6. What groups are likely to oppose this proposal?

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

☐ Note: If you would like to receive further information on the progress of this committee, please check here and correct the address if necessary.

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

James B. Rhode
1150 East Bluff
Anchorage, AK 99501

THINKING ABOUT THE ALASKAN PERMANENT FUND:
A CAUTIOUS APPROACH FOR ALASKAN POLICYMAKERS

July 11, 1977

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THINKING ABOUT THE ALASKAN PERMANENT FUND:
A CAUTIOUS APPROACH FOR ALASKAN POLICYMAKERS

July 11, 1977

INTRODUCTION: A Sense of Limits

The Chinese character for the word "crisis" is a combination of two other characters--"danger" and "opportunity." This could well be the symbol for the Alaskan Permanent Fund. As an outsider to Alaska who has worked for the last eighteen years in development banking and for the last thirteen in community and regional economic development, I am awed by both the opportunity and the danger posed to Alaskans by the Prudhoe Bay oil revenues and the challenge of creating an Alaskan Permanent Fund. I agree with Arlon Tussing that this is "an absolutely unique situation," different from any with which I have previously dealt in Asia, Europe, or the United States.

This 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.

In this initial memorandum to you, therefore, it seems most appropriate for me to limit my observations to three matters:

First, I would like to suggest a way in which you as Alaskan

policymakers might approach the problem of thinking about the uses of the Permanent Fund as one aspect of an overall Alaskan Economic Development Plan designed to prepare for the day when the Prudhoe Bay oil reserves are no longer contributing so handsomely to the Alaskan treasury.

Second, I would like to suggest for your consideration some general principles concerning the structure of the Permanent Fund as a development bank in terms of its purposes and powers, legal organization, management and capital structure, which have a general applicability irrespective of your particular goals for the Alaskan economy over the next twenty years.

Third, I would like to suggest a few specific ideas concerning the especially difficult tasks of community and regional economic development, based on the experiences of others.

In making these observations, I am mindful of your unparalleled opportunity to use these resources to build a strong, permanent economy through investments which produce both a reasonable internal rate of return on investment to the Permanent Fund, and a reasonable external rate of return to the economy as a whole and to the treasury of the state. On the other hand, I am equally mindful of the parallel danger that these resources could either be wasted through improper management or improperly employed in ways which create far greater distortions to the

Alaskan economic base or to some of its specific sectors, regions and communities.

It is important for all of us to realize that the dangers of economic distortion are particularly acute in development banking. I realize that the use of the Permanent Fund as a development bank is only one alternative which you are considering. However, since development banking is my professional field it is the only alternative upon which I will comment.

Because development banking is a somewhat "trendy" idea these days, there is the very real danger of creating a development banking institution which is not sufficiently thought out. Some of the specific dangers include designing a development bank with conflicting goals, or with a capital structure which is ill-suited to carry out those goals, and/or with a management likely either to be inefficient or else unaccountable to public policy governance by the executive or the legislature. Even more serious, there is the danger of proposing a development bank to solve a problem which is not a financial one--that is, one in which the solution does not lie in either reducing the cost or increasing the availability of capital. If, however, the problem is in fact a financial markets problem, it may well be that it is caused by some existing form of governmental intervention which is seriously dislocating the financial marketplace. The least expensive

solution in that case would be to remove the governmental regulation, rather than to create one more governmental development banking "gimmick."

Finally, there is a tendency to disregard or to misapply the vast body of multinational and national development finance experience that has accumulated in Third World countries and in Europe and Canada. It is my understanding that Price Waterhouse and White, Weld have given the state a systematic analysis of that experience.

When it comes right down to it, development banking is the most direct, aggressive, and high-risk form of public economic intervention. This suggests that it should be used with great caution. Your own experience with some thirteen state revolving loan funds would seem to confirm the fact that development funds created with high hopes often do not achieve the goals for which they were intended. What is called for, therefore, is a careful, step by step analysis of the nature of the specific economic problem before you. Then, after carefully weighing the relative costs and benefits of different options, you should select the most efficient, cost-effective solution--a solution specifically tailored to stimulate real economic development in Alaska.

As an outsider, I cannot determine what your economic goals should be. On the other hand, I can, perhaps, suggest a way of

looking at the limited aspects in which the Alaskan Permanent Fund, as a development bank, can be a part of your overall effort to use the full resources of the Alaskan state government to help create a sound, balanced, broadly-based economy.

The following outline proceeds step by step through a series of questions which may help you review your design of the Alaskan Permanent Fund in terms of your economic goals over the next twenty years. These questions are divided into three units:

* First, what is the nature of real economic activity in Alaska and Alaskan financial markets, and what is the current impact of federal and state governmental intervention on both real economic activity and financial markets?
* Second, what are the different mechanisms which the Alaskan state government can use either to stimulate or retard the overall direction of the economy and the state's financial markets?
* Finally, wh. are the limited ways in which the Alaskan Permanent Fund can be a part of such an overall economic development effort by the Alaskan state government?

Throughout this discussion, there is an emphasis on limits: the limits of any state government to affect overall state economic development; the limits of development banking to contribute

to that overall economic development effort. If these limits are recognized and accepted, the likelihood of a soundly conceived and soundly implemented Alaskan Permanent Fund is much greater.

I. 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

First Principles

Before we begin to propose any specific form and function for the Alaskan Permanent Fund as one mechanism to help stimulate economic development, we need to have a conception of what is actually happening in both the Alaskan goods market and financial markets and what the present consequences of federal and state intervention are on both real economic activity and the flow of capital in the state. In order to do this on a current and ongoing basis, the Alaskan state government needs to establish a permanent economic development planning process which makes full use of the capabilities of both the public and private sector and the universities, and which develops a reasonable consensus about the forces at work in the Alaskan economy.

I would like to emphasize that there is nothing unAmerican about such a comprehensive, ongoing planning process. I am simply suggesting that the state of Alaska undertake the same kind of careful planning with regard to the husbanding of its capital assets as any American Fortune 500 corporation would do in order to profitably employ its resources. The tools have been admirably

developed in the private marketplace; they are there, ready to be incorporated by a state willing to look upon itself as a public enterprise.

This planning process needs to be realistic about the limited capability of the state to affect either worldwide market forces or federal policy. These plans must also incorporate an understanding of the limited capability of any financial intermediary to affect the course of real economic activity.

Financial markets operate only on the supply side of the economic question. They cannot, by themselves, create a demand for economic activity that is not there. A critical question Alaskan policymakers will have to face and answer is: What is the capability of the Alaskan economy to absorb the capital supplied by the Alaskan Permanent Fund? Although I am not in a position to answer that question, I suspect that it will be some time before the Alaskan economy has the capability to absorb anywhere near the amounts of capital available to the Permanent Fund.

Moreover, the cost of capital represents only a very small portion of the cost of doing business. Other worldwide market forces and federal governmental actions far more profoundly affect the cost of production than the cost of money does. It is these worldwide market forces and governmental actions which we must attend to first. Two corollaries to this point deserve careful note:

First, in very few instances is the cost of capital a serious impediment to sound economic development. There are, however, occasional circumstances where the scale of economic activity, or the location of that economic activity, or the relative risks and rewards of the economic activity, make the availability of capital for that activity virtually nonexistent from a private market standpoint. It is in these circumstances that public intervention in capital markets is appropriate, if stimulating that economic activity would significantly benefit the state economy and treasury. Since the question is one of availability rather than cost, in very few circumstances are below-market interest rates either necessary or appropriate for a public development bank. Examples of the kinds of economic activity which may be of real economic benefit to the Alaskan economy and treasury, but for which there may be insufficient available capital include: rural industrial and commercial development, housing development, the development of new technologies which reduce the cost of production in Alaska for either refining or adding value to Alaska's renewable and nonrenewable resources, and scales of enterprise which are either too small or too large for the private market to finance with a sufficient return coincident with risk. These examples will be analyzed in greater detail in sections below.

A second consequence of the fact that this cost of money is not an important cost of production is this: seldom will lowering the cost of money on the supply side compensate for high costs of production in the marketplace. For example, a petrochemical industry in Alaska is apparently not now financially feasible because of the high costs of production. This problem cannot be solved by lowering the cost of money for petrochemicals through an Alaskan Permanent Fund.

However, lowering the cost of capital can encourage short-run economic activity which is in the long run essentially unsound--and which has a high likelihood of eventual failure.

In summary, a long-term Alaskan state economic planning process must filter out the large number of cases in which development is not dependent on the cost and supply of capital, and in which other public policies are less costly and more appropriate to the solution of the problem. Conversely, the planning process needs to define more precisely those situations in which the economic problem is indeed a financial market problem amenable to solution by Permanent Fund investment. Obviously, these tasks are two sides of the same coin.

In undertaking an overall economic analysis of Alaska and the limited ways in which the Alaskan Permanent Fund can affect overall economic development, I would like to suggest four key

investment areas for the Alaskan Permanent Fund which deserve much more detailed analysis; this analysis would seem to determine the extent to which real economic activity which is financially sound and of economic benefit to the state is now limited by the insufficient availability of capital at a reasonable cost. Two of the areas represent investments within Alaska, and two represent investments by the Permanent Fund outside of Alaska.

A. Potential Kinds of Investment by the Alaskan Permanent Fund Within Alaska:

1. Investments Which Contribute to a Sound, Balanced Alaskan Economy Less Dependent on Nonrenewable Resources and Government Spending

The Alaskan economy is, apparently, at the present time far more dependent on governmental spending than is the American economy as a whole. Moreover, much of the current primary economic activity in Alaska is dependent on nonrenewable resources which are being developed largely by outside interests, with the principal value-added activity taking place outside of Alaska. The result is primary economic activity which is particularly labor-intensive, seasonal, and cyclical. Therefore, economic planning should focus on those possibilities for creating primary, value-added industrial activity in Alaska which can produce goods at a cost competitive ir worldwide goods market.

In analyzing ways in which the Permanent Fund might contribute to a more broadly-based economy, it is useful to make two sets of distinctions: first, between income-producing and infrastructure investments; second, between income-producing investments which (from the standpoint of private market opportunity costs) appear to be too large for the private market to undertake and those which appear to be too small.

a. Potential investments too large for the private market

Given the increasing efficiency and scale of worldwide money and capital markets, you, as policymakers, need to consider whether or not there are sound potential investments in Alaska's renewable and nonrenewable resources which difersify the Alaskan economy but which are too large for private enterprise to finance on its own at a sufficient return competitive with other available risk opportunities. The $9.7 billion investment by the oil companies in the Alaska pipeline suggests that there are few investment opportunities too large for the private market. In this instance, on a worldwide opportunity cost basis, the rewards as well as the risks to the investors were and are very great. However, there may be opportunities for the development of both renewable and nonrenewable resources in Alaska which are sound

investments but which do not provide a sufficient return coincident with risk such as investments in petrochemicals or iron-ore reduction. Here, the Permanent Fund could joint venture with private enterprise in order either to reduce the risk or increase the return.

In analyzing the relative returns and costs of public intervention in such cases, at least four issues require the most careful calculation: What are the underlying goods-market or financial-market reasons for lack of adequate private market capital for the project? Could these obstacles be overcome by a public investment? Do the public benefits warrant the risk? If they do, can a public-private joint venture be constructed which does not disproportionately shift the risk to the Permanent Fund and the rewards to the private market?

The scale and efficienty of worldwide capital markets suggests that the private market is capable of undertaking any large-scale projects--if they are sound. If the private market is unwilling to risk it, the Permanent Fund should be extremely cautious in considering intervention.

Yet, there may be another question: Who should own the enterprise and reap its rewards? In this regard, the Canada Development Corporation is an important model for the Alaskan Permanent Fund, as it considers public intervention in such large

investments, as well as when and whether ownership of such large-scale enterprises should become Canadian. The Canada Development Corporation, created in 1971 with an initial government investment of $250 million, has since had the largest public equity offering in Canada's history ($150 million in preferred stock sold to institutional and individual investors). It now has assets of $1 billion and owns a number of formerly foreign-owned, large-scale enterprises. Depending on the standards by which performance is judged, it has had a mixed record; it is nonetheless worthy of your close scrutiny and consideration.

b. Potential support for medium and small enterprise

The second area in which, as a matter of public policy, it may be necessary for the Alaskan Permanent Fund to supplement private investment in order to stimulate more balanced economic development is in support for the retention and expansion of medium- and small-sized business enterprise by ensuring access to adequate intermediate and long-term expansion capital through existing commercial banks and thrift institutions. Because of the evolving nature of worldwide credit markets and the strictures of governmental intervention, such smaller firms have an increasingly difficult time securing adequate longer-term expansion capital.

We are moving, world wide, to a multiple-tiered money and capital market. This phenomenon is not peculiar to any one jurisdiction such as Alaska, although it can have differential impacts in different jurisdictions depending on the nature of the local economy. The Massachusetts economy, for instance, is unusually dependent for its employment base on medium and small industry. Even its fastest growing high-technology companies (very profitable firms under $100 million in sales which are growing at 20 to 40 percent per year) have considerable difficulty accessing sufficient amounts of either equity or intermediate and long-term debt, because of the structure, scale and efficiency of the private market and impediments (often unintended) created by state and federal intervention in both goods and financial markets.

It should be clearly understood that the problem is <u>not</u> the availability of short-term working capital. Commercial banks, finance companies and factors take good care of these needs. The problem is <u>not</u> price. Many of these ventures could be financed at above-market rates. The problem is that often the length of terms needed are too long for many commercial banks, yet the sizes of loans are too small for most insurance companies, and, finally, the nature of the industrial and commercial loans are beyond the competence of most thrift institutions.

Federal S.E.C., I.R.S., E.R.I.S.A., bank, savings bank, and savings and loan regulations simply make matters worse. (State regulations do too, but since this is something you can do something about, state regulation is reserved for special discussion on pages 34 through 39, below.)

If you decide that some form of support for intermediate and long-term debt for medium and small commercial and industrial enterprise is warranted in Alaska, it is critical that any intervention by the Permanent Fund be developed in close collaboration with and through existing commercial banks, savings banks, savings and loan associations, and credit unions. This is essential for several reasons: If the state acts alone, the odds are much higher that it will make a bad loan, whereas acting through the local financial community, it can bring their money and judgment to bear, thereby reducing both the cost and the risk. Collaboration also strengthens and integrates the financial community more firmly into the local economy.

Once again, it is not necessary for the Alaskan Permanent Fund to reinvent the wheel. The single best state development bank providing longer-term credit support for small business in collaboration with banks is the Connecticut Development Authority, which has been steadily expanded and amended since 1958. Virtually every American state, Canadian province, and European nation

has a similar, if less effective, intermediate credit facility. In development finance, as in medicine, one can learn a great deal from institutions which have not worked well. We want to avoid mistakes knowingly as well as emulate successful models.

c. Infrastructure investments

Potential infrastructure investments necessary either to provide access to natural resource development or to create the environment in which a profitable market investment can be made should only be made after careful economic analysis has in fact determined that, if those infrastructure investments are made, the costs of production and rates of return are such that the resulting economic enterprise is competitive in worldwide goods markets. The world is replete with examples of infrastructure investments made in Asia, Africa, or Latin America (not to overlook empty federally-funded industrial parks in Appalachia) in the hope that if they were made, real economic activity might result. In most instances, those were dashed hopes.

Although the Alaskan Permanent Fund may well be the most appropriate vehicle for making that infrastructure investment, any non-market costs should be borne not by the Permanent Fund but by legislative appropriations from the Alaskan General Fund.

2. Investments Which Decrease Economic Disparities Between Alaskan Regions, Communities, and Demographic Groups

The second major area in which the Alaskan Permanent Fund can be a part of an overall economic development strategy within Alaska is in strategies to minimize the rate of increase in economic disparity among regions and demographic groups within Alaska. Note the conservatism with which I make that statement: I did not say eliminate the gap; I suggest for the time being that a more limited goal is more reasonable and realistic--simply to minimize the rate at which the gap widens. For instance, at the present time, the south central region of Alaska has 54.5 percent of the population and 63.2 percent of the gross state product. On the other hand, the Arctic and western regions have 16.3 percent of the population and only 8.8 percent of the gross state product. Although I do not have the precise figures, I suspect that those regional disparities have increased over the past ten years, and that without economic development planning and intervention on the part of the state, they will continue to increase at a faster and faster rate over the next twenty years. I would also guess that the 155,000 Alaskan citizens living outside the major cities are subject to more cyclical, more seasonal, and more labor-intensive industry than Alaskans employed in the principal cities and in the southeastern and south central regions.

If this growing disparity does exist, and a decision is made to use state resources to try to narrow the gap, there are specific community and regional development banking experiences in the United States and overseas which can be employed by the Permanent Fund to contribute to that goal. These experiences are described in greater detail below, on pages 54 to 59.

If the state makes such a policy decision, Alaska has a unique opportunity to organize a portion of the resources of the Permanent Fund specifically for purposes of joint venturing with the Alaskan native corporations in order to assist them in developing petroleum and natural gas resources on their land, as well as hard-rock mining, forest production, and fishery resources within their territories.

B. Potential Kinds of Investment by the Alaskan Permanent Fund Outside Alaska

As I have already indicated, I have not yet had access to the economic projections for Alaska of the state government, the Alaskan banking community, or the University of Alaska's Institute of Social, Economic and Government Research. Nevertheless, it seems a reasonable presumption that the enormous potential capital resources of the Permanent Fund are too great to be appropriately absorbed in investments in the above two categories if those investments are to be sound, income-producing investments.

The important question then is: How might the balance of the funds be reasonably invested? I would suggest two potential categories of investment for the Permanent Fund outside Alaska:

1. Investments Outside Alaska Which Contribute to Overall Alaskan Economic Development

Areas of economic activity which deserve careful consideration include investment in the development of technologies which would decrease the production cost of either the removal of natural resources from Alaska or the refining of those resources within Alaska. Similarly, the Alaskan Permanent Fund might invest in the development of technologies which would add economic value to natural resources in Alaska before export.

This is another instance in which the Alaskan Permanent Fund may need to "supplement private investment when sufficient private capital is not available on reasonable terms and conditions." The development of these technologies may require investments by the Permanent Fund either within or outside Alaska. Because of changes in the structure of American capital markets over the past twenty years and because of changes in federal policy with regard to securities regulation, capital gains taxation, and the imposition of extensive new limitations on institutional investors, there is virtually no capital available in the United States

today for start-up investments in new technologies or for investment in technological innovation outside of large multinational corporations.

If it seems reasonable, as a part of Alaska's overall economic development plan, to invest a portion of the Alaskan Permanent Fund's resources in the creation of locally owned technologies, once again, there are good development banking models for such technological investment. These include the thirty-year-old National Research Development Corporation (NRDC) in Great Britain, SOFINNOVA in France created in 1971, the Connecticut Product Development Corporation (CPDC) created in 1974, and the Technology Development Corporation now before the Massachusetts legislature.

2. Investments in Investment-Grade Securities

I have come to the issue of investing a significant proportion of the Permanent Fund's assets in marketable securities not from the vantage point of safety, but from the vantage point of development finance: it is simply unlikely that there will be sufficient income-producing demand for development finance in Alaska to absorb the full resources of the Permanent Fund. Therefore, having carried out its development banking function, the Permanent Fund will have to invest the remainder of its substan-

tial resources in marketable securities. In addition, the investment of a significant portion of Permanent Fund resources in marketable securities will strengthen its financial integrity as a development bank.

Finally, even if the Permanent Fund has only its minimum capital base of $2 billion, it will be not only one of the world's largest development banks, but a sizeable financial intermediary by any worldwide standard. It will be sufficiently large-scale to operate in the worldwide money and capital markets as a major lender, investor, and supplier of capital. It must therefore have the most able management that money can buy, capable of operating with both prudence and profitability in such sophisticated markets.

To sum up, I want to underscore two major points: first, as a capital-supplying development bank, the Alaskan Permanent Fund cannot create real economic activity; it can only support economic activity for which there is a genuine market demand but an insufficient capital supply.

Second, the Alaskan state government has other tools within its economic arsenal which it should use as a part of an integrated, overall economic development plan to stimulate the economy; the Alaskan Permanent Fund is one of the tools which can contribute to that overall economic development--a tool with its own inherent limitations.

Before we consider in detail the goals, structure, and strategy most appropriate for the Alaskan Permanent Fund, I would like to outline my sense of the other tools which the Alaskan government should employ in contributing to overall economic development for the state. If Alaska's ependiture policy, tax policy and regulatory policy are not honed into a single, coherent, economic development policy, the capacity of the Permanent Fund to affect positively the economic diversification of the state will be severely curtailed, and its own investments jeopardized.

II. USING THE FULL RESOURCES OF THE ALASKAN STATE GOVERNMENT TO PLAN FOR AND CONTRIBUTE TO A SOUND, BALANCED ECONOMY

In planning state government intervention to stimulate economic development, I suggest an order of battle which considers expenditures policy first, tax policy second, and administrative regulation designed to stimulate the flow of private capital third, before considering a public investment. If a public investment is then deemed necessary, I suggest a careful consideration of tax expenditures and administrative grants before finally deciding to create a development bank such as the Permanent Fund as a vehicle for carrying out that economic development policy. Each of these four points are discussed below.

A. The Role of State Expenditures in Stimulating Economic Development

State expenditures can either be an investment in the creation of real economic activity in the state or, as is more often the case, state expenditures can represent both a disincentive to real economic activity and a disinvestment from real economic activity.

This misuse or use of state expenditures for economic development is compounded by the general proposition that state

expenditures rise to meet state revenues. This has certainly been the case in Alaska since 1969, and is a principal motivation for the creation of the Alaskan Permanent Fund. The principle, however, is universal; in Massachusetts, the level of state expenditures (and therefore the level of taxes) rose from 26th out of 50 states in 1958 to an unenviable third in 1977. The result in Massachusetts today is to drive industry and real economic activity out of the state because Massachusetts is simply too expensive a jurisdiction in which to do business, relative to other parts of the U.S. and the world.

There is, however, a unique aspect to Alaskan state expenditures which is shared by no other state in the United States. Simply speaking, Alaskan government is the economy. Combined federal, state and local government expenditures account for 40 percent of the state's employment--a figure nearly twice as high as that for the United States as a whole. Thus, as Arlon Tussing has pointed out, governmental expenditure in Alaska is the driving arm of the state's economy.

This is fine so long as there are revenues to support the expenditures. Massachusetts is again a case in point: Today Massachusetts wage earners and corporations are being asked to support an enormously high level of unplanned and unproductive expenditure which was rather widely distributed in the space-

technology boom of the 1960's, but which are now being imposed at an increasingly high tax level on a shrinking economic base.

For individual states like Massachusetts and Alaska which cannot print money or set up tariff barriers in the manner of the federal government, there is a limit to which expenditure policy can be used as a means of stimulating the economy. Because the Prudhoe Bay oil reserves are finite, and will not always be the principal revenue producer for Alaska that they are today, it is essential that the state's General Fund as well as its Permanent Fund be <u>invested</u> in ways which will create real economic activity and a strong permanent tax base. In this regard it is useful to think of tax revenues as forced savings that have the same "potential" as private profits for creating productive enterprise through investment. If tax revenues are not used to create a productive public investment in this way, the state will have made a disinvestment from the economic marketplace which might have been more productively employed if the capital had not been removed from private savings by taxation.

I would like to suggest that the Permanent Fund represents a unique and bold opportunity to rethink not only the function of a state government as a stimulator of overall economic activity, but also the very structure of state government as a public enterprise. We have already noted that the state planning process

should incorporate corporate planning techniques in which the revenues and assets of the state as a public enterprise are invested in order to increase future income flows and the future asset growth of the state. I would like to carry that idea one step further. I would like to suggest that we view the structure of state revenues and expenditures as similar to the income and expense statement of a corporation. In this analogy the annual dedication of revenues to the Permanent Fund is the retained earnings of the Alaskan people. The Permanent Fund itself represents the net worth of Alaskans as a part of an overall balance sheet for the Alaskan state government and its constituents.

If we think about the relationship between the General Fund and the Permanent Fund in this way, the task of state government on an annual basis is to expend its General Fund in ways which will contribute to an increase in revenues and therefore lead to an increase in annual net retained earnings which can be put into the Permanent Fund as a constantly increasing net worth.

Similarly, the task of the Permanent Fund is to invest those net retained earnings in ways which will contribute over time to an increased revenue flow to the state. This suggests a constantly increasing net retained earnings on current account (the General Fund) and a constantly increasing capital base for the economy on permanent account (the Permanent Fund).

Seen in this light, all state expenditures from the General Fund must be as productive and qualitative as those made by the Permanent Fund, and the two must be part of the same planning process. Otherwise, one will cancel the economic impact of the other.

Finally, the net retained earnings flowing into the Permanent Fund are an equity base which can leverage substantially greater short- and long-term liabilities from the worldwide capital market, as does the World Bank. The following crude income and expense statement and balance sheet for the state as a public enterprise suggests these ideas graphically.

THE STATE AS A PUBLIC ENTERPRISE

Income and Expense Statement

Annual State Income from Individuals, Businesses, and Oil Revenues	General Fund Current Social Overhead Expenditures and Infrastructure Investments
	Permanent Fund Annual Retained Earnings of the People; Annual Contribution to Net Worth for Future Investment

Balance Sheet

Current Assets	Current Liabilities: Annual Expenditures for Social Overhead
Fixed Assets	Long-Term Liabilities: State Bonds to Finance Infrastructure
	Permanent Fund Long-Term Bonds
	Permanent Fund Net Worth

B. The Impact of Tax Policy on Alaska's Economic Development

Alaska is in a unique position with regard to its revenue structure in that the vast bulk of its revenues are not derived from taxes borne by individuals or businesses native to Alaska. A serious future problem, however, is whether Alaskan residents and resident businesses will be able to support through tax revenues an expenditure level generated during the salad days of high oil royalties and other natural resource taxes. Massachusetts once again is an unfortunate illustration of the fact that although expenditures rise to meet revenues they do not automatically decrease when a revenue base begins to shrink or disintegrate. Given the fact that the oil revenues to Alaska are "temporary," if the tax burden in the future is not to fall abruptly

and harshly on residents and resident business of the state, expenditure levels must be controlled now. For, although it is clear that expenditures are the driving force in the expenditure-revenue connection, in a highly competitive worldwide market, the level of taxation is the factor of state policy which most discourages private market investment in individual states.

Once again, Alaska is unique in relation to other states in that it has relatively low individual and business tax (because of the current high level of state income from oil revenues). Should the situation dramatically change, however, as it has in Massachusetts, primary industry which can locate elsewhere will do so.

In order to understand the impact of the level and structure of taxation on economic development, it is important to dispel two myths and underscore one reality.

Myth 1: Tax Incentives Offered by State Governments to Private Business Do Not Stimulate Economic Development. Rather, They Represent a Gift or Equity Grant Directly to the Private Business. A review of the economic literature and business experience demonstrates that tax incentives granted by state governments are too small to affect the business judgment of corporations. Thus, since the tax avoider would have made the business investment in any event, the result is simply to grant, as a gift

to the business firm, tax revenues which the state would otherwise have collected. The business firm incurs no expense it would not have chosen to incur anyway, but receives additional income in the form of tax forgiveness. This represents a direct contribution to the net income of the business firm.

Since tax incentives represent a direct transfer of otherwise collectible state revenues to the private firm, it is easy to understand why business groups are highly supportive of such tax incentives.

Tax incentives are simply a beggar-thy-neighbor contest between states, in which each state seeks to outbid its neighbor without affecting any real economic activity.

Myth 2: The Level of Corporate Taxes is Not a Significant Real Factor in Stimulating Economic Activity in the State. First, all corporate taxation represents a very small cost of doing business. Second, 50 percent of corporate state taxes are paid for by the federal government as a deduction against federal taxes. Third, in most instances, corporate taxation acts as a sales tax--that is, it is passed on to the consumer. For example, the Alaska oil royalties and taxes are directly passed on to the consumer; moreover, they are not borne by Alaskans. In fact, most primary industry anywhere

tends to be export industry and passes on its corporate tax to consumers throughout the world, whereas distributive industry passes its corporate tax to local consumers. This inhibits economic development only to the extent that the incidence of taxation unduly raises the cost of living, and hence the cost of labor, in the state.

Reality 1: The Critical Aspect of State Tax Policy as It Affects Economic Development is the Level of Personal Taxation, Its Impact on the Cost of Living in the State, and Therefore on the Cost of Labor in the State. Labor is the single largest cost of production for any business enterprise. (This is clearly true outside of Alaska, but once again I hesitate to jump too quickly to the conclusion that what is true elsewhere is automatically true inside Alaska. Alaska's harsh climate, enormous internal distances and difficult terrain, as well as great external distances from world markets may mean that other costs of production are disproportionately higher in Alaska than in other parts of the world, and that labor represents relatively a smaller proportion of the costs of production.) Therefore to the extent that state taxation significantly increases the cost of living and hence the cost of labor, it significantly increases the cost of doing business in the state.

Again, the level of taxation is only significant to the

extent that the industrial or economic base of the state is at all footloose. Obviously, the entire distributive sector of the economy is dependent on primary industry and is essentially a captive of the state economy. Similarly, to the extent that basic industry is dependent on natural resource development, it too is a captive of the state economy. The level of state taxation on natural resource development will affect economic activity only to the extent that it bids up the cost of production and therefore the price of the product beyond a competitive world market price.

Once again, Alaska is in a unique position--quite different from that of, say, Massachusetts, which does in fact lose a substantial amount of its industry just over the border to New Hampshire because the basic differential costs between the two states are the levels of state taxation.

At present, therefore, Alaska has some margin of taxing freedom, given its relative isolation, its relative dependence on the governmental sector, on natural resource basic industries and on a captive distributive sector. However, should Alaska's long-term economic plan require the development of a value-added basic and secondary industry, it will become much more subject to shift-share competition between the states.

As with expenditure policy, Alaska stands out in comparison with other states in that its tax structure does not appear to

discourage economic development. However, as Alaska moves toward a diverse, stable economy, the influence of its taxation policies on economic activity will probably become much greater and more like that of states in the lower 48.

C. Regulatory Policy as It Affects State Economic Development

In analyzing the impact of state regulatory policy on economic development, it is important to distinguish between real economic activity in the goods market and financial activity in the financial markets.

On the one hand, state environmental policy, land use policy, transportation policy, energy policy and labor policy all involve regulations which affect the real costs of doing business in the state. Often the costs imposed on economic enterprise are not the costs of the policies themselves but the cost in lost time due to the procedures by which the policies are implemented. It is often possible for a state to reduce the cost of a regulation through a change in process without modifying its substance.

On the other hand, the impact of state regulatory policy on state-chartered, privately-owned financial intermediaries directly affects the flow of capital to enterprises in the state. This issue is central to the question of how to design and structure an Alaskan Permanent Fund. In line with the aim of invoking the

most efficient, cost-effective solution which involves the greatest return and the least cost or risk, a public policy which would achieve economic development goals through administrative stimulation of the flow of private capital rather than through public investment would appear to be more cost-effective. Two critical issues require careful consideration here. First, is it a realistic possibility to shift the flow of private assets through administrative action in ways which respect the sometimes conflicting goals of prudence, profitability, and economic public policy? Second, if it is, is such a solution actually in the public interest?

There are two principal ways in which public administrative intervention might be able to shift the flow of private financial assets in order to carry out a public purpose while still meeting the tests of prudence and profitability: the first is to change the rules of the regulatory game; the second is for the government to act as a public entrepreneur to create a new financial intermediary which will be either initially or eventually privately owned.

1. Changes in the Regulation of Asset Management of Privately Owned Financial Intermediaries in Order to Stimulate Economic Development. First, let us look at state chartering and regulation of financial intermediaries such as life insurance

companies, commercial banks, savings banks, savings and loan associations, and credit unions. Initially, states chartered these financial intermediaries in order to contribute to the development of the economy of the state and its communities. As these financial institutions suffered collapse and failure in various recessions and depressions over the years, states became less concerned with how the assets were invested in economic development than with protection of liabilities due depositors.

I suggest that a review of ways in which state regulation could be amended to stimulate the flow of assets is a very fruitful avenue for further exploration. Such a review should be undertaken in close collaboration with the financial industry itself, for there are many ways (as we have found in Massachusetts) to modify regulations affecting asset management that are mutually attractive to both the state and the financial institutions themselves.

In Massachusetts, by way of example, we discovered that only one Massachusetts corporation, Gillette, was an eligibile investment for the $25 billion state-chartered thrift industry. Through a collaborative process of Massachusetts industry, the thrift institutions, the banking commission, and the legislature we have now amended those regulations so that all Massachusetts corporations above $25 million in sales are eligible for investment. We

did this in ways which protected depositors, provided a profitable return to the financial institutions, and did not compromise the availability of the assets of these institutions for housing development.

2. State Government as a Public Entrepreneur to Create a New Financial Intermediary Either Initially or Eventually Privately Owned. A second way in which the state might stimulate the flow of private capital to further economic development goals is for the government to act as a "public entrepreneur." This means the creation of a new financial intermediary which is either initially privately owned, or initially has some public capital, but eventually becomes wholly privately owned.

From a private market standpoint, there may well be sufficient return on investment coincident with risk if only such an institution could be put together at a sufficiently aggregate scale. Such a private development finance intermediary may well provide risk-pooling and information and transaction cost pooling that is diseconomic for any single existing institution. Yet, it may not be worth the cost for a single private financial institution to undertake the promotion of such a new development finance intermediary.

In such circumstances, the government may undertake the formation of the private institution as a public entrepreneur in

order to benefit from the public externalities of increased jobs, increased individual and corporate tax receipts, and reduced welfare and other social overhead costs. That is precisely our recent experience in Massachusetts in entrepreneuring the $100 million Massachusetts Source Corporation, to be owned wholly by the Massachusetts insurance industry, and the Central Development Facility, to be wholly owned by the Massachusetts banking industry.

The key public question is: Will the institution be accountable to produce not only its private return on investment, but the public return as well? The answer lies in careful legislative chartering of the institution to ensure that there is adequate reporting and legislative oversight so that its activities may be monitored to see that the public purposes are achieved.

<u>One Example: An Alaskan Central Bank for Local, Cooperative Banks and Credit Unions</u>. One such institution which might contribute to rural community and regional economic development in Alaska would be an Alaskan central bank for existing rural unit banks or new cooperatively owned full service deposit institutions chartered by residents of small towns in the state. If the central bank of such a network is well designed, is able to borrow in international markets, and has very strong management, yet is owned by its member local institutions, it can be a vehicle to supply whatever capital is demanded locally to meet

housing, commercial and industrial development. Local sensitivity to local needs and how to meet them is coupled with sophisticated management and capital access at the central state level. Good models for such institutions exist as close as the British Columbia Central Credit Union, and as far away as the German D.G. Bank. Both institutions are models of local initiative and cooperative ownership coupled with centralized managerial and capital efficiency. They have provided the model for the recently constituted Central Development Facility in Massachusetts.

Similarly, the U.S. Federal Farm Credit System provides the model for the creation of a network which is initially publicly capitalized but which over time is purchased by the users themselves. The Farm Credit System was initially 100 percent federally owned and is now 100 percent owned by individual farmers and ranchers working through local cooperative institutions throughout the United States.

In summary, I strongly urge a careful review of existing state regulations with regard to asset management of state-chartered financial institutions, and a collaborative effort with those institutions to determine if there are ways in which the state might either modify regulations or act as a public entrepreneur to create a new privately owned financial intermediary which, under discreet legislative oversight, would contribute to the overall economic development plan of the state at no cost to the treasury.

D. Choosing Among Kinds of Public Investment: Which is More Equitable or Efficient, a Public Investment Made Through the Tax System, or Made Through a Grant or Subsidy Administered by the State Bureaucracy, or Made Through an Investment in a Development Bank?

Finally, before we leap into a detailed consideration of the Alaskan Permanent Fund as a development bank, it is important to realize that a public investment in economic development by the state of Alaska could be made in any one of three different forms, each of which has different consequences in terms of its relative efficiency and equity. They are:

(1) Tax incentives, more properly called tax expenditures, such as an investment tax credit, in which the legislature chooses to forgo tax revenues in order to try to stimulate capital investment in either a particular location or a particular scale of enterprise or a particular sector of economic activity;

(2) Grants and subsidies administered by bureaucrats such as the ten revolving loan programs now existing in Alaska, in which the legislature appropriates funds to the executive to be funneled by bureaucrats in order to try to stimulate particular kinds of economic activity in particular areas; and

(3) Independently chartered public development banks such as the proposals for the Permanent Fund, which are capitalized by

a public investment, authorized by the legislature, and administered by the independent board and a professional staff.

Each of these three forms of public investment has different consequences from an equity and efficiency standpoint in terms of their capability to carry out their specific public purpose.

Tax Expenditures, for instance, are subject to very limited governmental oversight. Once established by authorization of the legislature, they require neither annual appropriations by the legislature nor executive management. They do, however, cost the taxpayers as much as a similar program financed by an administered grant through annual appropriations. Tax expenditures are thus a favored form of public investment by special interest groups and most private enterprise, especially since their application is initiated by the tax avoider rather than by the legislature or executive. Most academic analysts agree that their economic impact is generally questionable from an efficiency standpoint, in that the tax expenditure is generally too little and too late. Moreover, from an equity standpoint, tax expenditures tend to favor rich individuals and corporations over poor individuals and small businesses, especially those located in depressed areas.

Grants and Subsidies administered by the state bureaucracy, on the other hand, are often criticized because they require too

much legislative and executive oversight. Administered grants may be more equitable in that they are accessible to smaller enterprise, lower-income persons, and poorer regions of the state; however, academic and entrepreneurial analysis agree on the relative inefficiency of this form of public investment, which usually operates with little or no sensitivity to the marketplace and a very high administrative cost. Given this inefficiency, even the equity argument is weak, because the designated public purpose is often not carried out.

It is my understanding that the ten existing state revolving funds, which would fall into this category, have recently been subject to just such criticism. I would suggest that, as a part of Alaska's economic development planning, the revolving loan funds be carefully reviewed in order to determine if in fact they are carrying out their public purposes. I would further suggest that serious consideration be given to shifting their operation from that of a bureaucratically-administered revolving loan fund to development finance intermediaries which might be operated as subsidiaries of the Alaskan Permanent Fund.

Finally, Development Banks, such as the Farm Credit System at the federal level, or state housing development finance authorities at the state level, tend to operate at a relatively high level of efficiency and market sensitivity, but may suffer from

more conservatism than public policy warrants and from insufficient executive or legislative control.

At this point I do not propose to make any absolute judgment about the relative equity or efficiency of any of these three forms. Rather, you need to recognize that each of these forms of public investment has its own relative costs and benefits which need to be carefully weighed in making specific decisions about a specific kind of public investment to carry out a specific public purpose. In different circumstances each of these forms will be more or less efficient or equitable in contributing to a specific piece of the overall economic plan of Alaska.

III. STRUCTURING THE ALASKAN PERMANENT FUND AS ONE TOOL IN ALASKA'S OVERALL ECONOMIC DEVELOPMENT PLAN

If we decide that the Alaskan Permanent Fund operating as an Alaskan development bank is one appropriate mechanism for dealing with certain aspects of Alaska's overall economic development, our task then is to structure the Permanent Fund so that it does what we want it to do.

It is worth reemphasizing that we cannot even consider this task until we have decided that:

* the economic development problem to be addressed is not a problem in the goods market, but a problem in financial markets;
* it is not a problem created by some existing form of public intervention which should be undone;
* it is not a problem which is best solved by administrative regulation of the flow of private market financial assets; and
* if there is to be a public investment, it is not a problem best solved by a new tax expenditure or a new bureaucratically-administered grant or subsidy program.

As noted in the beginning of this memo, development finance is the form of economic intervention that poses the highest risk.

It is therefore the last solution to be considered--only after having considered and either used or rejected all other forms of public intervention.

In designing the Permanent Fund as a development bank, there are four central questions we need to answer:

* First, what should be the limited goals of the Alaskan Permanent Fund within the framework of Alaska's overall economic development plan?
* Second, what should be the legal structure of the Alaskan Permanent Fund so that it is equitable and efficient in carrying out those goals, and yet accountable to the executive and legislature?
* Third, what board and staff management structure is best suited to carry out these goals?
* Fourth, what capital structure is necessary to ensure that the Alaskan Permanent Fund has the financial capability to achieve its purposes?

In addressing these questions, I have first approached the problem in general; then I have compared it particularly with the two drafts of the Alaskan Permanent Fund available to me, HB-298 and HB-300.

The comments that follow are intended to help clarify, or raise additional questions about, a basically sound draft document.

In order to be sure that I understand the meaning of particular words and phrases in these draft bills, and perhaps to be of some assistance to you in making their meaning unambiguouous, I've done a rather thorough exegesis of the key provisions. In all cases, I refer to the draft of HB-300, unless I particularly note HB-298.

A. What Should be the Limited Goals of the Alaskan Permanent Fund Within the Framework of Alaska's Overall Economic Development Plan?

Almost all development bank proposals are initially marked by three serious problems: confusion of goals, trying to do too many things at once, and assigning to the development bank responsibility for delivering more than it is capable of delivering. In considering any new development bank, we need first to remember that this new development finance institution, like any financial intermediary, can operate only on the supply side of the economic equation. Second, international and domestic experience make it clear that we should be precise in defining the goals of the institution and modest in our expectation of its impact on state, regional, or community economic development. Finally, if there are separate goals in terms of the cost or availability of capital, these separate goals should be implemented (as we shall see

in our discussion below) through separate arms of the development bank which are capable of differentiating risk, sources and uses of funds, and specialized management capable of achieving those specialized goals. In assessing the goals of the Alaskan Permanent Fund in light of these principles, it is most useful to look beyond the general purposes articulated in Section 10 to the more specific investment criteria in Section 40:

Investing Only in "Income-Producing Investments" (Section 10 and Section 40) is the single most important investment criterion of the Permanent Fund. Permanent Fund investment strategies should also be organized to bring private judgment, at private risk, to joint venture in most projects in order to ensure that the investments are soundly planned, managed and overseen. This key provision recalls our "First Principles," pages 7-11: public intervention through a development finance intermediary to stimulate economic development is warranted not because investment opportunities are unsound, but because from the standpoint of opportunity cost, the private market has opportunities to employ its resources at greater return or lower risk than, as a public purpose, the state may be able to afford. Moreover, as we noted earlier, the issue is seldom the cost of capital, but rather, its availability. Therefore the Alaskan Permanent Fund will rarely be warranted, as a development bank, in offering substantial below-market interest

rates. The costs of capital, like state and local taxation, represent a very small percentage of the cost of production; and differential rates in the cost of capital seldom make the margin of difference in the economic viability of the enterprise. Yet the problem of the availability of capital for new technology development, or for small- and medium-sized commercial and industrial enterprise, or for community-based enterprise, is often a serious public policy problem.

Should it be determined that some form of subsidy is essential for certain large-scale infrastructure developments, or some community development or rural housing development projects, that subsidy should be provided by the General Fund, as our earlier discussion and Section 130 (4) suggest.

The rest of our analysis of the goals of the Permanent Fund is most easily done by a careful review of the three essential investment criteria for (1) investment-grade securities, (2) productive private enterprise, and (3) community development. This analysis conveniently fits our earlier discussion of potential investments for the Permanent Fund on pages 11 through 23.

1. Investment-Grade Securities:

Section 40 (1) provides that "At Least 40 Percent of the Resources of the Permanent Fund Shall be Invested in Investment-

Grade Securities." (Section 10 (1)) This is a sound provision for two reasons (to which we have already made reference):

First, because development banks operate only on the supply side of the investment equation, it is not all clear what the capability of the Alaskan economy is to absorb Permanent Fund investments either for longer-term capital investment in productive private enterprises or for community development projects. Therefore, all capital which cannot be reasonably absorbed under those two categories should be invested in investment-grade securities. It is important, however, that a sufficient percentage of those investments be made in sufficiently liquid securities so that they will be available, when needed, for investment in productive private enterprises or community development projects. Second, this 40 percent investment in investment-grade securities not only "preserves the Permanent Fund's capital for future generations" (Section 10 (6)), but also acts as a kind of secondary reserve for the potentially high-risk investments in productive private enterprises and community development projects.

2. Investments in Productive Private Enterprise

Section 40 (2) provides that "The Permanent Fund May Invest Not More Than 30 Percent of its Resources to Provide a Reasonable Proportion of Longer-Term Investment Capital for Financing the

Establishment, Improvement, and Expansion of Productive Private Enterprise Which Will Benefit Alaskans, and for Which Sufficient Capital is Not Available From Other Sources on Reasonable Terms. These Investments May Take the Form of Equity, Debt, or Debt Guarantees."

Each of the above underlined phrases is sufficiently important to warrant individual comment:

"Not More Than 30 Percent" suggests a reasonable and realistic upper limit of risk in terms of the availability of public development capital subject to demonstrated real demand for it. It is never possible to be rigorously precise in measuring the capital gap for publicly-needed capital. Development banks are best constructed to meet a reasonable demand and then organized in such a way that they are demand-sensitive, so that if there is a demand there is capital available. If such capital is not available, there is of course the alternative of adjusting the balance in investment-grade securities.

"A Reasonable Proportion" suggests that the Permanent Fund should not invest other than in collaboration with private financial intermediaries. Federal, state and local as well as international experience strongly support the idea that the public development bank investment is likely to be more sound if it is made on a joint venture basis with the private market.

the private market is generally quite capable of filling this need. Second, the state has limited capability to influence short-term cyclical changes in worldwide markets or federal fiscal or monetary policy (in this regard, I trust the phrase "seek to smooth the cyclical pattern of growth of the Alaskan economy" (Section 10 (2)) refers to long-term redress of cyclical problems in the Alaskan economy resulting from overdependence on nonrenewable resources, and does not refer to short-term business cycles). Third, it is only in the longer-term capital markets that any capital gaps critical to overall state economic development arise.

"Establishment, Improvement and Expansion": Pages 11-21 of this paper, I outlined three kinds of investment opportunities where the establishment, improvement or expansion of sound, income-producing, productive private enterprises of benefit to Alaskans may not have sufficient private capital available on reasonable terms or conditions. These three kinds of investments include:

* sound investments in Alaska's renewable and nonrenewable resources which diversify the Alaskan economy but which are too large for private enterprise to finance on its own at a sufficient return coincident with other available risk opportunities;
* the development of new technologies essential to the refining and production of value-added manufacturing of

renewable or nonrenewable resources in Alaska before export; and

* support for the retention and expansion of medium- and small-sized business enterprise by ensuring access through commercial and savings banks to adequate intermediate and long-term expansion capital.

In each instance, there needs to be a rigorous analysis of the economic and financial soundness of the sector, the reasons for lack of adequate private market capital availability (if it, in fact, exists), and the relative benefits and returns, costs and risks of public intervention through the Permanent Fund.

"Productive Private Enterprises" appropriately requires that investments only be made in financially sound enterprises which are also income-producing, job-producing, revenue-producing, and contributing in real economic terms to the Alaskan economy.

"Which Will Benefit Alaskans" is a vital phrase requiring that the investments made in enterprises that are not only financially sound but also in which the economic benefit to the residents of Alaska is greater than their economic cost to the state. This critical issue will be discussed in detail under "Legal Structure and Accountability," pages 59-67, below.

"Not Available from Other Sources on Reasonable Terms" is also essential to ensure that any public investments made by the

Alaskan Permanent Fund are complementary to the private marketplace and supplement private capital because of the public benefit derived by the residents of the state. However, as we have already noted, such collaboration between public and private capital must be reasonable and fair on both sides.

"Equity" is essential to the creation of new enterprises and new technologies, as well as to the expansion of substantial, large-scale enterprises which are necessary to the diversification of Alaska's renewable and nonrenewable resources.

"Debt and Debt Guarantees" are the modes of investment most necessary to collaborative support with commercial banks, savings banks and credit unions in increasing the availability of intermediate and long-term expansion capital to medium- and small-sized enterprises.

3. Investment in Community Development

Section 40 (3) provides that "The Permanent Fund May Invest Not More Than 30 Percent of Its Resources in Financing a Reasonable Proportion of the Longer-Term Investment Capital Needs for Community Development Projects of Municipalities and Public Corporate Entities and Private Dwellings in Alaska for Which Sufficient Financing is Not Available from Other Sources on Reasonable Terms. These Investments May Take the Form of Debt or Debt Guarantees."

Again, I want to amplify the meaning and corroborate the soundness of underlined phrases in light of regional and community economic development experience in the United States, Canada, Europe, and Third World countries.

"Not More Than 30 Percent" is an important limitation for two reasons, which my own work in community economic development has often made painfully clear: First, community development finance is very high-risk investment activity. Second, there is a serious problem in finding a sufficient deal flow of projects which are sound both financially and in terms of their community economic impact. Part of this is a market problem and part is a management problem. Low-income areas, by definition, have a more limited capability to support economic activity. Therefore, heavy emphasis should be placed on the development of community projects with a strong export market, which generate stable, steady jobs in the local community by importing sales revenues from outside the community. Finding adequate managerial talent is a far greater impediment to community economic development than finding adequate capital. The Permanent Fund has the tough responsibility of ensuring that community development projects are adequately managed as well as adequately funded. It must help mobilize that management capability as well as capital.

"Reasonable Proportion" is also a phrase with particular

importance to community development activities. First of all, it suggests that in every instance the Permanent Fund should be joint venturing either with a municipality or with a regional or local community development corporation or cooperative which would put up a significant amount of the financing. I have already noted Alaska's unique opportunity to co-venture with regional corporations.

It also suggests joint ventures with private entrepreneurs. Some of the most successful community development efforts in the lower 48 today involve creative financial and managerial collaboration between community development corporations and private investors--the Kentucky Highlands Investment Corporation, the Delta Foundation, Harlem Commonwealth Council, and Bedford-Stuyvesant Restoration Corporation. All of these models and the history of their experience deserve the careful attention of the legislature in designing the Permanent Fund's community development investment structure.

"Longer-Term Investment Capital", or "patient money," is essential for successful community development projects. The need for extensive managerial assistance, for developing markets over a long term, for infrastructure investment, all add to the cost and to the time frame over which community development projects are likely to have a profitable payout. Often, the private market

is willing to put up the short- and intermediate-term financing if municipalities, public community development corporations and the Permanent Fund provide sufficient longer-term equity and debt financing.

"Community Development Projects" would (based on the experience of community development organizations in the United States and overseas) encompass at least three major categories of activity: export industry, local commercial and housing services, and social overhead capital and infrastructure development. To the extent that the Permanent Fund participates in any of these three areas of activity, it must meet its essential goal of investing only in income-producing projects.

In the case of social overhead capital and infrastructure development, a subsidy will be necessary either from the General Fund or from a local municipality or public community development corporation.

Similarly, commercial and housing services essential to local community development will also be somewhat precarious in terms of the capability of developing a substantial cash flow, given the relatively low income of the local service area. In order to put together a sound overall package, it may be necessary for Permanent Fund investments to be paired with subsidized grants from the General Fund or from local municipalities.

Only in the case of export industry, in which local residents are employed in enterprises which sell to a "foreign" market outside the local area, is the likelihood of a strong, income-producing investment most assured.

"Municipalities" are essential co-venturers with the Permanent Fund where social overhead capital and infrastructure investments are required.

"Public Corporate Entities" I take to include regional and local development corporations and cooperatives.

"Private Dwellings" has a strange ring. The implication seems to be that individual local businesses are excluded from direct financing by the Permanent Fund for community development projects but local individual homeowners are not. Based on experience in the lower 48, serious consideration ought to be given to financing local housing development through a community development intermediary as well.

"Debt or Debt Guarantees": This is a serious flaw in the design of the Permanent Fund. The Permanent Fund should be free to make equity investments in community development, as well as in productive private enterprises. The experience of the most successful community development organizations in the United States confirms this judgment. The essential financial ingredient of successful CDCs is their ability to make equity investments

in enterprises in order to have adequate control and in order to ensure that they are soundly and patiently financed.

Alaska is in a somewhat exceptional position, with many substantially funded regional community development corporations which can take much of the equity position for community development projects on a joint venture basis with the Permanent Fund. Nevertheless, such pioneering state community development banks as the Massachusetts Community Development Finance Corporation, with their capacity for making equity investments in community development as well as for handling debt and debt guarantees, deserve careful consideration by the Alaskan Permanent Fund. This power need not be used frequently, but it is essential that it is available to the Permanent Fund.

B. What Should be the Legal Structure of the Alaskan Permanent Fund So That It is Most Equitable and Efficient in Carrying Out Its Goals, and Yet Accountable to the Executive and Legislature for Achieving Its Public Purposes?

We have already noted that the great virtue of development banks is their ability to operate at a relatively high level of efficiency and market sensitivity. This strength, however, is counterbalanced by the tendency of development banks to operate more conservatively than public policy may warrant and (sometimes)

to be designed with insufficient executive or legislative oversight. Care at this early stage in the design of the Alaskan Permanent Fund can help to ensure that the strengths of the Fund as a development bank are maintained while its weaknesses are minimized. I cannot emphasize too strongly the importance of integrating the Permanent Fund into an overall economic development plan. It is but one of many tools for achieving--and sustaining--a sound economy in Alaska.

Section 20 properly structures the Permanent Fund as "a public corporation of the state and an instrumentality of the state within the Department of Revenue that has a legal existence independent of and separate from the state. . . ." Section 90 "exempts" the Permanent Fund "from the provisions of the Executive Budget Act," Without knowing the particulars of the Executive Budget Act, I presume that this provision frees the Alaskan Permanent Fund board and staff to make decisions with regard to investing principal and whatever portion of income is necessary either for administrative overhead or for reserves without annual executive or legislative approval. Finally, Section 100 places "the president, officers, and staff of the Permanent Fund in the exempt service."

It is absolutely essential that the Permanent Fund, if it is to be efficient in carrying out its public purposes, be free to

hire the highest caliber professional staff at competetive world-wide market rates--free of the constraints of Civil Service and of either political or bureaucratic manipulation. Similarly, the policy board of the Permanent Fund must be able to reward its president and staff for successful performance according to market standards, and fire that president and staff at will. Placing the personnel in the exempt service is essential to sound operations. Similarly, placing the Permanent Fund "in but not of" the Department of Revenue and making it exempt from annual approval of its investment decisions is also essential to its efficiency, PROVIDED THAT there are careful controls built into the statute of the Permanent Fund which ensure complete annual reporting and review of the investment activities of the Permanent Fund by both the legislature and the executive. This annual reporting and review must include both the financial soundness of its investments and their economic impact, and provisions must be defined which ensure that the investment planning of the Permanent Fund is consistent both procedurally and substantively with the overall economic development planning of the state.

In this regard, I prefer the language of Section 60 (10) in HB-300 over the comparable language in HB-298. The policy board should be required by statute to "present a complete report of investment programs, plans, performance and policies to a joint

meeting of the Senate and House Finance Committees of the legislature within 30 days after the beginning of each session." It should not read merely "prepared to present."

The independent professional judgment that is essential to making tough investment decisions and the resulting market sensitivity of a well-structured public development bank such as the Alaskan Permanent Fund is, as I have noted, a conservatizing influence over time. It requires a more sophisticated form of accountability than simple financial accountability. Some form of dual accounting is called for. First, there must be simple accounting, according to conventional financial standards, of the ability of the Alaskan Permanent Fund to make prudent investments and receive an appropriate return on that investment. Because the Alaskan Permanent Fund is capitalized by a dedicated investment of public revenues, this public investment requires, however, an additional public measure of return on investment in terms of the external benefits to the economy as well as the internal rate of return to the development bank itself. Some of these external benefits can be measured as the fiscal return to the state in both reduced social overhead costs and increased tax revenues. There are serious technical problems in properly assigning both costs and benefits, but this is an area in which considerable pioneering is essential if we are to determine whether or not our

projections for the Fund's economic impact and financial soundness have in fact been met.

I suggest, therefore, that Section 150 be amended to provide for an annual report which accounts for economic impact as well as the financial soundness of investments made by the Permanent Fund. This economic impact accounting should incorporate operational principle number 8, which requires that "the Permanent Fund shall analyze the economic and other effects of an investment decision, by including the effects on employment, income distribution, environment, health, social and other factors.

The Inter-American Development Bank and the World Bank have developed techniques of cost-benefit analysis which have some limited applicability to Alaska and which are summarized in most useful detail in "The Appraisal of Development Projects: A Practical Guide to Project Analysis with Case Studies and Solutions," by Roemer and Stern. It should be recognized, however, that because the Alaskan economy is part of the wide open and fluid American economy, it will be much more difficult to isolate the costs and benefits of Permanent Fund investments. For better or worse, unlike Zaire or India, Alaska does not have its own currency or tariff laws.

More appropriate to your purposes are some of the techniques now being pioneered in Massachusetts with the Community Development

Finance Corporation, in which all investment decisions and all auditing of those investment decisions are made on a two-track line of analysis: the first track includes traditional projections and accounting for financial soundness; the second track includes projections for economic soundness. In this system, the staff must report to the investment board its projections of primary and secondary employment and fiscal benefits at the same time that it reports its projections for financial viability. The investment review board must then specifically find that the project meets standards of both economic and financial soundness. The monthly, quarterly and annual reporting of any enterprise financed must also note whether both sets of projections have or have not been met. In turn, the annual reporting of the Community Development Finance Corporation to the executive, legislature and public must account for the performance of its investments on both tracks.

I want to reemphasize that the techniques for economic impact accounting have not been well developed, but that is all the more reason for us to make a commitment to improve the sophistication of those techniques given the awesome financial responsibility in undertaking such projects as the Alaskan Permanent Fund. I would be happy to share with you in more detail some of the standards and procedures which are now being developed.

Two other forms of public accountability deserve further

consideration by the Alaskan Permanent Fund committee--provisions in keeping with the movement toward both "sunshine" and "sunset" laws.

Sunshine Provisions: Section 190, which provides for public access to information, does not yet properly articulate, in either draft, the appropriate boundaries for "sunshine" on the one hand, and for confidentiality and discretion on the other. Two matters require the utmost confidentiality: the financial records of an individual private enterprise, and the personnel actions of the Permanent Fund itself. Those matters should be dealt with in executive session and in full confidentiality regarding individual records. All other policy actions of the investment board should be taken in public meetings of which a public record is available. The results of individual financial reviews and personnel actions must be available in summary form to the public--including the basic terms of any financial arrangements that are concluded.

Sunset Provisions: While these are, in principle, a good means of holding public development banks accountable for their actions, they present certain practical problems, in that development banks by their very nature are investing assets and creating liabilities which will not mature until perhaps twenty or thirty years into the future. This is not an insurmountable

problem; the sun of the Federal Reconstruction Finance Corporation (RFC) set in 1958, at which time its assets and liabilities were assumed by the Small Business Administration. Nevertheless, I suggest not a predetermined "sunset" date for terminating the Alaskan Permanent Fund, but rather what I would call a "high noon" provision.

The "High Noon" Provision: After the Permanent Fund has had a chance to get off to a good, strong start--say, after an interval of ten years--at its high noon of financial and economic activity, I suggest that it be subject to a fundamental review by a joint executive and legislative commission in order to determine whether or not its performance equalled its promise. The establishment of such a commission should, at the end of nine and a half years of activity, be required by statute now. The commission should be required to report to the executive and legislature on the tenth year anniversary of the Permanent Fund. Included in the commission's findings would be recommendations for the continuation of the Permanent Fund, subject to various modifications, or its termination.

Accountability to Local Communities: This is a sensitive issue, handled differently by different states, depending on the history and custom of different jurisdictions. Massachusetts, for instance, has a three-hundred-year history of strong local

home rule which requires virtually all state actions to be locally approved. Connecticut has precisely the opposite tradition.

The language of the Permanent Fund bills seems to make three implicit distinctions:

Because the Permanent Fund can only finance a "reasonable proportion" of community development projects, there seems to be an implication that there must be a municipal or regional or local development corporation sponsor.

Section 130 (8) specifies that the Permanent Fund generally "shall be sensitive to the views of affected local communities . . ." and specifically "shall include an analysis of those views in proposals for large investments." The implication is that investments in medium and small "productive private enterprises" need not bear such an analysis. The key questions are: What is "large"? And, do these phrases reflect Alaskan state-local custom?

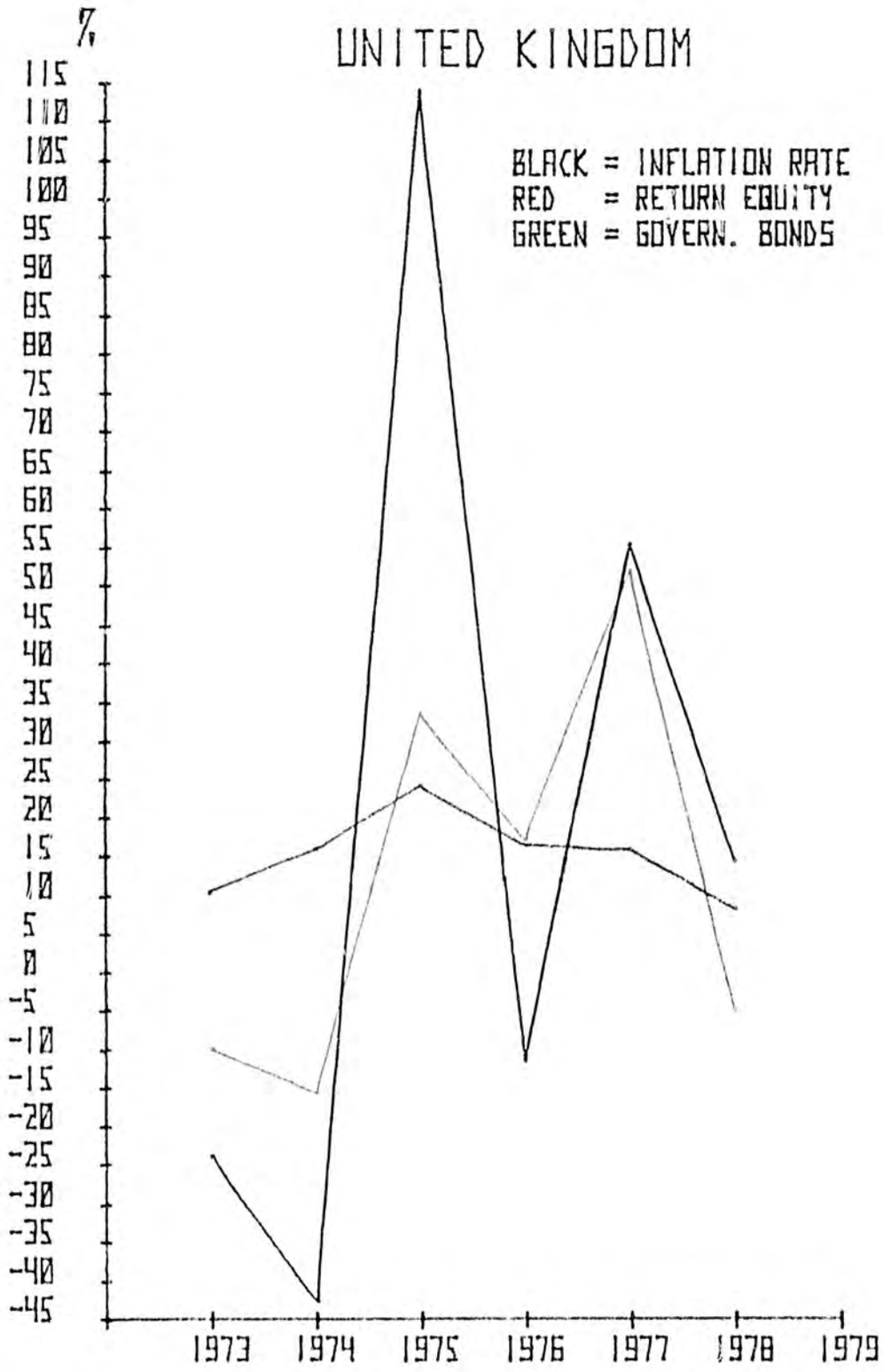
C. What Board and Staff Management Structure is Most Efficient for Carrying Out These Goals?

Generally speaking, I find the structure and responsibilities of the Permanent Fund policy board, the investment committee and the president to reflect appropriate international, national and state development banking experience.

In the above section on legal organization and accountability, I have already noted the critical importance of establishing the managerial independence of both the boards and staff of the Permanent Fund so that they are able to produce according to market standards and to be independent from daily political or bureaucratic interference.

Structure of the Permanent Fund policy board (Section 50): The structure of the Permanent Fund policy board is good. It is small enough to be effective and yet large enough to represent a balance of interests. The two/seven balance between members of the executive and public members is good. The public members should be "confirmed by the legislature in joint session," in the manner of advice and consent for major executive positions in the federal government.

If the Alaskan governor serves a four-year term, the consequence of staggered four-year terms for the seven public members is to give an incumbent governor assured control of the board during the third year of his or her term, subject of course to legislative confirmation. This arrangement has both advantages and drawbacks. If the Permanent Fund is to be an integral part of an overall development plan for the Alaskan economy there must be some mechanism by which the president and the policy board are a part of that planning process and operate within an overall development plan. On the other hand, the efficiency of the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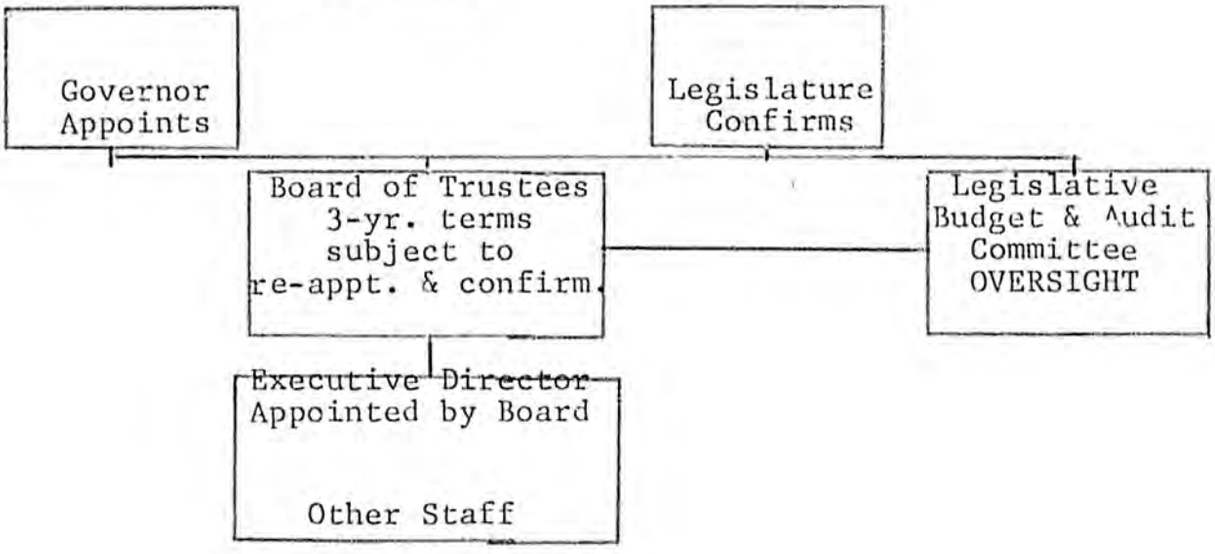
NOTES ON PURPOSES, ORGANIZATION, MANAGEMENT AND REPORTING PROPOSALS IN HCS SB 161

PURPOSES

- Establish a means for legislative oversight of state lending and investment functions.
- Establish the Alaska Permanent Fund Corporation to invest and manage the principal assets of the Alaska Permanent Fund.
- A separate fund consisting of certain state mineral revenues.
- Used for income-producing investments which may include in-state investments that have a risk level and expected yield comparable to specified alternative investment opportunities and consistent with the prudent-man rule.
- Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely" (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of th English Language, 1976).
- Accumulate sufficient income in the Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources (Source: Joint Chairman's Report on CS SSHJR 39, March 24, 1976).

ORGANIZATION STRUCTURE



MANAGEMENT

- Policy decisions about permissible categories of investment would be made by the Legislature and included in statute.

- Decisions about trustee appointments would be made by Governor and Legislature.

- Operating decisions about the performance evaluation of the Corporation would be made by the Legislative Budget and Audit Committee.

- Operating decisions about the specific investments of Permanent Fund principal would be made by the Corporation staff, under direction of the Corporation Board.

REPORTING

- Alaska Permanent Fund Corporation (APFC) Board to submit quarterly and long-range investment reports to Legislative Budget and Audit Committee (LBAC).

- APFC Board to submit annual report to Governor, Legislature and the public.

- LBAC to report annually to the Legislature with recommendations for any needed legislation.

- Governor to report annually to the LBAC on capitalization levels and investment policies.

P. B. McDowell
March 20, 1980



Alaska House of Representatives



HUGH MALONE

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Dear Fellow Legislator:

Attached find two short executive summaries of reports prepared for the Department of Revenue. The authors, Drs. Coffman and Fry, spoke before the Permanent Fund Free Conference Committee on March 17 on their findings concerning capital shortages in rural Alaska. I hope that you will take the time to read through the papers and think about their implications.

Sincerely,

Hugh Malone

March 1980

CAPITAL SHORTAGE IN RURAL ALASKA

CONCEPTUAL ISSUES

Richard B. Coffman
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and
Washington State University

-Draft-

I. Introduction and Recommendations

The main questions addressed in our study were:

1. Have imperfections in private capital markets caused a capital shortage in rural Alaska?

2. Have governmental policies caused a capital shortage in rural Alaska?

Our answers are:

To 1, yes. There is above average concentration in the banking industry in Alaska, which appears to have led to above average spreads between banks' deposit and lending notes of interest, and to less lending than would be found in a competitive market. However, this appears to be a state-wide problem, rather than one facing just rural Alaska.

To 2, yes. The State of Alaska has a number of policies which contribute to capital shortages. There are (a) state usury and loan interest ceilings, (b) the gross receipts tax on banks, (c) reserve requirements for state chartered banks, and (d) the many state loan programs.

These answers lead us to a third question:

3. What can be done to improve the functioning of Alaska's capital markets, and what role should the state budget surplus and the Permanent Fund play in the improvement process?

Our answer is that the state has the power to do a great deal to improve Alaska's capital markets. We suggest the state consider:

(a) abolishing all interest rate ceilings;

(b) abolishing the gross receipts tax;

(c) abolishing the 20% reserve requirement for state banks;

(d) passing a new Small Loan Act;

(e) abolishing all state loan programs.

We believe these actions would bring capital market efficiency in Alaska at least up to the national average, and perhaps beyond. We thus see no economic reason for the state to be involved in the loan business, and no need to view the

state budget surplus and the Permanent Fund earnings as pools of loanable funds. We thus suggest:

(f) that the budget surplus, for the most part, be distributed to Alaskans;

(g) that the Permanent Fund be managed to maximize the yield of its portfolio.

We further suggest that:

(h) the state subsidize people, not capital if the true concern is income and wealth distribution in rural Alaska;

(i) the state subsidize houses, not mortgages if the real issue is a socially unacceptable standard of housing in rural Alaska;

(j) the state Business Loan Program be evaluated;

(k) if the Alaska Housing Finance Corporation stays in existence it be required to promote innovative lending by buying price level adjusted and graduated payment mortgages;

(l) the state substitute a consumption tax for the income tax, effectively reducing the Federal income tax burden on Alaskans.

II. Conceptual Issues in the Capital Shortage Problem

We will now turn to an explanation of our conclusions and recommendations. First, I will discuss conceptual issues. Next, Dr. Fry will report on our empirical study of Alaska's capital markets. The conceptual issues are as follows.

Some basic terms must be defined. First, there is a distinction between real capital and financial capital. Second, capital can be considered as either a stock or a flow. A major distinction is between positive (market, economic) shortages or capital, which are defined in terms of the workings of free, efficient markets, and normative (social) shortages of capital, which are defined with reference to individual and group norms and values.

We will begin with the concept of a well functioning market. This is a market of many borrowers and lenders, none of whom have any power over terms and conditions of

loans. Equilibrium of supply and demand in this market will determine the interest rate and the amount of capital loaned and borrowed. This result will be economically efficient.

A positive (market, economic) shortage of capital is defined as an amount of capital less than would be found in a well functioning market. There are many potential causes of such capital shortages. These include:

1. temporary shortages due to changes in market supply and demand. In a free market the interest rate will soon adjust to eliminate such shortages.

2. permanent shortages due to interest rate ceilings. Interest rate ceilings make it illegal for interest rates to rise to eliminate shortages and thus can perpetuate shortages.

3. shortages due to monopoly power. A monopolist will find it in his interest to restrict lending and raise interest rates.

4. shortages due to the nature of infrastructure capital. Private capital markets will generally produce too little infrastructure capital because private investors cannot capture the wide spread public benefits produced.

5. shortages due to government created risk and uncertainty. Too little capital may be produced as private investors react to uncertainty about future taxes, regulations, and restrictions.

6. shortages due to taxes and regulation. Taxes and regulation which raise the costs of lending will tend to reduce the amount of lending and capital formation.

7. shortages due to lack of market mechanisms to deal with risk. If firms cannot insure against various types of risk, they will reduce the amount of investment undertaken.

This concludes our list of varieties of positive shortages. We now turn to the concept of normative shortage. The normative (or social) shortage is generally defined in terms of perceived "needs". If less capital than "needed" is produced by the market, then a shortage is perceived by those who have defined the needs. The needs concept is criticized by economists because (a) it is subjective, and the perception of needs varies from person to person, (b) it

ignores overall resource constraints, and (c) it ignores costs.

There are many potential sources of perceived normative shortages. These include:

1. shortages due to differences in borrower characteristics. Capital markets will discriminate among borrowers on the basis of amount of collateral and equity, evidence of business ability, and credit history. Those discriminated against may perceive a shortage of capital.

2. shortages due to transactions and information cost differences among borrowers. Capital markets will discriminate against borrowers presenting high information and transaction costs. Those discriminated against may perceive capital shortages.

3. shortages of capital confused with shortages of income. People who are poor lack capital among many other things. However, their basic lack is one of income and wealth, and giving them more capital is only one way to increase their income and wealth.

4. a shortage of capital confused with a shortage of work. Those who stand to benefit from large scale construction projects - workers, suppliers, transporters - often see a lack of such projects, and characterize this as a capital shortage. However, there is no economic shortage here unless there are available benefits which would generate net benefits.

5. a capital shortage confused with a shortage of subsidies. Government loan programs which offer subsidized interest rates or loose credit tests will face many eager demanders. But there will always be too few subsidies to meet this demand. Further, as government terms and conditions become seen as the norm, people will start to believe there is a shortage of private capital on reasonable terms.

This concludes our listing of varieties of normative shortages.

III. General Policy Considerations

Our specific policy suggestions have already been listed, and will be discussed in more detail in Dr. Fry's presentation. However, here at the end of this discussion on conceptual issues some general comments on policy are in order.

First, when positive capital shortages are found "the cure should fit the disease". That is, if a capital shortage has a specific cause then that cause should be attached directly. Unfortunately, though, government has a tendency to discover a problem, then pick a solution which expands the size of government and its role in the economy, whether or not that is the best solution. If capital shortages in Alaska are due to government policies, then the best solution is to alter those policies, not to get the government more deeply into the lending business.

Second, many attempts have been made by governments around the world to stimulate economic development by subsidizing capital in particular, and private enterprise in general. Unfortunately, many of their policies have had the unintended result of destroying profit-seeking, market oriented firms, and of creating in their place subsidy-maximizing firms. The subsidy-seeking firms will produce anything, anyway, anywhere, so long as it gains them a subsidy. When the subsidies end, these firms fade away, and it is discovered that no viable economic base has been created, despite all the resources used up and all the activity undertaken.

March 1980

INVESTMENT CAPITAL IN RURAL ALASKA

MAXWELL J. FRY

University of Hawaii

SUMMARY

1. Findings

(a) There is no evidence of any economic shortage of physical capital in rural Alaska.

Were there an economic shortage of physical capital in rural Alaska, then unexploited investment opportunities which would yield above-market returns must exist. The current perception of residents of rural Alaska and outside observers is that profitable investment opportunities are lacking in rural Alaska. We have found no evidence to contradict this view.

The best indication that unexploited profitable investment opportunities are not abundant in rural Alaska comes from the performance of the ANCSA (Alaska Native Claims Settlement Act) regional and village corporations. The conclusion must be reached that the 12 regional corporations and 205 village corporations have failed to locate unexploited profitable investment opportunities in rural Alaska. Corroborative evidence is also provided by the Small Business Administration's (SBA) activities in rural Alaska.

Rural Alaska has not witnessed rapid economic growth precisely because of the lack of profitable investment opportunities. Apart from the census division of Barrow, above-average population growth during the 1970s has occurred only

in Alaska's urban and contiguous rural areas, i.e. Haines, Matanuska-Susitna, Seward and Valdez-Chit-Whittier.

(b) Rural Alaskans may not be able to borrow as much as urban Alaskans because they have less wealth.

White families in the United States possess three to four times more net wealth than minority families at any given level of income. If urban and rural Alaskans hold the same proportion of their wealth in the form of deposits, the deposit holding differences will reflect differences in wealth.

Excluding public bank deposits, deposits of all kinds (bank, S & L and credit union) averaged $5,910 per urban Alaskan and $2,082 per rural Alaskan in 1977. However, this difference needs to be interpreted with considerable caution. For one thing, there is a substantial volume of banking by mail. The United Bank of Alaska claims that 65 per cent of its accounts are mail accounts. Furthermore, many Alaskans are known to bank out-of-state, particularly in Seattle.

Nevertheless, this three-to-one difference is consistent with the hypothesis that urban Alaskans may well possess three times the wealth of rural Alaskans at similar levels of income. The further implication about differential borrowing abilities is clear. Rural Alaskans may be able to borrow only one third as much as urban Alaskans, since ability to borrow is limited by the borrower's own equity in the prospective project.

(c) There is no evidence that financial institutions discriminate against rural Alaskans.

One can certainly live further from a bank in rural Alaska than would be possible anywhere else in the United States. Nevertheless, population per bank branch is not substantially higher in rural than it is in urban Alaska. Furthermore, the population per bank branch in rural Alaska of 3,609 is considerably lower than it is for the United States as a whole - 5,062. Even in states permitting statewide branching, as does Alaska, there are 4,868 persons per bank branch. Total per capita deposits in rural Alaska are only 37 per cent of the value of per capita deposits in urban Alaska. Deposits per rural branch are 47 per cent of deposits per urban branch. On these bases, Alaska has an above-average supply of bank branches even in its rural areas.

Economies of scale exist in the banking industry. Hence, unit costs of banking should be higher for rural than for urban branches of Alaska's financial institutions, since rural branches are much smaller than urban branches. These higher unit costs might be met in four ways: (a) Lower deposit rates of interest and higher service charges; (b) Higher loan rates of interest; (c) Fewer banking services; (d) Lower profits.

Deposit rates of interest, even on large certificates of deposit, and service charges are uniform across all bank branches in Alaska. Loan rates are not differentiated on a regional basis, nor are the credit standards applied to loan applicants.

Rural branches offer fewer services than urban branches. However, the branch banking system enables all clients to obtain specialised help and consideration - impersonally and with some delay - from head office. This solution is evidently viewed as a poor substitute for personal contact and local decision making autonomy.

It seems that rural branches are indeed less profitable than urban branches. This conclusion was corroborated by bankers interviewed during this study. For example, it was claimed that the National Bank of Alaska could never build its existing branch network if it had to start from scratch again today.

It was alleged by various interviewees that bank branches simply sucked deposits out of rural Alaska to Anchorage. Loan distribution data are unavailable. However, the Community Reinvestment Act of 1977 obliges regulated financial institutions to service the credit needs of the communities in which they are chartered to do business. Federal financial supervisory agencies are required to enforce this law. Responses from the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board indicated that all regulated financial institutions in Alaska had complied with the Act.

In conclusion, we could find no evidence that private sector financial institutions in Alaska discriminated against residents of rural areas.

(d) Government creates capital shortage in rural Alaska through subsidised credit.

There is a plethora of subsidised loan programmes in Alaska. The interest rate is deliberately set at a rate below the market equilibrium. Demand therefore exceeds supply and there is unsatisfied demand. Those who are not satisfied may rationally prefer to wait in the hope of a subsidy in the future rather than borrow now at market rates of interest. Subsidised credit programmes create their own economic capital shortage - there is always a shortage of gifts.

To the extent that greater subsidies have been given to rural borrowers, there is a greater capital shortage in rural than in urban Alaska. Capital shortage created in this way can be eliminated completely simply by bolishing the subsidised credit programmes. The only other way it to meet all loan demands at the subsidised rate. This necessarily involves eliminating all private supply of capital in Alaska.

(e) Government lending replaces private lending in rural Alaska.

Unsubsidised state lending supplants an equal volume of private lending. In this case, the interest rate on state loans is the same as the rate on private sector loans. Therefore, total demand for loans will be unaffected by the introduction of a state loan programme. If a borrower chooses the state programme, the state must in turn borrow the funds with which to

supply the loan. The increased demand for funds by the state is offset exactly by the decreased demand by the private sector financial intermediaries. Hence, aggregate demand remains unchanged here too. With no change in direct and derived demand for funds, the quantity supplied, i.e. aggregate saving, will be unaffected too. If the pool of saving remains unchanged, an increase in state lending to finance investment must be exactly offset by a decrease in private lending to finance investment, since saving equals investment.

This crowding in by state lending programmes will not be complete if state lending is subsidised. In this case, there will be an overall increase in saving and investment. The tax exemption of interest on bonds sold to finance state lending programmes is a subsidy illustrating this point. For example, the AHFC can sell tax exempt bonds and lend on these funds in the form of mortgages at below market rates of interest. As a result, the aggregate quantity of loans demanded increases. To be sure, this raises the market rate of interest so that the tax exemption is financed in part by all other borrowers. The main point here, however, is that the higher market rate of interest elicits an increase in the quantity supplied, i.e. in saving. Hence, both saving and investment rise.

It is not just economic theorising which provides these results. As part of this study, borrowers from the State Business Loan Program were surveyed. Of those borrowers who had approached a private sector institution before obtaining a

loan from the State's programme, only one was actually denied a loan elsewhere. Seventy-eight per cent of these borrowers simply preferred the lower interest rate charged by the State.

The rapid expansion of public sector lending in Alaska has thwarted growth of the private sector financial institutions. Since there are economies of scale in financial intermediation, state lending has kept the private financial institutions' unit operating costs higher than they otherwise would have been.

(f) Regulation causes capital shortage in rural Alaska.

Reserve requirements for state chartered banks, the franchise tax, interest rate ceilings, selective credit policies, and the Small Loan Act hold financial intermediation in both urban and rural Alaska below its optimal level, inhibits innovative lending which is essential in today's inflationary climate, and produces an economic shortage of financial capital, particularly of the high interest, high risk variety.

Below equilibrium institutional interest rates hold financial intermediation between savers and investors below its optimal level. Higher real institutional interest rates increase incentives to save and to invest, and also raise the average efficiency of investment. This is so because financial intermediaries raise real returns to savers and, at the same time, lower real costs to investors by accommodating liquidity preference, reducing risk through diversification, reaping economies of scale in lending, increasing operational efficiency and

lowering information costs to both savers and investors through specialisation and division of labour. When real institutional interest rates rise, disintermediation falls and financial intermediaries can use their expertise to allocate more efficiently the larger volume of investible funds which is then forthcoming.

2. Recommendations

(a) Subsidise people not commodities if the true concern is income and wealth distribution in rural Alaska (p.19).

(b) Subsidise houses not mortgages if the real issue is a socially unacceptable standard of housing in rural Alaska (pp.17-19, 29).

(c) Repeal the usury law, Small Loan Act, franchise tax and reserve requirements. Allow finance companies to accept deposits (pp.60-74).

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price level adjusted and graduated payment mortgages (p.88).

(f) Evaluate the State Business Loan Program (p.90).

(g) Relieve Alaskans of federal tax on their saving, thereby effectively substituting a consumption tax for the present income tax. Should the state wish to encourage savings to stay in Alaska, the deduction and tax credit for federal tax on saving could, at some loss of welfare, be restricted to saving kept in Alaska (p.94).

(h) Distribute the state budget surplus to Alaskans (pp.96-97).

(i) Set the Permanent Fund management the sole objective of maximising the yield of the Fund's portfolio (p.99).

Consultants



Alaska House of Representatives

HUGH MALONE

POUCH V
JUNEAU
99801

P. O. BOX 9
KENAI
99611

Dear Fellow Legislator:

Attached find two short executive summaries of reports prepared for the Department of Revenue. The authors, Drs. Coffman and Fry, spoke before the Permanent Fund Free Conference Committee on March 17 on their findings concerning capital shortages in rural Alaska. I hope that you will take the time to read through the papers and think about their implications.

Sincerely,

Hugh Malone

March 1980

INVESTMENT CAPITAL IN RURAL ALASKA

MAXWELL J. FRY

University of Hawaii

SUMMARY

1. Findings

(a) There is no evidence of any economic shortage of physical capital in rural Alaska.

Were there an economic shortage of physical capital in rural Alaska, then unexploited investment opportunities which would yield above-market returns must exist. The current perception of residents of rural Alaska and outside observers is that profitable investment opportunities are lacking in rural Alaska. We have found no evidence to contradict this view.

The best indication that unexploited profitable investment opportunities are not abundant in rural Alaska comes from the performance of the ANCSA (Alaska Native Claims Settlement Act) regional and village corporations. The conclusion must be reached that the 12 regional corporations and 205 village corporations have failed to locate unexploited profitable investment opportunities in rural Alaska. Corroborative evidence is also provided by the Small Business Administration's (SBA) activities in rural Alaska.

Rural Alaska has not witnessed rapid economic growth precisely because of the lack of profitable investment opportunities. Apart from the census division of Barrow, above-average population growth during the 1970s has occurred only

in Alaska's urban and contiguous rural areas, i.e. Haines, Matanuska-Susitna, Seward and Valdez-Chit-Whittier.

(b) Rural Alaskans may not be able to borrow as much as urban Alaskans because they have less wealth.

White families in the United States possess three to four times more net wealth than minority families at any given level of income. If urban and rural Alaskans hold the same proportion of their wealth in the form of deposits, the deposit holding differences will reflect differences in wealth.

Excluding public bank deposits, deposits of all kinds (bank, S & L and credit union) averaged $5,910 per urban Alaskan and $2,082 per rural Alaskan in 1977. However, this difference needs to be interpreted with considerable caution. For one thing, there is a substantial volume of banking by mail. The United Bank of Alaska claims that 65 per cent of its accounts are mail accounts. Furthermore, many Alaskans are known to bank out-of-state, particularly in Seattle.

Nevertheless, this three-to-one difference is consistent with the hypothesis that urban Alaskans may well possess three times the wealth of rural Alaskans at similar levels of income. The further implication about differential borrowing abilities is clear. Rural Alaskans may be able to borrow only one third as much as urban Alaskans, since ability to borrow is limited by the borrower's own equity in the prospective project.

(c) <u>There is no evidence that financial institutions discriminate against rural Alaskans</u>.

One can certainly live further from a bank in rural Alaska than would be possible anywhere else in the United States. Nevertheless, population per bank branch is not substantially higher in rural than it is in urban Alaska. Furthermore, the population per bank branch in rural Alaska of 3,609 is considerably lower than it is for the United States as a whole - 5,062. Even in states permitting statewide branching, as does Alaska, there are 4,868 persons per bank branch. Total per capita deposits in rural Alaska are only 37 per cent of the value of per capita deposits in urban Alas' . Deposits per rural branch are 47 per cent of deposits per urban branch. On these bases, Alaska has an above-average supply of bank branches even in its rural areas.

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loan from the State's programme, only one was actually denied a loan elsewhere. Seventy-eight per cent of these borrowers simply preferred the lower interest rate charged by the State.

The rapid expansion of public sector lending in Alaska has thwarted growth of the private sector financial institutions. Since there are economies of scale in financial intermediation, state lending has kept the private financial institutions' unit operating costs higher than they otherwise would have been.

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Below equilibrium institutional interest rates hold financial intermediation between savers and investors below its optimal level. Higher real institutional interest rates increase incentives to save and to invest, and also raise the average efficiency of investment. This is so because financial intermediaries raise real returns to savers and, at the same time, lower real costs to investors by accommodating liquidity preference, reducing risk through diversification, reaping economies of scale in lending, increasing operational efficiency and

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7 February 1980

Dear Borrower,

I am conducting a small study of the State's Business Loan Program for the Department of Revenue. The objectives are to find out how successful this program has been and what changes would improve it.

Your assistance would be of great value and much appreciated. Please would you help by completing and returning the enclosed questionnaire in the stamped addressed envelope provided. It should not take more than a few minutes and will be an important input in the process of improving this program.

Thank you very much in advance.

Yours sincerely,

Maxwell Fry

Maxwell J. Fry

1. How did you get to know about this program?

- 2 ☐ Advertisement
- 3 ☐ Bank or other financial institution (e.g S&L association)
- 5 ☐ Friend or acquaintance
- 7 ☐ Business associate
- ☐ Other - Please specify_____

2. Did you apply for your loan from this program after you had looked into other possibilities for borrowing?

- 9 ☐ Yes - If so, why did you choose this program?
- 8 ☐ No
  - 1 ☐ Turned down elsewhere
  - 7 ☐ Interest rate too high elsewhere
  - 1 ☐ Other - Please specify [Paperwork for SBA loan]

(Please continue on back)

3. What was the main problem (if any) in getting your loan from this program?

- 9 ☐ Paper work for the application
- 1 ☐ Raising the necessary downpayment
- 1 ☐ Providing collateral acceptable to the lender
- 4 ☐ Other - Please specify [No state funds available; incompetent loan officer; time delay]

4. How has your loan affected your business?

- 12 ☐ Greatly helped
- 4 ☐ Helped
- 1 ☐ Made no difference
- ☐ Hindered
- ☐ Greatly hindered
- ☐ Other - Please specify_____

5. Did you have any new business with a bank or other financial institution as a result of this loan?

- 10 ☐ No
- 2 ☐ Opened a new account
- 3 ☐ Got another loan
- 1 ☐ Opened a new account and got another loan
- 1 ☐ Other - Please specify [Bank released first mortgage and took a second mortgage]

6. Is the interest rate charged on your loan from this program satisfactory?

- 16 ☐ Yes
- 1 ☐ No - Please indicate the problem [Still too high]

7. How could the Business Loan Program be improved in your opinion?

- 3 [Need low interest rate loans for working capital]
- 1 [Need assistance with application]
- 1 [Need more personal contact, less paperwork]

8. Do you have any other comments?

- 4 [Loan officer was incompetent]
- 1 [Maximum loan too small]
- 4 [Processing time far too long]

PLEASE CONTINUE ANSWERS ON BACK IF NECESSARY

SCOMM

#18:13

18.13

ECONOMIC CONSIDERATIONS IN ESTABLISHMENT OF ALASKA'S PERMANENT FUND

by
Arlon R. Tussing
Institute of Social and Economic Research
University of Alaska

for
Legislative Affairs Agency
State of Alaska

July 7, 1977

I. INTRODUCTION

The following report was prepared under a contract between the State of Alaska Legislative Affairs Agency and the University of Alaska Institute of Social and Economic Research. Its object was to explore some of the fundamental economic questions involved in establishing the structure and policies for the permanent fund authorized by a 1976 amendment to the Alaska Constitution. Research for this report was devoted mainly to an initial exploration of the question to what extent capital markets serving Alaska are reasonably efficient, and consisted largely of unstructured and unsystematic interviews with businessmen on both sides of those markets --- officers of financial institutions and other investors and lenders, and corporate officers and entrepreneurs in Alaska industries or with Alaska interests.

In line with the contract between the Legislative Affairs Agency and ISER, the study and report were to be "...in the nature of a general reconnaisance, and need not involve the collection or processing of original quantitative data." Among the tasks of the study, however, was to prescribe "the analytical and policy issues" which deserve further investigation in depth. A number of the issues raised in this report do warrant collection and processing of original data. In line with the report's terms of reference, I have not proposed final conclusions on any of the six interrelated questions set out in the contract, but have only attempted to explore and define them sufficiently to propose how the Legislature might proceed with such investi-

gations, particularly some quantitative testing of the hypotheses offered here.

Uses of the Permanent Fund

Public officials, "experts" of various kinds and voters generally have envisioned several different purposes for an Alaska permanent fund. The constitutional amendment which authorized the fund reflects a consensus that at least one-fourth of Alaska's non-recurring mineral leasing revenue should be excluded from the regular stream of state spending. A corollary of this consensus is that the fund should be profitably invested to give state government a permanent stream of revenue independent of current mineral leasing income and independent of economic conditions in the state generally. Because state government spending is a large part of Alaska's economic base (and will grow proportionately larger as tax and royalty income from North Slope oil begins to flow), the spending of income from permanent fund investments and their respending in Alaska's private economy could have a stabilizing effect on employment and income in the state.

There is little doubt that the operation of the fund would have the effect of reducing the immediate fiscal impact of oil and gas income and a stretching out and smoothing of its long-term impact, however the fund is organized and whatever its investment strategy. But the size of these impacts will depend on how much of the permanent fund's capital is invested or lent in Alaska and on what terms. Given certain assumptions about

the size and structure of the state's economy, the revenues committed to the fund, the yields of the fund's investments and the disposition of income from those investments, we can forecast its effect on the shape of long-term growth of state product, personal income, employment and per capita income. Some elementary projections of this sort have already been made by ISER under the Man in the Arctic Program.

Beyond this, there is little agreement on the proper purposes or the long-term effects of permanent fund investment strategies, and there has been little examination of the economic fundamentals which determine whether these purposes can actually be achieved by an instrument by the fund, or what its actual effects (intended and unintended) are likely to be. Apart from the purpose of delaying and smoothing the fiscal impact of non-recurring mineral leasing revenue, other goals that have been suggested for the permanent fund are to accelerate the growth of the state's non-oil economy and at the same time to expand state government's non-oil tax base.

In pursuit of this end it is usually assumed, and there seems to be a near-consensus in the unofficial statement of legislators, that permanent fund moneys invested or lent in Alaska be confined to creditworthy projects and enterprises, and at market rates and terms. If capital markets in Alaska (and in the United States) are workably efficient, however --- and my investigation so far suggests that they are --- investment of permanent fund moneys in Alaska will have exactly the same effect on the state's economy as investing them outside Alaska.

(The quality of the fund's investment portfolio may, however, be affected by the choice.) That is, permanent fund money would tend to replace the same amount of money that otherwise would have been provided from private financial sources.

Unless it provides capital subsidies, permanent fund activity will not accelerate growth of non-oil industry and thereby diversify the state's economy. If capital markets are generally efficient, moreover, non-subsidized permanent fund outlays would not tend to smooth out Alaska's business cycle or the growth rate of employment and population, even if there were no other fundamental difficulties (treated in part IV of this report) in using state investment policy as a counter-cyclical tool. In the absence of capital subsidies, any attempt to disperse economic activity or to foster rural industries will also tend to be futile if the absence of growth in rural Alaska or in particular small communities is a result of factors other than the failure of financial institutions to bring enterprise and investors together on mutually acceptable terms. If poverty or stagnation is caused by deficiencies in natural resources, the skills or attitudes of the labor force, transportation, communications and energy costs, or an unsatisfactory institutional environment, the permanent fund cannot cure these ills, nor even mitigate them unless it is treated as a source of capital available for investments which will not meet market tests.

II. CAPITAL MARKET EFFICIENCY

Every proposed strategy for Alaska's permanent fund depends

upon stated or unstated assumptions about the "efficiency" of national or international capital markets. The proposition that Alaska as a whole, certain regions of Alaska, or certain Alaska industries suffer a chronic capital shortage which can be remedied by permanent fund investment strategy amounts to saying that existing capital markets do not, in fact, function efficiently.

By "efficiency" in the capital market, we mean the ability of loanable or investible funds to move readily in and out of Alaska, among industries and among different kinds of capital instruments of different term and risk (common stocks, bonds, loans, etc.) in response to the differences in anticipated yields.

The most important elements of capital market efficiency are mobility, cost and information. Legal limitations on the flow of loanable funds can clearly reduce capital market efficiency as defined here (though there may be good social reasons for the restrictions). An example of a legal restriction on the mobility of capital for social reasons, the federal government limits the rate of interest payable by banks and thrift institutions on savings deposits, in order to channel funds to, and reduce interest costs for, the residential mortgage market (but it also restricts the funds available to savings institutions). The fees of brokers, underwriters, lenders, and "finders" of venture capital, and taxes such as capital gains and stock transfer taxes also increase the cost of moving funds from one investment to another. A lack of competition can both erect barriers to capital mobility and increase transactions costs.

The element of capital market efficiency most often held to be deficient in Alaska is information. If funds are to move easily and at competitive rates of return from areas or industries with cash flow surpluses to those with excess demand for capital, entrepreneurs must know where equity and debt money is available and on what terms, and potential investors or lenders must have the means to appraise the earning capacity and risk of the ventures they are asked to underwrite.

Capital mobility, transactions costs and the adequacy of information are all a function of market size and diversity (which is in turn a function of market size). A region with large and diversified capital demands will attract a large number of financial institutions of different kinds, who will serve as intermediaries between entrepreneurs and investors or lenders. They will compete among one another for business, thereby lowering capital transactions costs to ultimate borrowers and lenders. And most critically, they will make it their business to understand the industries and kinds of enterprises they serve and their local and regional economies, thereby increasing market information necessary to evaluate individual ventures.

This issue has important implications for the permanent fund's investment strategy. If capital markets serving Alaska business are workably efficient, permanent fund moneys dedicated to Alaska investment will have no impact on the aggregate level of investment (and thereby the rate of economic growth), the industrial structure, or on the profitability of investment in Alaska, unless

these moneys are offered on subsidized terms. Loans from the permanent fund at market rates would simply displace private capital that would otherwise be available at the same rates. The only material result might be a reduction in the diversity--and thereby safety--of the permanent fund's own investment portfolio because it would be imprudently concentrated on Alaska issues and unduly sensitive to business fluctuations special to the state.

If, on the other hand, institutional barriers to capital movements, excessive fees or taxes on capital transactions, or inadequate information result in a shortage of capital for Alaska ventures at normal market terms, then it will indeed make a significant difference to Alaska's economy how much of the permanent fund is allocated to investment within the state. The conclusion that investment strategy would, in fact, make a difference need not necessarily carry with it the implication, however, that the difference would be great, or cost-effective or even in the right direction. To the extent there are demonstrated inefficiencies--barriers, costs or ignorance--in Alaska's capital markets, it may well be cheaper and more effective to remedy those problems directly rather than to offset them with permanent fund investments.

The paridigm (pattern of concepts and theories) of capitalistic finance presented in business school textbooks is one of efficient capital markets. Within the terms of this paradigm, it is very unlikely that Alaska could suffer a chronic capital shortage. Outside investors and lenders, in their search for

the highest rates of return consistent with a given degree of security, would make an effort to discover investment opportunities in the state, while entrepreneurs with Alaska interests would shop the world's capital markets for venturers or lenders of funds on appropriate terms. Whatever lack of information existed about capital sources, the particular industry, Alaska's institutions or business conditions, or regarding the particular firm could be remedied at a price, and at least for large ventures, that price would be relatively small compared to the funds involved. A variety of financial intermediaries and investment services would compete with one another to bring together borrower and lender or entrepreneur and investor, and to furnish either side with needed information. This competition would increase capital mobility and lower both transactions costs (the spread between the yield to lenders and the cost to borrowers, for example) and the cost of information.

Capital market efficiency is obviously a relative matter. The mobility of funds is seldom totally unfettered; there are almost always fees and taxes or other transactions costs; and information itself comes only at a price and is never perfect. The relevant questions here are to what extent and for what regions and industries in Alaska are capital markets significantly less efficient than elsewhere in the national economy and to what extent, if at all, can the investment strategy of the permanent fund remedy or offset these inefficiencies.

Alaskan Capital Markets

In my conversations with businessmen inside and outside of Alaska, it appeared that bankers and officers of financial institutions generally, officers of large corporations, successful real estate developers and the most successful entrepreneurs in contracting, tourism and fishing tended to "believe in" the efficient markets paradigm and conduct their businesses as if it were an accurate view of the world. It is true that several of them spoke of a national "capital shortage"; the reference is to the aggregate effect of high taxes and inflation, and few of the businessmen in these categories seem to believe that there is a shortage of investment or debt capital peculiar to Alaska or to their own industries. The officers of banks, finance companies and other money market institutions believe that their companies actively seek out investment opportunities in Alaska and consistently denied that they insisted on higher rates of return or greater security for Alaska issues. Two West Coast bankers active in Alaska stated a belief that it was probably easier to place large issues generated by their Alaska correspondents than comparable issues from California or Washington State because of the widespread confidence in Alaska's wealth and continued industrial growth. Two corporate officials made a similar observation, one of them alluding to the "glamor" of Alaska investment.

Officers of national or multinational corporations in petroleum, mining and fish processing indicated that for them, the procedures, problems and costs involved in the financing of Alaska

ventures were for all practical purposes identical with those for financing comparable ventures in the Lower 48 or in other politically stable advanced capitalist states. Their own sources were national and international, and their ability to raise funds rested in part on the overall strength and reputation of the company, and in part on their ability to communicate to potential investors and lenders the reasons (resource base, engineering cost estimates, market factors, etc.) why they themselves believed that the proposed Alaska investment was sound. One successful developer scoffed at the notion of an Alaska information gap: "Information, salesmanship--that's what business leadership, what you call entrepreneurship is all about. It's your job as a developer to get all the information your banker needs into his hands. Make him as confident about your project as you are yourself."

Many small businessmen including, it appears, most prospectors, inventors, independent merchants, and operators of hotel, restaurant and other tourist-related businesses outside of Anchorage, and some contractors do not, however, believe in the efficient markets paradigm. I heard many complaints about treatment by banks and finance companies and a feeling that "the system" is biased against small businessmen and against Alaskan enterprise. I heard anecdotes purporting to show that even Alaska banks favor outside-owned businesses. Many persons in this group expressed a hope that the permanent fund could correct this bias and make more funds available for ventures like their own. It was especially noteworthy to me

that most state and federal civil servants in the economic development or business assistance field expressed views more consistent with the capital shortage paradigm than with that of efficient markets and believed that government should provide more financial assistance to private industrial development in Alaska. Whether or not these sentiments express an accurate view of the way in which the economy and financial markets operate, it seems likely that it is a more representative view than the more sophisticated textbook, "big business" view of capital markets, and constitutes a substantial political constituency for an activist policy by the permanent fund's managers.

In preparing this report, I encountered several instances where entrepreneurs or corporate managers were working on financing a fisheries, mining or tourist venture, a shopping center or a residential subdivision. Those in this group who seem to accept the efficient markets paradigm regarded it as the essence of their own job as a developer or manager to assemble and integrate the necessary information on resources, markets, costs, economic and environmental regulation and to draft credible profit and loss projections and pro forma financial statements acceptable to their corporate boards or to outside investors or lenders.

A common situation among small and medium Alaska business enterprises seems to be a rate of growth (with sales increasing at 20 to 100 percent per year) that leads to a need for additional fixed and working capital far outstripping internally generated

cash flow. It is "obvious" to the owners and operators of these businesses that money borrowed to sustain this growth would earn a very good rate of return, but that there is never enough credit available. Businessmen in this situation seem to express two strikingly different attitudes toward their own "capital shortages." Those who operate by the efficient markets paradigm (and these seemed generally to be the most successful) expressed their problems objectively in terms of necessary cash flow and debt-equity ratios acceptable to lenders, while there were others who attributed their cash crunch to the institutional incapacity of financial institutions to serve their kind or business, or to the laziness, ignorance or malice of particular lenders.

It is clear that there are widely contrasting perceptions among Alaska businessmen and others about the adequacy of financial institutions and the supply of capital to Alaska ventures. Curiously, the distribution of these perceptions seems to be bimodal; that is, they cluster at one extreme or the other with only a scattering of individuals in the middle. Perceptions also seem to be highly correlated by industry and by size of enterprise. In general the bigger the firm, or the faster it is growing, the more satisfied its spokesmen are with existing capital markets. Without exception, representatives of large financial enterprises doing business in Alaska and of large national and multinational corporations spoke as if they believed in efficient markets and, without exception, they rejected the notion that lack of informa-

tion, high transactions costs or institutional barriers created a capital shortage in Alaska or in the industries with which they are connected or whose financial needs they serve.

On the other hand, hardly any local merchants, service industry operators or tourist business operators outside of Anchorage and Fairbanks, and hardly any entrepreneur or developer who was still trying to put together his first "big deal" (capitalized at $1 million or more), believed that financial institutions operated efficiently or fairly, and most of them felt that Alaskan enterprise was at a substantial disadvantage compared with firms in the same business elsewhere. As I mentioned before, almost every public official interviewed believed that there was an Alaska capital shortage that could, and should, be treated by application of government money. Anchorage and Fairbanks merchants, contractors and real estate developers seem to fall into both groups, as do operators of independent businesses connected with forestry, fisheries and mining.

The time and resources available for preparing this report did not make it possible to separate perceptions and ideology from reality. Each group's perceptions were supported with convincing anecdotes. Nevertheless, most of the correlations between attitude and situation were predictable, and the perceptions surely contain a measure of self-interest and self-justification. Officers of financial institutions who have the job of searching out and appraising investment opportunities are likely to believe

that their jobs are useful and effective, and they are unlikely to emphasize the problems of those kinds of enterprise that they do not serve (and which may not, in fact, be served well by any sector of the capital market). And it is not surprising that public officials feel that government financial and technical assistance (like economic regulation) is essential to a healthy business economy. But among businessmen, are the first group satisfied with the status quo because it served them well, or are those who accept, understand, and work easily within the status quo the people who are for that reason most likely to succeed as corporate managers and entrepreneurs?

My own provisional conclusions on the issue of capital market efficiency are as follows, but they are subject to modification on the basis of a quantitative study of attitudes and actual workings of the financial system in Alaska:

1. Investors and entrepreneurs, would-be lenders and would-be borrowers alike believe that the existing capital market institutions are adequate to finance large industrial or commercial developments in oil and gas, mining, petrochemicals, fisheries, timber, trade, and tourism anywhere in Alaska. I have found utterly no reason to doubt this consensus, and see no way in which the permanent fund could improve on the mobility of capital, transactions costs, or the information made available to investors by the sponsors themselves and through existing financial institutions.

It follows, therefore, that the permanent fund's investment activity in these areas will not significantly influence the profitability or growth of basic industry in Alaska unless loans are made at less than current market rates or under less secured terms (e.g., more highly leveraged, lower coverage rates, less collateral) than is customary. If the permanent fund invests in Alaska industrial ventures at market rates and terms, therefore, it will divert private capital elsewhere that would otherwise be attracted to the venture. In short, there is no need and no useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless there are grounds to subsidize that enterprise.

2. Despite the disagreement of those who do not believe in the efficient markets paradigm, the working and fixed capital requirments of residential and commercial real estate developers, contractors, retail and wholesale merchants and purveyors of services in Fairbanks and Anchorage are being served by existing banks, thrift institutions, finance companies, mortgage brokers and the like, in exactly the same way and at approximately the same rates and under the same conditions as in other communities throughout the nation.

Some businessmen will always have grievances against their bankers (and many Alaskan businessmen have some gruesome yet convincing tales to tell) or against the financial system gen-

erally. But Anchorage and Fairbanks banks do compete aggressively for business customers, and some of the "atrocity" stories can be attributed to understandable disagreements over the creditworthiness of a particular borrower or venture rather than a systematic failing of the system. Again, apart from any argument that a particular line of business or kind of investment ought to be subsidized, there seems to be no case for the permanent fund or one of its subsidiaries to enter the commercial capital markets in these communities. I am not certain at this point how well these needs are being served in other urban places in Alaska.

3. Several alternatives exist for financing the purchase or lease of standardized machinery used in business, including motor vehicles, construction equipment, aircraft, boats, electrical generators, compressors, machine tools and the like. Commercial banks, finance companies, credit unions, manufacturers and vendors all offer some kind of financing for this kind of chattel, and one or more of these forms of financing seems to be available to creditworthy borrowers in any Alaska industry or location. Higher servicing and collection costs do tend to limit borrowers in the more remote areas of Alaska to higher interest rate alternatives, but on balance this reflects not a failure of the market to reflect true costs but the opposite, it does not constitute a case for permenent fund involvement in the install-

ment credit business, unless there is also a case for a capital subsidy to rural enterprise generally.

4. The general feeling of local businessmen in small communities and rural areas of Alaska is that they face a genuine capital shortage and that they are at the mercy of one or two financial institutions that are indifferent to their aspirations or the facts of their business situation. There seems to be some merit to these complaints. Lending in small towns or the bush is exceptionally expensive, however; the cost of investigating and servicing small commercial, real estate and installment loans and lease purchase contracts and the like, and the costs of collection, foreclosure, repossession and resale can easily exceed the potential earnings from loan fees and interest. These excess cost burdens, together with unfamiliarity with local conditions, understandably make the statewide (Anchorage and Fairbanks) banks and other financial institutions reluctant to provide capital even for the larger locally-owned development, such as resorts, hotels, apartment houses, fish processing plants, etc., and where they do make loans they are willing to finance a smaller portion of total investment. In these cases, governmental participation or guarantees (EDA, SBA, Farmer's Home, Alaska Veterans loans, etc.) have often been essential to obtaining conventional private financing. This portion of the demand for capital in Alaska may then be a legitimate area for permanent fund activity.

In sumamry, it appears that most attempts of the permanent fund to serve as a development bank for Alaska would duplicate

functions that private financial institutions (backed up in many cases by other governmental assistance programs, e.g., FHA, Farmer's Home, VA, etc.) perform or are capable of performing adequately. At this stage in my investigation, I have been able to identify only one function in which a new public financing source might function better than the current machinery of the private capital market, and that is in provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas.

III. SUBSIDIES AND SOFT LOANS

Diversification of Alaska's economy is widely regarded as a desirable goal for state policy and as a proper purpose of permanent fund strategy. The benefits argued for such a policy are reduction of economic fluctuations and creation of a permanent employment, income and revenue base not dependent upon oil and gas or other exhaustible resources. The line of reasoning in the previous section of this report suggests that the existing concentration of Alaska economic activity by region tends to reflect real resource location and cost factors (such as transportation expense and small market scale) rather than capital market failures. It appears that a reduction of existing barriers to capital mobility and improving information flows would not necessarily accelerate the rate of development in Alaska fisheries, agriculture or tourist industries, for example, or in rural Alaska generally.

Making capital more readily available at lower rates to Alaska enterprise generally could be expected to increase investment in all sectors of the state's economy, but there is no reason to believe that it would influence the concentration of investment in the desired direction, that is, in favor of economic diversification or geographical dispersion (if the latter is indeed a desirable objective). Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event. If investment activity is already concentrated in oil and gas-related activity, fish processing and in Anchorage residential and commercial real estate development, that is probably where more abundant, cheaper capital would go. There is a strong confirmation of this proposition in the investment behavior of the rural-based regional and village corporations.

Making capital cheaper and easier to obtain will undoubtedly have one effect which may be regarded as counterproductive; business will be given an added incentive to substitute capital for labor and the state's economy will tend to become more capital intensive than it otherwise would be. If investment policy is to be in any way directed toward "job creation," it must be highly selective and not simply a matter of lowering capital costs across the board.

If the legislature deems it desirable to influence private investment in Alaska in the direction of greater economic diversification by means of permanent fund investments, it will have to authorize the fund's managers to make loans to the favored

types of venture on terms other than those of the private market. There is a serious question, however, how many new ventures will be made feasible simply by a reduction of interest rates on borrowed capital below customary rates. There is in fact good reason to believe that investment demand in new speculative industrial, agricultural or tourist-related development are relatively insensitive to interest cost. This is becuase private investors are not likely to commit their own equity to such ventures unless they have a prospect of recovering their total investment in five years or less. Such an outcome requires an annual cash flow equal to 30 to 50 percent on total investment, a situation in which two or three percentage points interest expense is seldom crucial. More important parameters are the standards for the creditworthiness of the venture and requirements for equity and collateral. In other words, it is likely to be more critical for a new venture in fish processing or tourism whether it can borrow three-fourths rather than two-thirds of its total requirements, than it is whether the interest rate on that loan is 9 or 12 percent.

In this situation, subsidized loans by the permanent fund can without question have an influence on the shape and direction of economic growth in Alaska, and that influence will be greater the greater the proportion of permanent fund moneys devoted to the favored types of enterprise. The form the subsidy is likely to take to make it effective, however, will not be (and should not be) lower interest rates, but rather a

relaxation of lending standards to enhance the availability of funds. One danger here, even if the legislature deliberately authorizes the fund's managers to make such loans, is that the nature and the degree of actual subsidy may not begin to appear for many years, until it begins to show up as defaults on principal and interest payments. This danger will be aggravated if, as is often the case with governmental loan programs, there is not a rigorous policy of classifying problem loans and of promptly writing off those which are uncollectable. Banks and thrift institutions are required by law and regulation to do this, but even there the requirement is only very loosely implemented or enforced, because lending officers are reluctant to expose their own imprudence in making bad loans or to write down the capital position of their institutions.

In any event, there is sure to be some opportunity for the permanent fund to influence the sectoral and geographic direction of economic development in Alaska by manipulation of credit terms. The most aggressive (and in conventional terms, imprudent) lending policy cannot, however, create an industry where resources, markets, skilled labor and other requisites are missing, and the fund's managers should never become so "soft" as to finance enterprises whose promoters are not taking a substantial risk themselves, or which do not have convincing prospects of long-term viability.

The most relevant model of a development bank for Alaska is not the IBRD (the World Bank) or the regional development banks, but the International Development Agency, the World Bank's "soft

loan" subsidiary. If the permanent fund is to direct the shape of economic growth in Alaska, it will not be through normal commercial investments on normal commercial terms, but through a postponed or hidden subsidy in the form of higher loss rates in future years. This is not the appropriate place to judge the desirability or assess the ultimate beneficiaries of capital subsidies directed at changing the structure of Alaska's economy, but the Legislature may well wish to assure that those implicit subsidies are not totally hidden, by setting out (or requiring the fund's managers to set out) explicit and rigorous standards for the granting, servicing, classification and writeoff of soft loans, and by requiring a rigorous annual audit of the fund's loan quality.

There is another dimension to the capital subsidy issue which the Legislature should keep in mind as it authorizes any soft or subsidized loan program under the permanent fund. Granting credit at terms more liberal than the market will almost certainly make some enterprises viable that would not otherwise be so, but it is difficult to draw lending standards in such a way that other ventures which would be viable anyway do not recieve a windfall that serves no social purpose. This consideration suggests a policy that might be adopted toward the soft loan program --- that loans under this program be made at rates perceptibly above market rates (as is appropriate to the greater risk). If my earlier observation is correct that speculative investment in Alaska is more sensitive to the degree of leveraging permitted than to interest rates as such, higher interest rates would

screen out some of those enterprises which did not need assistance from the fund and would at the same time help build up a reserve for loan losses to offset the subsidy aspect of the program.

IV. COUNTER-CYCLICAL INVESTMENT

There are several possible concepts of the permanent fund as an economic stabilization device for Alaska. The one basic concept of the fund on which there is a near-consensus is that it is to be regarded as a savings account for a "rainy day." That is, Alaska's government is about to experience an extraordinary surge of income from oil and gas royalties that is not likely to be sustained. Since petroleum revenues will not only be the main source of general government income but will for some time be a principal support for the private economy and the main engine of economic growth, the permanent fund would be used to reduce the injection of income into the state's economy during the boom phase, and then the income from investing these revenues would be used to sustain state expenditures and their fiscal impacts after the boom has ended.

It has also been suggested that the permanent fund could help even out short-term business fluctuations in Alaska, or maintain long-term economic growth (as measured by the growth of state product, real personal income or employment) at some optimum rate. Such stabilization policies could in principle operate through varying appropriations to the permanent fund, working through the fiscal impacts of general fund expenditures;

through varying the permanent fund's rate of new lending in Alaska, working through the fiscal impact of investments supported by these loans; or with both appropriation and investment policy. The basic principle is simple: when the state'e economy was booming, larger appropriations would be made to the permanent fund (thereby reducing revenue available to the Legislature for general fund outlays) and/or a smaller proportion of permanent fund assets would be invested within Alaska. When the state was in a recession, the flows would be reversed: less revenue would be appropriated to the permanent fund and more to the regular capital and operating expenses of state government, and/or the permenent fund would inject more investment money into the Alaska economy (presumably by selling off non-Alaska investments in its portfolio).

There are, however, both conceptual and practical problems with using the permanent fund as a stabilizing device on any more sophisticated basis than is implied by the "savings account" notion. One of them has been identified previously --- to the extent that existing financial institutions make up a reasonably efficient capital market, the volume of unsubsidized loans or investment the fund makes in Alaska may not have a significant effect on economic activity in the state.

Even if there were significant capital market deficiencies which gave permanent fund outlays a real effect on aggregate investment in Alaska, or even if the fund had a policy of subsidizing Alaska business (thereby expanding the level of investment

beyond what it otherwise would be), it is still not obvious whether a policy of varying state expenditures or permanent fund investment in response to economic conditions would in fact reduce business fluctuations in the state, increase them or be on balance neutral. The crucial question here is the relationship between our ability to forecast economic conditions or recognize cyclical turning points, and the time it takes for a change in appropriations or in lending policy to show up in unemployment rates or rates of economic growth.

Some very gross economic changes, such as the buildup and decline of pipeline construction activity, obviously could be anticipated and their fiscal effects projected with some degree of confidence. But the Alyeska pipeline is likely to be historically unique in size and specific gravity in the state's economy. Future ups and downs are more likely to be the resultant of a number of smaller influences, many of which (general business confidence, for example) cannot be mapped out in advance and are difficult to quantify even retrospectively. If booms and recessions often cannot be recognized clearly until after they have been with us awhile, and their turning points recognized only after they have passed, it is also true that significant delays are inevitable between the recognition of a new trend, the fiscal action that is appropriate and the actual movement of new dollars into (or out of) the private economy. Depending upon the relative lengths of the various lags, attempts to stabilize Alaska's economy or smooth its growth rate might be successful, but it seems equally likely that state fiscal policy would zig when it

should be zagging, that the amplitude of the business cycle would thereby be increased, or even that the permanent fund's intervention could create oscillations in the state's economy where otherwise there would be none.

It is not obvious which of these outcomes would in fact result from an attempt to use the permanent fund as a stabilizing influence. The effect would depend in part on whether it was appropriations, lending or both which were being varied, and what economic indicators were being used to trigger policy changes. A business cycle model could be developed which would simulate the behavior of Alaska's economy under the influence of various decision rules.

Intuitively, I expect that such a model would show that the various lags in recognizing trends and implementing policy, and in the actual economic impact of that policy, would preclude using the permanent fund to offset economic fluctuations with a term of less than about three years. If the fund is to be useful as a stabilizing device, it will probably be only as an instrument to regulate growth rates in very gross terms and only in the very long run. If, for example, the social impacts of a continuing growth rate in employment below 2 percent per year or above 8 percent were determined to be unacceptable, the legislature might conceivably key permanent fund appropriations or investment policy to the average growth of employment in Alaska over the previous five years, with the understanding that no individual year's growth is ever likely to be on track because of the fund's policies, and that excessive growth in one year might be offset by

stagnation in another, or vice versa. It is likely, in other words, that long-term stability in growth rates might be achieved at the expense of greater instatiliby in the short run.

The practical problems in establishing a stabilization policy for the permanent fund are political and administrative. If permanent fund appropriations (and their complement, operating expenditures from the general fund) are to be varied, it is the Legislature which would have to vary them. While there would be little difficulty persuading the executive branch to propose and the Legislature to authorize increases in capital and operating expenses during a recession if money is readily available to be committed, it may be too much to expect a sharp reduction in outlays to offset an economic boom in the state, particularly when revenues and "needs" have both been increasing at exceptional rates precisely because of the boom. The fate of the state government's announced interest to "stockpile" public works projects until the end of the Alyeska construction boom should be instructive on this point. It is not clear, moreover, that the managers of the permanent fund would be immune from similar pressure with respect to their lending and investment policies, if they were granted the discretion to alter those policies according to economic conditions in the state.

V. PUBLIC ENTERPRISE

Another suggested use for permanent fund moneys is to finance public works projects. The works most often proposed are hydroelectric plants and fisheries improvements such as hatcheries and

habitat enhancement. These two examples are of course quite different; electrical generating facilities can be and usually are self-supporting from the sale of power. The principal reason for governmental investment in such facilities, ideology aside, is the exemption from federal taxes of the income of a public utility and of the interest it pays on its debt. This very consideration suggests that revenue bonds of the Alaska Power Authority or other governmentally owned utilities would not be an appropriate permanent fund investment, because the permanent fund (whose own income is tax exempt) could be expected to earn a higher rate of return from investments in taxable federal or corporate bonds than the Power Authority would have to pay in interest or its own tax-exempt bonds, assuming that the securities were equally rated. This consideration does not, however, necessarily foreclose the permanent fund from providing all or a part of the equity component of Power Authority capital (and in earning a rate of return appropriate to the risk taken by an equity investor), or from providing a guarnatee of Power Authority bonds, or from subsidizing electric power development.

The crucial characteristics of some public works, such as hatcheries and habitat improvement, is that they cannot be financed conventionally. Benefit-cost analysis may well show that the new benefits to society exceed the capital and operating outlays, but the burdens and the benefits may not fall on the same people, and it may be impractical (or impolitic) to collect a user charge from the beneficiaries. In the case of these fishery-related investments, however, costs could be allocated at

least roughly among the beneficiaries through a surcharge on fishing licenses, entry permits or raw fish taxes. If such capital improvements are not to be funded this way, however, they seem more appropriate subjects for general fund appropriations than as "investments" by the permanent fund.

VI. ISSUES FOR FURTHER INVESTIGATIONS

This report has identified a number of questions whose answers are crucial if the Legislature is to develop appropriate policies for operation of the permanent fund. At most, however, the author has been able to give only tentative answers to these questions. The following is a list of issues that warrant further investigation, together with some discussion of methods and sources.

1. Capital market structure, costs and efficiency. A survey is necessary of the number, size and aggregate Alaska activity (e.g., loans made, loans outstanding, loans being serviced) for various institutions in the financial market, with offices both inside and outside of Alaska. Questionnaires and interviews would be used to determine the relative weight of each of these institutions in financing different industries in Alaska and their policies regarding various types of Alaska business.

A survey is necessary to determine just what is the price of money in Alaska and how does this price (together with other credit conditions) differ from those elsewhere in the United States. A large body of aggregate data comparing Alaska conditions with those in other states is available in the commercial bank call reports; some information is available by major loan

categories (real estate, commercial and installment). The absolute level of these rates is less indicative than their relation to rates in other Western states and particularly the trend of any Alaska rate differential. Any differences in other loan terms (for example, requirements for compensating balances) would have to be based upon questionnaires or systematic interviews with lending officers.

Similar questions can appropriately be asked about differences in the rates and conditions for various categories of credit as between the urban centers of Alaska, and small communities and rural areas. The quickest approximation to an estimate of geographic differentials could be obtained by comparing loan statistics for the outlying branches of statewide banks with those of their urban offices. A hypothesis that deserves investigation is the proposition that retail credit markets are more competitive and more efficient than "wholesale" markets in Alaska. If this is the case, channelling the permanent fund's Alaska lending through existing financial institutions could result in large, unearned windfalls to the banking system without significantly benefitting Alaska borrowers. It would be instructive to see what happened to the "spread" between the interest cost of public deposits to Alaska banks and their interest earnings on real estate loans, for example, as a result of the Alaska preference provision in management of the state's North Slope bonus money. A similar question can be asked about the actual effect of the state's purchases of residential mortgages, after loan fees are taken into account.

2. Demand for investment and for loanable funds. A sample survey and detailed case studies should be undertaken of the financial structure and the procedure of financing fish processing plants, hotels and other relevant investment projects in Alaska. The contrasts, if any, in structure, procedures, costs of capital for individual components of financing (interim construction, working capital, etc.) should be noted and the appropriate implications drawn. The importance of capital financing costs to overall project costs is an important element in judging the potential sensitivity of investment demand to interest rates.

The investment demand schedule for individual industries ought to be investigated. The question here is to what extent will a reduction in the interest rate to a particular group or for a particular purpose result in an increase in the level of investment. The question is difficult to answer generally because the shape of the curve relating investment outlays to interest rates will differ for each subcategory of investment and will be affected by a large number of other factors. Builders of national econometric models have spent much time trying to specify investment demand functions with only limited success, however. The data base modeling Alaska investment demand is very limited because there are almost no satisfactory statistics that can be used as indicators of investment activity, with the partial exception of residential construction. The more productive approach would be to model individual projects--even fictional projects--in the way the Delta barley project was analyzed.

3. Aggregate impacts of different policies toward permanent fund appropriations and investments. The percentage of eligible funds that should be channelled into the permanent fund is of central importance. Not only will the future growth of the state's economy be determined to some extent by the choice of eligible permanent fund investments, but perhaps more importantly, it will be determined by the amount of money remaining in the general fund for unrestricted use. Specifically, Department of Revenue analysis of state revenues presented in February, 1977, projected a permanent fund balance of $1.8 billion in 1985 based upon a 25 percent contribution rate. The same source projected a general fund balance in excess of $6 billion in the same year. Increases in spending above the historical pattern of state government expenditures would have a downward effect on the total remaining in the general fund, but the balance can be expected to remain substantial.

The possibility of such a large general fund balance requires that the choice of the percentage of oil revenue dedicated to the permanent fund reflect the expected impacts of the uses of the general fund balance as compared with the impacts of administration of that money through the permanent fund.

For example, one way to make use of the general fund balance would be to reduce the personal income tax. The ISER MAP analysis shows that this would indeed cause a significant reduction in the general fund balance. At the same time, it would have a highly stimulative effect on the private sector as the increase in

disposable income stimulated private sector demands. Employment and population would increase. Additional revenues would be generated, but these would not be sufficient to maintain constant per capita government expenditures. Either the level of services would have to decline or the general fund balance would be depleted more rapidly than initial calculations indicated, or both. If the permanent fund is to be a buffer against the depletion of the general fund, or is interpreted as a fund to benefit Alaskans, the expansion generated by the income tax could be the worst possible use of general fund money.

The growth implications of any constant percentage permanent fund contribution needs examination. Lumpy additions into the general fund caused by lease sales on state lands may be accompanied by bursts in general fund spending activity by the state. This erratic behavior could result in uneven growth and its problems. A formula for permanent fund contributions, which minimizes fluctuations in the general fund, might be a more appropriate rule than a fixed percentage.

Projections of the state fiscal position are important in the formulation of permanent fund policy in another way. Knowledge of what is happening to the general fund can determine permanent fund objectives. A large general fund balance, for example, tends to reduce the force of the argument that certain industry should be stimulated because of the tax base it provides.

The MAP model can be of assistance in the formulation of permanent fund policy in this regard because it can be used to project "futures" under varying assumptions of general fund policy given a "neutral" permanent fund. The state model can be used for this purpose.

A related issue is what policy should be established with regard to disposition of interest from the permanent fund. It is important not only what uses should be made of permanent fund interest but to a certain extent, what should be the target interest rate considering the uses of the interest. That is, if the interest is not put to good use, there should be relatively little concern with a high interest rate.

The basic issue, however, is whether the interest should be returned to the general fund without strings, should remain in the permanent fund for some period, or should be distributed to Alaska individuals who, in a sense, become the owners of the permanent fund.

The implications of each alternative on the growth of the economy and its fiscal condition will be considerably different. Reinvestment in the fund would have minimum impact in the short run. Transfer to the general fund would result in increased expenditures on state and local government which would have a stimulating effect on the economy with the impetus on increase in public sector activity. A transfer payment directly to individuals under some form of Alaska, Inc., project would provide an economic increase with a private sector impetus.

All of these kinds of expenditure programs can be analyzed with the MAP model framework. For this kind of analysis, which attempts to provide a picture of the relative impact of alternatives, specific program details are not necessary. The qualitative impacts would be the same regardless of whether a specific dividend amount were paid out as Alaska, Inc., payments or the available interest on the fund were distributed in that fashion. Here also, the state economic model can be used.

On the assumption that permanent fund investment will somehow be directed to the growth of certain industries, there is also a need for econometric simulations of the effects of expanding various Alaska industries on the state's economy as a whole, particularly on its employment and tax base.

4. Performance of soft loan programs. There are a number of existing state loan programs directed to social and economic development objectives. In general, they have loaned money at lower than prevailing commercial interest rates (but not necessarily at less than the state's "opportunity cost" of money). The actual quality of these funds' portfolios is unknown, however, and the actual rate of subsidy taking into account prospective future loan losses cannot, therefore, be determined. A systematic study should be made of this issue and its implications explored for administration of any soft loan program under the permanent fund.

Similar studies would be useful with respect to federal loan programs such as EDA and SBA, particularly concerning their Alaska activities. The experience and performance of International Development Agency programs and subsidized loan programs of other nations and states would also suggest problems which might be expected from any Alaska soft loan program established under the permanent fund.

Alaska State Legislature

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2 September 1977

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Dear Professors:

We are happy that you will be able to take part in our symposium on the economic issues that arise with different investment goals for the Alaska Permanent Fund. Actually, no wide exposure of the issues has yet taken place.

I find it useful to group them under two broad headings: What is the long-run purpose(s) of the Permanent Fund and where should it be invested?

As for the first, the major argument made for the Fund as it went before the voters was that it would slow the growth of the budget, which had risen 400% since the North Slope oil lease sale in 1969. It was further argued that the Fund would be a savings account for a rainy day or, more commonly, that it would replace oil revenues as they declined. This latter aim has lead some to consider placing a ceiling on budget growth such as holding spending constant in real per capita terms, with all or part of the other revenues to go into the Permanent Fund.

It was also hoped, often by the same people, that the Fund could restructure Alaska's economy --- diversifying it, reducing its cyclical and seasonal nature, and bringing down unemployment, especially among the Native and other rural populations.

Clearly, all these purposes are consistent with the language of the constitutional amendment that principle be used for "income producing investments". Just as clearly, dividing the Fund among the public (on the basis, say, of residency) has been ruled out.

It should be noted here that Fund earnings are to be sent to the general fund "...unless otherwise provided by law..." To date, the unusual proposals have included one by the Governor to pay 50% of the earnings to residents on the basis of every five years in

Alaska, one to pledge earnings (and principle) as security for state and local debt or even the loans of rural credit unions, and one (private suggestion) to provide an annuity to Alaskans reaching age 55 based on their years in the state.

Where to invest the Permanent Fund seems to be the question of whether a developing economy (isolated, with leakage of an estimated 64¢ on the dollar, but mostly literate and skilled), based largely on a depleting resource (transfer payments from the oil and gas industry), and having few apparent options for some time should have a policy of government intervention. In short, a policy of loans at the going market rates, or subsidized loans, or even subsidized infrastructure loans (which may be possible in some cases) versus a policy of free trade.

The discussion thus far has been cast in the catch phrases listed below and not all of them are strictly economic, of course.

Invest here to:

Offer home, business, and personal loans on preferred terms

Remove gaps in the existing, especially rural, capital markets

Create jobs, diversify the economy, etc. (but at market rates)

Enlarge the private tax base

Increase Alaskan ownership and control of business

Invest Outside to:

Have greater safety of principle and higher earnings (given the failure rate of new businesses and the problems of present state loan programs)

Reduce population growth (congestion, increased demand for public services)

Avoid influence-peddling

Maintain the quality of the environment

Reduce inflationary pressures

Allow benefits for a wide cross-section of the public

With best wishes, I am,

Sincerely,

James B. Rhode
AA to Rep. Cowper, Chairman
House Finance Committee

cc: Rep. Hugh Malone, Speaker of the House
Rep. Clark Gruening, Chairman, Special House Committee on the Permanent Fund
Rep. Steve Cowper, Chairman, House Finance Committee
Mr. Mike Doogan, AA to Rep. Gruening
Dr. George Rogers
File

PETER B McDOWELL

61 KNIGHTSBRIDGE
LONDON SWIX 7RA

9th February 1977

Dear Jim,

I spoke with Jim Edenso yesterday concerning several suggested revisions and was pleased to learn that discussions of the enabling legislation are moving ahead. Jim also mentioned that Hugh is strongly supporting a carryover until 1978, following public hearings in the interim. This, of course, would defer making the Fund operational until mid-1978. We then discussed the subject, and I told him I would write you a private letter along these lines.

As we have discussed many times, it occurred to me that there might be a "third way". There seems to be a "third way" to both let the Fund get started, assuming of course that it is important to not delay the time at which the Fund begins to have an impact on self-determination by Alaska on the pattern of investments in the state, and carry out the interim hearing process. This would be to move the legislation through this year, and direct the interim hearings to gather grass-roots input about sectoral priorities and specific investment opportunities.

This would complement the more scientific sectoral analyses that should be prepared simultaneously. The results of both would then be merged by the Fund to produce the first long-term investment program proposed to the Policy Board.

As we observed during the SIAC process, public input in the early meetings was not concerned with technicalstructure matters, but rather with sectoral priorities and potential specific investments.

It would be most useful to develop a state wide consensus on those matters, which combined with a scientific analysis, would provide one of the best possible bases for the future investment program.

I hope these personal thoughts are useful. Please share them with Hugh and Clark if you like.

Sincerely,

PS When can I expect to see you in London?

WHITE, WELD & CO.
INCORPORATED

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

THEODORE P. SWICK
FIRST VICE PRESIDENT
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December 9th, 1977

Mr. Clark Gruening, Chairman
House Permanent Fund Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 1. Creates the mechanism by authorizing the Board of the Permanent Fund to enter into guarantee agreements. Limits the guarantee to income only. Provides for agreements with any entity of state or local government. Provides guarantee of principal payments, sinking fund payments and interest but prevents use of Permanent Fund income for optional early retirement of guaranteed debt. Limits the guarantee to electric generation and transmission. Leaves the details of guarantee agreements to the Board of Trustees.

Section 2. In effect limits the amount of debt that can be guaranteed. This adds to the credit-worthiness of the guarantee from the lenders point of view. Depending somewhat on the actual portfolio of investments in the Permanent Fund, it is important to consider whether or not to limit the total of guarantees to something less than 100% of the Fund income. This could be done in the Act, which does not happen in this draft, or it could be a policy matter of the Board of the Fund.

Section 3. Provides that the guarantee article appear on the debt instrument which clearly establishes that it survives as long as the bonds are outstanding. This definitely is stronger and distinguishes the guarantee from any similarity to the so called "moral-obligation" pledge.

Section 4. Provides that a guarantee agreement can be entered into on the debt of projects only after approval by the legislature. Part of the thrust of this section is in contemplation of a centrally controlled State-wide power development plan that considers the needs and best interest of all of Alaska.

Sections 5 & 6 These sections are simply "boiler-plate" provisions.

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

Respectfully yours,

Theodore P. Swick

TPS/vmr

The Role of the Permanent Fund in Alaska's Future



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

Special Committee on
The Alaska Permanent Fund
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Rep. Terry Gardiner, V. Chmn.
Rep. E. J. Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

There will be a public discussion of goals of the Permanent Fund beginning at 10:00 a.m., September 15 in Room 402 of the State Court building. If you wish to present testimony, please contact the Committee at 528 West Fifth Avenue, Suite 270, Anchorage, Alaska 99501. Phone: 276-3433.

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I Introduction

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

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

The intent of this report is to inform Alaskans about the Alaska Permanent Fund—how it evolved, present management, possible future roles, and investment and management options for its principal and earnings. This report also allows committee members to state what they feel are the main issues to be resolved in the permanent fund enabling legislation.

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

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

Phone: (907) 276-3433

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

c) Many local development organizations were involved in initiating and managing projects such as rental housing and community service facilities, which improved the living conditions of their constituents. Most of these projects required property development, which in turn required equity to leverage construction loans and mortgages. The organizations themselves were seldom able to generate such equity, and the major institutional sources of equity--the Federal Government and private foundations--were cutting back such funding.

Thus, categories of enterprises which could operate, or, in the case of housing and services, should operate in depressed areas were identified. All three types needed financing which did not impose an inflexible repayment schedule, and all observers of the financial scene agreed that this kind of financing was unavailable through conventional private channels.

The use of State funds to provide such financing was further justified on the basis that the Commonwealth would capture pecuniary benefits in addition to conventional return on investment. These would consist of increased income sales and business tax collections and decreased welfare and unemployment insurance payments amounting to about $3000/year per job created or retained.

II. SOURCES OF FUNDS/CAPITALIZATION

CDFC's source of investment funds is the proceeds of a $10 million state general obligation bond issue. These funds will be transferred to CDFC in a lump sum. Increments to this capital would require further legislative bond authorization. The interest and principal on the bonds will be paid out of general state tax revenues as opposed to operating revenues of CDFC.

This form of capitalization is justified by the following argument:

1) According to the analysis of the economic conditions in depressed areas presented above, equity financing of enterprises is the most potentially productive form of capital assistance to businesses in these areas. So far, CDFC is the only state financial intermediary designed to provide equity financing.

2) CDFC cannot count on a regular stream of returns from these investments. Therefore, it could not meet its own financial responsibilities if it were forced to pay off its investment capital on an inflexible schedule demanded by debt financing. The experience of SBIC's and MESBIC's demonstrate that intermediaries charged with making equity investments cannot fulfill their mandate if they themselves rely on loans for their

investment funds. One response of these institutions to their capitalization has been to invest conservatively, usually through debentures, in order to assure a regular income stream. The other has been to make equity investments and run the risk of going broke, which several SBIC's have. In neither case is the statutory function, for which these institutions have been granted special borrowing rights, been carried out.

3) The use of general tax revenues to pay off the bonds issued in behalf of CDFC is justified on two counts:

a) It matches the sources of costs and prospective benefits. In the long run, it is hoped that the increased employment provided by CDFC-financed enterprises will generate benefits to the general fund in terms of increased tax collections and decreased welfare payments.

b) It matches costs and benefits on the time dimension. Debt service costs will be paid over a period of 20-30 years, and the benefits described above should accrue over a similarly long period.

III. USES OF FUNDS/OPERATIONS

A. General Powers

In order to tailor its services to the specific financial

needs of each project, the CDFC Board has been granted a panoply of financial powers and broad discretion over their use. CDFC may finance all costs of a project which the directors deem recoverable and necessary to the carrying out of the act's purpose. Thus, money to finance market surveys, product planning, early staffing and working capital could be advanced as well as more traditional finance secured by physical assets. CDFC may also provide directly or pay for technical advisory services to the venture. CDFC may advance such finance in the form of purchase of equity, convertible debt instruments or straight loans. It may formulate and readjust the terms for loan repayment or payment of dividends to accommodate the venture's cash flow as it evolves. CDFC may also acquire, hold and transfer real property where necessary to further the establishment or expansion of an enterprise.

Although CDFC has the statutory flexibility to advance money on longer and less onerous terms than private financial institutions of any type, it is constrained to seek some return on its investments if it is to continue operations. The way in which financial returns must be realized and the constraints thus imposed on CDFC financing operations are discussed in section D.

B. Targeting

There are two sets of targeting requirements involved in the statutory directions to CDFC investment activity: one defines eligible sponsoring agencies as Community Development Corporations (CDCs) not dissimilar to regional and local development corporations in Alaska; another defines eligible geographic areas.

Targeting to CDCs - All CDFC financing is advanced to CDCs, which then transfer the funds to the ventures. The statutory requirements for eligible CDCs have been formulated to assure that they are accountable to their constituents.

In the legislation, a CDC is defined as, "a quasi-public, non-profit corporation organized under the General Laws to carry out certain public purposes and with by-laws providing that:

1) it is organized to operate within a specific geographic area coincident with existing political boundaries;
2) that membership in the corporation shall be open to all residents of said area who are eighteen years or older;
3) that at least a majority of its board of directors shall be elected by the full membership with each member having an equal vote;

4) that the by-laws of the Community Development Corporation shall provide that any other directors be either appointees of elected state or local government officials or appointeees of other non-profit organizations having as a purpose the promotion of development in the designated geographic area;

5) that said elections shall be held annually for at least one-third of the members of the Board of Directors so that each elected director shall serve for a term of at least three years;

6) that the designated geographic area shall be consistent with some existing, or combination of existing, political district, provided that the aggregate population of such geographic area shall not exceed one hundred and fifteen thousand people based on the most recent appropriate census."

In addition to these formal requirements, observers and supporters of the bill have suggested that several further criteria be incorporated into CDFC's operating guidelines. These include:

1) The organization should be active in the community prior to CDFC funding, although not necessarily in economic development. Involvement in social service

provision or political organizing provides a community group with the opportunity to develop stable leadership, strategy and visibility that may contribute to its ability to manage a subsidiary or ensure community support of a sponsored venture. Evidence of prior activity also indicates that the CDC is not a "front" set up by private interests merely to take advantage of CDFC financing. Finally, prior experience provides the CDFC Board with some basis for judging the competence of the CDC's management to oversee the use of state funds.

2) There should be paid management and/or professional staff responsible to the CDC board. This might insure continuity and stability of venture oversight or management.

3) The leadership of the CDC should have demonstrated initiative in solicitng the participation of its constituents. Evidence of this activity might include frequency of public meetings, the publication of newsletters and other publicity efforts.

Targeting to Depressed Areas - The CDFC legislation requires that CDFC operate exclusively in depressed areas. The legislation defines a target area as "any area in which, according to the

most recent government census, the household income is reported to be at least 15% lower than the reported income for the Boston standard metropolitan statistical area" or "any contiguous area in which the board of directors of the particular CDC finds and publishes in accordance with statistical criteria previously established by the CDFC that substantial conditions of blight, economic depression, and widespread reliance on public assistance exist in said area."

CDFC is perhaps the only government financial intermediary that places restrictions on the location of the projects it will finance on the basis of descriptive statistical criteria. On the other hand, these criteria are not unambiguous. There is no specific measure of "average household income" in the 1970 census. The two closest approximations are "mean family income" and "median family income." (The median is a preferred descriptor of income distributions since it is not subject to bias stemming from concentrations in the low or high ends of the distribution.) The lists of eligible towns differ depending on which measure is used, and the preferred "median" excludes some of Massachusetts's most visibly depressed towns.

However, an area does not have to be a city or a town in order to qualify for CDFC financing. The legislation states that a CDC must be located in a target area that is consistent with

political boundaries." This might be a state representative district, a ward or even a precinct. Many cities that do not qualify do have sections within them that do.

C. Balancing the Interests of the Parties in Individual Projects

Any CDFC-financed project involves three organizations with different, and in some cases conflicting, aims.

Management of the venture wishes to obtain financing on the favorable terms CDFC can offer. It can be assumed that they wish to give up as few of the operating prerogatives and financial returns of conventional management as possible.

Members of the CDC want to be able to exert sufficient control over the venture to assure that the jobs it offers CDC constituents are as well-paying, secure and satisfying as possible. If the CDC itself is able to take an equity position in the venture, it will want to realize a return on its investment in order to finance its own operations or further investments.

CDFC wants to assure that the purposes of the bill are met by its investments and that it can recover its investment plus sufficient surplus to finance further operations.

All of these claims are on the same pool of funds; revenues generated by the venture.

The key to balancing these claims is the form of participation the CDC takes in the project. The six possible forms allowed by the legislation are as follows:

a) The project is conducted by a wholly owned subsidiary of the CDC.

b) The CDC owns a majority of the voting stock of the corporation or other organization conducting the project.

c) The CDC owns a majority of the capital stock of the corporation or other organization conducting the project.

d) The project is conducted by a limited-dividend corporation or other association organized under the laws of the Commonwealth to provide public benefit and which exists for a public purpose.

e) The project is conducted by a non-profit corporation including local development corporations organized under the Small Business Act.

f) In all other cases, adequate provision is made for reporting to the CDC, and that the CDC must approve all major transactions including but not limited to any sale, merger, dissolution, the sale or issue of substantial amounts of stock and corporate reorganization.

No one form of participation will be suitable or preferable in all cases. Particular circumstances will differ from venture to venture and CDFC will have the flexibility to consider each deal separately. In projects conducted under clauses d and e below, the forms of participation are determined by the statutes which govern federal and state programs. We focus on two types

of participation: the wholly owned subsidiary (form a) and the joint venture between a CDC and a private entrepreneur (forms b, c and f). The national CDC experience indicates that both joint ventures and wholly owned subsidiaries can be viable vehicles for economic development. There are different costs and benefits to the various parties from both.

Wholly Owned Subsidiaries: A wholly owned subsidiary requires that the CDC provide or hire its own management. This could limit the resources available to other activities in the community. However, by undertaking the entire financial and managerial responsibility for a venture, the CDC could develop considerable management skills, produce a product useful to its constituents, control the labor practices of the venture and retain all earnings for other CDC activities. The fact that a venture is a wholly owned subsidiary is no guarantee that the company will contribute to community goals. There have been CDC subsidiaries which have provided few benefits to local residents. Therefore, CDFC will need to be certain that adequate safeguards of community interests are written into any investment agreements it underwrites.

Joint Ventures with Majority CDC Ownership: A joint venture requires much less CDC staff time and in-house expertise than a subsidiary. However, it also generates less earnings for the CDC and allows the CDC less control of the venture's activities. On the other hand, the prerogatives and returns given up by the CDC are generally appropriated by the venture's management, a situation which should leverage more watchful and energetic private control of the enterprise.

Forms b and c in the legislation provide for joint ventures in which the CDC owns a majority of either the voting or the capital stock. This strong CDC ownership position and the influence implied by that ownership may be sufficient to represent and protect the community's interests. The CDC would be able to share in the benefits--both earnings and employment--if the venture succeeds. Similarly, the CDC can protect the interests of the community if the venture does poorly. For instance, the CDC could determine the distribution of labor cut-backs and the proceeds from the liquidation of assets.

Joint Ventures with Minority CDC Ownership: There may be cases in which the CDC is willing to assume a minority ownership position in the venture (form f) in return for substantial employment or other benefits. In those cases, the CDC's interest can

be protected by including specific legally binding requirements in the agreement between the CDC and the entrepreneur. Examples of these requirements are as follows:

1) The venture must obtain the express written approval of the CDC before undertaking any expansion of operations outside the local area and before altering any of the Articles of Incorporation or By-laws.

2) The management agree to make reasonable efforts to hire and promote local unemployed people as long as the quality of work was not sacrificed.

It is clear that any agreement between a CDC and the venture it sponsors will require compromise by both parties, especially in regard to managerial prerogatives. It is important that CDFC ensure that the extent of each party's prerogatives is stated as explicitly as possible in the documents of the transaction.

A final issue is the financing of the CDC's equity position if it does not have internally generated funds to purchase it outright. The functions and appropriate rewards to CDFC and the venture management are those of the conventional financier and entrepreneur. The CDC's presence can appear to be a legal formality (to assure the publicness of the expenditure) and a political necessity (to assure that constituents and local

political leaders feel they are being involved in the expenditure of community resources). What economic justification is there for CDFC subsidizing the CDC's equity participation?

First, the CDC may offer services in packaging the deal and mobilizing community support for the venture which will accrue to the venture as pecuniary benefits. Second, the possibility of monetary returns may induce the CDC to monitor the venture's financial and social performance vigorously, helping to assure CDFC that its objectives are being accomplished. One proposal for providing this equity position is to award the CDC a "finder's fee" of 5-10% of the venture's returns, depending on the CDC's role in assembling the deal.

D. Constraints on Uses of Funds Caused by Sources

The Board's investment decisions are constrained primarily by CDFC's capital structure. For all intents and purposes, CDFC's original $10 million bond authorization is its entire, non-renewable capitalization. The institution may seek to borrow or issue bonds to finance further operations, but here they would be constrained by market perception of the quality of the assets--the ventures--which would generate the repayment stream.

The only reliable way in which CDFC could prolong its operations is to recover its equity investment. It may sell the securities of the ventures it holds. The CDC, by statute, holds the right to first refusal for any sale of securities of the venture it sponsors. If, as is most likely, the rate of return on the ventures is below the conventionally marketable level--say 14-16%--CDC's will be the major secondary market for these securities.

Even if CDFC realizes no capital gain or some loss on these sales, in selling its interests to CDC's it will be fulfilling one of its secondary objectives, "to enhance capital ownership in depressed areas."

CDFC may try to make part of its stream of investment returns more predictable by providing financing in the form of debt or warrants. These are cash flow problems which can only be worked out as the program's operations evolve.

IV. MANAGEMENT

The nine-member CDFC Board of Directors is responsible for all investment decisions. Three of these members are state cabinet secretaries. The other six are gubernatorial appointees serving staggered terms of five years. Two are to be individuals experienced in investment finance, three are to be representatives

of CDCs from eligible target areas and the final member is to represent organized labor. It is important to notice that all interests involved in any individual CDFC deal are represented on the Board.

The staff, whose number will be determined by the volume of business CDFC receives or generates is headed by a President. This designation for the chief staff officer was chosen over "Executive Director" in order to reinforce the fact that CDFC has been designed as a business enterprise, not a social service organization. The staff will enjoy a great deal of discretion in undertaking the promotional activities necessary to generate financial opportunities and in structuring the terms of individual deals.

V. ACCOUNTABILITY

Financial - CDFC will keep standard financial accounts and will report annually to the state legislature. These reports and the books on which they are based will be audited periodically by state officials. From an operational point of view, CDFC will be held accountable for its financial performance by the constraints imposed by its capitalization. These constraints are described in Section IIID.

Social - The CDFC Board has engaged an accounting firm experienced in the operations of public authorities to design reporting and measurement systems to be used in evaluating the Corporation's progress in achieving its non-financial objectives. The consultants have been charged with designing methods to project employment, both by number and types of jobs to be created by a proposed investment. They are also developing methods by which to estimate a project's impact on tax collections and state expenditures.

Before CDFC money can be advanced to a project, the Board must find that all jobs in the enterprise will be full-time and non-seasonal, pay 150% of the minimum wage and provide medical benefits. Further statutory guidelines may be enacted after CDFC begins operations.

VI. EVALUATION

CDFC's proposed operations raise complex financial and political issues. While those issues concerning the nature of its services and targeting have been largely worked out in the CDFC statute, critical problems remain. Despite the pages of required findings and precautions in the bill, CDFC could fail to carry out its mission due to any number of managerial decisions. By investing too conservatively in too few enterprises,

CDFC would merely be displacing private market activity. If investment decisions are overly determined by political considerations and subsequently fail, CDFC will not only shorten its own life but discredit an important and controversial approach to depressed area development.

The program's success is dependent on the ability of individual CDC's to use the availability of CDFC funding to leverage the cooperation of private business ventures. The history of such attempts is predominantly one of failure with a few encouraging exceptions. One of the lessons of this experience has been that new community-based enterprises often require technical assistance if they are to succeed. The Massachusetts state government has so far made no explicit provisions for providing such services to CDFC-financed ventures. Criticism of the program from community groups has focused on this point.

Equally important for success will be the CDFC's ability to manage its limited financial resources. Choices in this matter, however, will largely be determined by the success of the ventures in which CDFC invests.

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes - CDFC is offered as an example of a program designed to provide community development finance to depressed areas. In this regard, the two most important points of the CDFC experience are 1) that the program design was based on an analysis of the economic problems of depressed areas in Massachusetts and 2) that provisions for targeting investment, based on this analysis and the experience of similar efforts, were built into the CDFC statute.

Capitalization - CDFC's lump sum financing by general obligation bonds of the state allows it the flexibility to provide financing in a timely manner on terms suited to the individual enterprise. This form of financing also imposes the discipline of a finite pool of funds. The corporations' investments must generate a return if it is to continue operations.

Uses - The current draft of the Alaska Permanent Fund statute is seriously flawed in that it does not permit equity investments in community development projects. The long experience of CDCs in the United States demonstrates that this type of finance is necessary if community-based enterprises are to succeed.

Management - The need to balance the political interests involved in CDFC's operations is reflected in the composition

of the Board, which includes representatives of the state, the financial community and CDCs.

Accountability - Accountability for operations such as CDFC's requires, first, a set of reporting and measurement procedures to evaluate performance along financal and social criteria. Reporting conventions and criteria exist by which to judge financial performance, and CDFC has begun to develop similar porcedures for judging performance on social criteria. Accountability also requires effective sanctions to unsatisfactory operations. In the case of financial performance, unwise or wasteful performance is kept in check by CDFC's finite (and rather small) capitalization. Effective sanctions in response to unacceptable performance on social criteria have not yet been developed beyond the required findings necessary for investment disbursal.

INTRODUCTION

The European Investment Bank (EIB) was established in 1958 by the Treaty of Rome, the charter of the European Economic Community. It is an autonomous, publicly-owned financial institution whose primary function is to lend long-term to projects promoting the balanced development of the member economies and of the Community as a whole. The Bank also guarantees a small number of loans each year.

I. PURPOSES

Statutory Goals

According to its statute, the EIB's purpose is to contribute to the "balanced and steady development of the common market" by lending to:

a) projects for developing less developed regions;

b) projects for rationalizing industries or for developing new activities called for by conditions arising from the establishment of the Common Market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States; and/or

c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.

Evolved Management Goals

These were the goals of the bank at its inception. For all practical purposes, the bank now allocates its funds among:

- projects in less developed regions of the Community (e.g., southern Italy, Ireland, northern Denmark, western France);
- projects in industrial regions where redevelopment and investment in fresh activities is called for by the decline of established industries;
- projects of special interest for the development of the Community as a whole (e.g., advanced technology, and especially energy supply and distribution systems);
- infrastructure projects of common interest to several Member States such as railways, motor ways and telecommunications; and/or
- projects involving technological and economic cooperation between enterprises in the different member States.

EIB has been directed by the European Commission, its parent organization, to assist regional development efforts, but the Bank may exercise its discretion in how to do so. In examining EIB's lending policies, capitalization and operations, we will focus on the mechanisms which facilitate the regional reallocations and employment of capital the bank is able to effect.

Lending Criteria

EIB sets lending criteria which follow from its position as a multinational, publicly-owned bank which can facilitate specific development projects through the provision of capital. These criteria are:

a) The project must further development of the Common Market. The Bank will finance capital investments which relate to well-defined, economically homogeneous projects, geared to a specific objective which can be obtained in a set period of time.

b) The project must either be implemented within the territory of the EEC or, if outside the territory, be of common benefit to all the members of the Community (e.g., an oil supply facility).

c) The project must, in the case of infrastructure, contribute to increased economic productivity or, in the case of a private enterprise, must offer prospects of a reasonable return on investment.

d) EIB financing should not replace financing available from other, particularly national, sources.

Eligible Borrowers

a) Public and private enterprises may borrow directly from the Bank provided their project meets the criteria discussed

above. EIB will finance investments by foreign corporations as long as their project is located within the EEC's territory.

b) Banks and other financial institutions may also borrow directly from the EIB to finance loans to enterprises which meet EIB's criteria. In fact, this is the method the EIB uses to make its funds available to small- or medium-sized ventures.

c) Finally, the EIB will lend to autonomous state or regional authorities, such as the German Lander, which retain certain powers under federal systems of national government.

Restrictions on Use of Funds

EIB loans may not be used

a) to finance cash requirements of firms or working capital;

b) to finance speculative real estate development; and/or

c) in the case of governmental authorities, to finance state social overhead capital such as health and welfare services.

EIB will not negotiate loans below 1 million UA directly. Its funds are channeled to enterprises with such small capital needs through intermediate institutions under the "global loan program." Direct loans to projects run from 20 to 30 million UA.

Lending Terms

EIB will not lend funds equalling more than 40 percent of the value of the asset to be financed. This policy requires local promoters and financial institutions to share the risks of the enterprise and, hopefully, forces them to bring their detailed knowledge of local conditions to the careful evaluation of the project.

The terms of most EIB loans fall into the seven to twelve year range. In the case of particularly desirable infrastructure projects, it may be streteched to 20 years.

IB requires appropriate security for all its loans. Usually this takes the form of a guarantee of repayment by the state in which the project is located. Other forms of security acceptable to the Bank are:

- a guarantee from a public authority with a good credit rating;
- a guarantee from a major bank, industrial or financial group; and/or
- a claim on specific assets which are liquid enough to cover the outstanding balance at any time.

Interest rates are uniform to all borrowers across several classes of loans, defined by the currency in which they are disbursed and their repayment period.

II. SOURCE OF FUNDS/CAPITALIZATION

EIB's share (equity) capital is provided by the treasuries of the nine states comprising the EEC. The total amount of subscribed capital and the amount to be contributed by each member is determined by the Bank's Board of Governors. Capital is subscribed in the form of a pledge, a portion of which the members deposit with the Bank. These deposits plus reserves funded by EIB operating surpluses must, under statute, equal 20 percent of pledged capital; this is more than sufficient to meet EIB's debt service should its borrowers be unable to repay loans in the short term.

This "paid-in" portion has ranged from 25 percent to its current level of 15.7 percent of subscribed capital during the 19 years of EIB operations. The balance of the pledge may be called in by the Board of Directors should these funds be needed to meet Bank obligations. Thus, members are permitted free use of the greater portion of their pledge. In 1976, pledged capital amounted to 3.54 billion UA of which 557 million was paid in.

Under its statute, EIB may not have loans or guarantees outstanding in amounts greater than 250 percent of its subscribed capital. In practice, EIB has been considerably more liquid. In 1976, loans outstanding of 5.49 billion UA were held against capital and reserves of 3.96 billion. Total EIB borrowings were

4.72 UA backed by 3.54 billion in equity, for a debt/equity ratio of only 1.33.

EIB maintains this high degree of backing to ensure access, on favorable terms, to European debt markets; its low paid-in/subscribed capital ratio to minimize the burdens of participation to its members. This arrangement seems viable so long as there is no sustained period (several consecutive years) of loan defaults. In that case, EIB would have to rely on its members' ability and willingness to contribute further portions of their subscriptions in order to meet obligations.

Given EIB's financial performance, such a crisis is not likely to arise. During the past seven years, operating revenues have exceeded annual operating expenses by at least 15 percent. Instead of paying out the surplus to the member states as dividends, the EIB internalizes them to supplement its various reserve funds. The growth of these funds is traced in Table 1.

The EIB's ability to transfer its profits into these reserve funds without paying taxes has allowed the funds to grow at an impressive rate. These reserves may replace paid-in capital in accounting deposit requirements. So, even though the Bank is non-profit, it does act to the direct pecuniary benefit of the member nations by using its "profits" as reserves which decrease the need for paid-in capital. Should the reserves get large

Table 1

GROWTH IN RESERVE ACCOUNTS
1970-1976

Reserves:	1970	1971	1972	1973	1974	1975	1976
Statutory	57.3	63.7	68.5	97.7	110.0	130.0	150.0
Loan Risk	56.0	64.0	71.0	105.0	118.0	143.9	174.7
Equalization	9.0	9.0	9.0	13.0	13.0	13.0	13.0
Monetary Risk	5.0	5.0	12.5	23.0	29.0	33.5	38.4
Building	2.0	4.0	6.5	11.0	16.0	25.0	45.0
TOTAL RESERVES	129.3	145.7	167.5	249.7	286.0	345.4	421.1

enough, the Bank may be able to order increased subscriptions without calling in any capital.

The European Investment Bank acquires virtually all its loan funds on the European bond market. Although the Bank resorts mainly to the European market, it has been able to sell its debt internationally, particularly in the United States and Japan.

The issues range from a low of 6.3 million UA to a high of 239.1 million, averaging from 20 to 40 million. About 40 percent of these issues are placed privately. Since 1974, the Bank has raised more than 800 million UA per year through the sale of bonds. Virtually all the public issues are underwritten by syndicates composed of European commercial and savings banks.

The interest rates the EIB must pay are in line with its strong backing. Rates rose from about 7.0 percent in 1972 to nearly 10.0 percent in 1974, and has since declined. In fact, the Bank has just adjusted its uniform lending rates downward to reflect this movement.

The most noteworthy aspect of the EIB bonds is that they are all long-term. There are a few occasions where the Bank borrowed for less than seven years. Most issues are for at least 10 years, with some going for as long as 15 to 20. The lengths of these liabilities match that of the productive capacity of the assets EIB finances--capital intensive plant and infrastructure.

Table 2

FUNDS RAISED UP TO AND INCLUDING 1976

Year	Issues				Participations by third parties in EIB loans (mil. UA)	Funds raised (mil. UA)
	Number	Amounts (mil. UA)				
		Private issues	Public issues	Total		
1961	3	7.6	13.8	21.4	-	21.4
1962	2	-	32.3	32.3	-	32.3
1963	3	8.0	27.2	35.2	-	35.2
1964	5	13.5	53.3	66.8	-	66.8
1965	4	-	65.0	65.0	-	65.0
1966	6	24.0	114.5	138.5	-	138.5
1967	8	40.0	154.5	194.5	-	194.5
1968	13	112.5	100.0	212.5	-	212.5
1969	9	63.7	82.3	146.0	-	146.0
1970	7	66.6	102.3	168.9	-	168.9
1971	20	208.0	204.9	412.9	-	412.9
1972	19	133.4	328.6	462.0	17.5	479.5
1973	22	207.0	401.0	608.0	4.3	612.3
1974	16	704.2	121.3	825.5	-	825.5
1975	26	318.6	495.1	813.7	17.0	830.7
1976	17	221.0	510.9	731.9	17.0	748.9
1961-1976	180	2128.1	2807.0	4935.1	55.8	4990.9

The EIB has enviable access to the European bond market and is beginning to offer its issues in the American and Japanese markets. The burgeoning growth of its demand for funds, shown in Table 2, has not compromised this access. The benefits of timely access to funds, long repayment terms and favorable interest rates derived from EIB's strong backing are transferred to its borrowers.

III. USES OF FUNDS/LENDING OPERATIONS

By Sector

Over EIB's operating history, its loans, in terms of money volume, have been concentrated in infrastructure projects, predominately in energy, transportation and telecommunications. EIB has made about four times as many loans to industrial sectors as to infrastructure projects. However, total money volume of these loans was only about half of that devoted to infrastructure. Manufacturing projects have received the preponderant number of industrial loans. Table 3 summarizes this allocation pattern and Tables 4 and 5 give more complete breakdowns of historical and current activity.

By Objective

In reporting its loan activities by statutory objectives, EIB

Table 3

EIB FINANCING, 1976 AND TOTALS 1958-1976

Sector	1976 #	1976 Amt. (mil. UA)	1976 % of Total	1958-1976 #	1958-1976 Amt. (mil. UA)	1958-1976 % of Total
Infrastructure						
Agriculture	1	30.1	2.8	8	123.9	2.0
Water Supply	6	74.3	6.8	19	220.9	3.7
Transport	6	107.2	9.9	60	1001.2	16.7
Telecommunication	8	200.1	18.4	38	853.7	14.2
Other	-	-	-	2	16.3	0.3
Energy	18	376.5	34.7	109	1764.2	29.4
Total	39	788.2	72.6	236	3980.2	66.3
Agriculture, Industry and Services						
Agriculture	-	-	-	5	7.5	0.1
Industry	120	297.8	27.4	874	2004.0	33.4
Services	-	-	-	7	13.7	0.2
Total	120	297.8	27.4	886	2025.2	33.7
Grand Total	159	1,086	100	1122	6005.4	100.0

All figures in millions UA.

Table 4

SECTORAL BREAKDOWN OF FINANCING PROVIDED WITHIN THE COMMUNITY, 1958-1976

Sector	Number		Amount (million u.a.)		% of total
	Total	of which global loan allocations	Total	of which global loan allocations	
Infrastructure	236		3 980·2		66·3
Agricultural development	8		123·9		2·0
Water supply and distribution	19		220·9		3·7
Transport	60		1 001·2		16·7
Railways		14		221·8	3·7
Roads, bridges and tunnels		34		587·9	9·8
Shipping and inland waterways		8		144·9	2·4
Airlines		3		41·7	0·7
Other		1		4·9	0·1
Telecommunications	38		853·7		14·2
Other	2		16·3		0·3
Energy	109		1 764·2		29·4
(Production)		(77)		(1 243·7)	(20·7)
Nuclear		29		620·2	10·3
Thermal power stations		13		138·2	2·3
Hydroelectric and pumped storage plant		17		245·5	4·1
Development of oil and natural gas deposits		16		223·1	3·7
Solid fuel extraction		2		16·7	0·3
(Transport)		(32)		(520·5)	(8·7)
Transmission lines		6		65·8	1·1
Gaslines and oil pipelines		26		454·6	7·6
Agriculture, industry and services	886	553	2 025·2	262·4	33·7
Agriculture, forestry, fishing	5	4	7·5	2·6	0·1
Industry (2)	874	546	2 004·0	255·9	33·4
Mining and quarrying*		18	15	12·8	6·4	0·2
Metal production and semi-processing*		77	31	558·4	22·5	9·3
Construction materials*		63	39	107·2	20·1	1·8
Woodworking		39	37	19·2	13·2	0·3
Glass and ceramics		25	13	33·2	6·9	0·6
Chemicals*		97	25	457·2	12·1	7·6
Metalworking and mechanical engineering		153	119	166·9	52·9	2·8
Motor vehicles, transport equipment		32	19	139·5	8·3	2·3
Electrical engineering, electronics		47	32	74·4	18·4	1·2
Foodstuffs		132	95	159·4	46·3	2·7
Textiles and leather		65	53	37·2	23·2	0·6
Paper and pulp*		28	23	29·6	10·3	0·5
Rubber and plastics processing		41	30	59·7	12·7	1·0
Other		14	11	6·9	3·9	0·1
Building – civil engineering		4	4	1·7	1·7	—
Global loans		39	—	111·6(3)		2·4
Services	7	3	13·7	1·4	0·2	
Tourism		5	3	9·3	1·4	0·1
Research and Development		2	—	4·4	—	0·1
Grand Total	1 122	553	6 005·4	262·4	100·0	

(1) See note 4 to Table 2, page 23.
(2) Of which basic industries (marked with an asterisk): 1 165·2 million u.a.
(3) This amount represents the unallocated portion of the global loans.

Table 5

SECTORAL BREAKDOWN OF FINANCING PROVIDED WITHIN THE COMMUNITY, 1976

Sector	Number			Amount (m[illegible] u.a.)		
		Total	of which global loan allocations		Total	of which global loan allocations
Infrastructure	39			788·2		72·6
Agricultural development	1			30·1		2·8
Water supply and distribution	6			74·3		6·8
Transport	6			107·2		9·9
Railways		1			19·7	
Shipping and inland waterways		5			87·5	
Telecommunications	8			200·1		18·4
Energy	18			376·5		34·[illegible]
(Production)		(11)			(247·6)	
Nuclear		3			111·3	
Thermal power stations		2			30·4	
Hydroelectric and pumped storage plant		2			42·1	
Development of oil and natural gas deposits		3			60·5	
Solid fuel extraction		1			3·3	
(Transport)		(7)			(128·9)	
Gaslines and oil pipelines		7			128·9	
Agriculture, industry and services	120		86	297·8	47·5	27·4
Industry (1)	120		86	297·8	47·5	27·4
Mining and quarrying*		3	3		2·2	2·2
Metal production and semi-processing*		21	11		109·3	8·3
Construction materials*		8	7		7·2	3·6
Woodworking		4	3		3·8	1·4
Glass and ceramics		2	1		4·7	0·6
Chemicals*		15	8		98·7	4·2
Metalworking and mechanical engineering		14	13		8·7	6·1
Motor vehicles, transport equipment		4	3		17·1	2·0
Electrical engineering, electronics		9	8		6·3	4·6
Foodstuffs		16	15		7·7	6·0
Textiles and leather		5	5		4·4	4·4
Paper and pulp*		3	3		1·3	1·3
Rubber and plastics processing		7	4		11·9	2·1
Other		1	1		0·1	0·1
Building – civil engineering		1	1		0·6	0·6
Global loans		7	—		13·7 (2)	—
Grand Total	159		86	1 086	47·5	100·0

(1) Of which [illegible] industries (marked with an asterisk): 218·7 million u.a.
(2) Difference [illegible] the sum of the 7 global loans granted in 1976 (cf. 7 million u.a.) and the [illegible] allocation [illegible] global loans [illegible]

consolidates its three mandates (see page 1) into two classifications: projects for "regional development" and projects of common interest to several member countries. Some projects cannot be unambiguously classified and are counted in both categories. About 18 percent of all projects undertaken by EIB since it began operations have been so counted. Keeping that in mind, some 76 percent of EIB's 6 billion UA in loans have been justified on the basis of furthering the development of less developed regions. Projects of interest to several countries have been mostly in the fields of energy and transportation. Table 6 shows a more complete breakdown of loans by objective.

Global Loans

The management of EIB recognizes that small enterprises are the dominant type of industrial organization in labor-intensive sectors. These firms seldom have capital needs which match EIB's 1 million UA direct lending minimum. However, they are an important source of employment and, in certain sectors and areas, an efficient form of organization.

In order to meet these firms' needs, EIB lends to intermediate institutions, usually regional development authorities who in turn lend to small firms. The authorities are allocated a given amount and are given a finite period in which to use the funds.

Table 6

FINANCING PROVIDED WITHIN THE COMMUNITY IN 1976 AND FROM 1958 TO 1976

Breakdown by Economic Policy Objective

Objective	1976		1958 to 1976 (*)	
	m.u.a.	%	million u.a.	%
Regional development (1)	**820·0**	**100·0**	**4 558·6**	**100·0**
Belgium	17·9	2·2	75·1	1·6
Denmark	9·1	1·1	35·7	0·8
Germany	9·2	1·1	366·4	8·0
France	60·1	7·4	846·0	18·6
Ireland	57·4	7·0	164·1	3·6
Italy	347·1	42·3	2 200·6	48·3
Luxembourg	—	—	4·0	0·1
Netherlands	30·4	3·7	70·5	1·5
United Kingdom	288·8	35·2	796·2	17·5
Common interest to several Member Countries (2)	**438·6**	**100·0**	**2 470·1**	**100·0**
Energy	376·5	85·9	1 490·3	60·3
Thermal power stations	30·4	6·9	30·4	1·2
Hydroelectric and pumped storage power stations	42·1	9·6	141·4	5·7
Nuclear	111·5	25·4	598·6	24·2
Development of oil and natural gas deposits	60·5	13·8	258·6	10·5
Solid fuel extraction	3·3	0·8	27·9	1·1
Gaslines and oil pipelines	128·9	29·4	153·4	17·6
Transport	16·4	3·7	589·6	23·9
Railways			103·9	4·2
Roads and bridges			423·9	17·2
Shipping	16·4	3·7	40·4	1·6
Airlines			0·5	0·7
Other			4·9	0·2
Telecommunications	—	—	30·5	1·2
Other infrastructure	—	—	16·3	0·7
Protection of the environment	—	—	18·0	0·7
Industrial cooperation	25·9	5·9	213·6	8·7
Research	—	—	2·7	0·1
New technology	19·7	4·5	19·7	0·8
Modernisation and conversion of undertakings (3)	—	—	89·4	3·6
DEDUCT to allow for duplication in the case of financing justified on the basis of both objectives	*– 172·6*		*1025·3*	
Total	**1 086·0**		**6 005·4**	

(1) Article 130 (a) and (b) of the Treaty of Rome.

(2) Article 130 (c) of the Treaty of Rome.

(3) Article 130 (b) of the Treaty of Rome; these projects, classified as [illegible] under the heading 'Sectors of interest', have now been included under 'Common interest to several Member Countries' by way of simplification and in view of the modest amount involved. In the 1976 Annual Report, [illegible] totalled 183·9 million, of which 99·5 million, relating to projects included among [illegible] under 'Common interest to several Member Countries', has now been deducted to avoid duplication: 183·9 – 99·5 = 84·4.

(*) [illegible]

Projects so financed must meet EIB criteria and be located in a specified area, usually one of the less-industrialized regions. If suitable projects cannot be found within the specified time, the loan money is restored to EIB.

In the nine years of this program's operations, 404 million UA have been allocated to various regional authorities, fowhich 262.4 million has actually been disbursed. EIB has withdrawn from participating national and regional financial intermediaries 11 of the 38 global loans it has made in the last eight years. Apparently these institutions were unable to find suitable investments, and EIB was intent on enforcing its lending criteria. The average size of the loan has been 474,000 UA, and most have been concentrated in depressed areas of Italy, France and Germany. Although the global loan program represents a sound concept, allowing small firms access to an expanded capital market, it comprises a very small part of EIB's total lending activity--about six percent in 1976.

The overriding impression left by this review of EIB's operations is that the Bank takes a regional approach to its lending--acknowledging the interaction of public investment and private productivity. It then cooperates with national and regional level public and private financial institutions to provide capital to directly productive enterprises.

This pattern has been particularly evident in EIB's operations in the Mezzogiorno (southern Italy), one of the most depressed regions in Europe. Over the years 1961-1972, the Bank provided 7.5 percent of all investment capital coming into the region, concentrating its investments in roads, telecommunications, energy distribution systems and capital intensive industry. I cooperated with the World Bank and Italian public and private financial institutions in encouraging coordination and planning, providing capital to finance these plans where Italian sources were insufficient.

IV. MANAGEMENT

There are three basic levels of administration at EIB. The Board of Governors is responsible for strategic decisions; ensuring that statutory directives are carried out, designating levels of subscribed capital, authorizing changes in policies conditioned on movements in exchange rates, etc. Each member state appoints one Governor. A majority of the Board, representing at least 40 percent of subscribed capital, is necessary to carry motions.

The Board of Directors is responsible for all lending and borrowing decisions. They are appointed by the Board of Governors and have renewable terms. The number of directors from each

member state is set by statute, and the larger states, France, Germany, the United Kingdom and Italy are most heavily represented.

The Management Council, headed by a President, is responsible for seeing that the professional staff carries out the Director's decisions. The EIB retains agents and industry specialists in all member states to evaluate and monitor loans. Loan agreements are executed under the national laws of the state in which the project is located.

V. ACCOUNTABILITY

There is a minimal formal structure of reporting and sanctions by which the Board of Directors, EIB's operating decision-makers, are held responsible for their work. The Board of Governors, acting on behalf of the executive of their respective states, must approve the Directors' Annual Report. If performance is not satisfactory, Directors may be dismissed. States may further effectively censure Bank decisions by refusing to subscribe more capital. But all these measures would operate only in extreme cases of mismanagement or violation of statutory directives. In the important daily work of lending and borrowing, the Directors seem to have a free hand.

VI. EVALUATION

EIB is an operating arm of the European Commission, the central planning and policy-making body of the European Community. We have seen that EIB's major operations have been concentrated in aiding efforts to develop regions characterized by lack of industrialization (the Italian Mezzogiorno) or inefficient industries declining under the force of increased competition stemming from the lowering of trade barriers (Belgian coal regions).

The European Commission has not yet developed a Community-wide policy for coordinating the planning and finance of economic development in subnational regions. In such efforts, national authorities must take the initiative and be responsible for overseeing or executing the planning, financing and administrating activities involved. Where the financing of costly industrial plant or infrastructure is involved these authorities may not be able to raise sufficient capital in a timely manner. The private or quasi-public financial systems of the several members states are set up primarily to service national needs. As yet there exists no institutional mechanism to coordinate these systems to provide the massive amounts of capital necessary to finance large-scale development projects.

EIB is designed to do just this. With its solid equity backing, it can raise large amounts of capital quickly in the inter-

national bond market on the terms necessary to finance long-lived assets such as capital intensive physical plant and infrastructure. Because EIB borrows and lends in stable currencies, some promoters in countries with weaker currencies have been unwilling to take EIB loans. They would suffer a loss if their national currency, in which they would receive the revenues generated by the asset financed, were devalued in relation to the currency in which they would have to pay off the loan. This risk is offset in many cases by the favorable interest and repayment period terms on which EIB can offer its funds. For example, Italian firms and authorities have been EIB's largest borrowers.

Real economic factors affecting a borrower's potential performance are not susceptible to EIB influence. Long and concerted effort is needed, for instance, to improve infrastructure, labor productivity and the stability of the regional population in the Mezzogiorno before it becomes a suitable location for the capital intensive facilities the EIB prefers to finance.

The Bank appears to take these considerations into account in pursuing its policies. First, it lends to infrastructure projects, where the ability to mobilize large amounts of capital is critical. Second, it will not lend more than 40 percent of the value of an asset. In a fact, its participation has been substantially less in most cases. EIB seeks to provide the incremental

amount of financing needed to implement a project which already enjoys sound national managerial and financial backing. Financial responsibility is thus not transferred from local government and business organizations whose political and economic fortunes are closely tied to the success of the projects. Unfortunately, EIB's performance, in terms of allocating capital to efficient uses, cannot be inferred from its financial success. Most of its loans are secured by guarantees from national governments. The performance of its borrowers is not reported in central documents. Due to the guarantees, poor performance does not show up as a default rate. The pattern of financial responsibility and ultimate accountability therefore corresponds to the European Commission's as yet decentralized regional development policy.

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes: The primary way in which the European Investment Bank is relevant and important to the Alaska Permanent Fund is in the strong regional orientation of the European Investment Bank, where 63 percent of its portfolio has been invested in the development of lesser developed regions of Europe. It is important to note that although the vast percentage of its resources has been employed in regional development, only six percent of those resources have been employed through the "global loan program." The importance of that point to the Alaska Permanent Fund is that the global loan program would be most analogous to a regionalized effort in which the regional projects of the Alaska Permanent Fund were implemented through the regional and local community development corporations. This matter bears further consideration.

It is also worth noting that the European Investment Bank rarely takes more than 40 percent positions in its loans, to ensure that the risk and responsibility are borne by both local financial institutions and the private marketplace. Analogously, in Alaska, this is the intent of the present language of the Alaska Permanent Fund and in the case of regional development suggests the wise course of joint venturing with the

regional corporations and with the private marketplace in all regional loans.

Sources and Uses of Funds: There are three principal matters concerning the European Investment Bank's capitalization which are worth noting for the design of the Alaska Permanent Fund:

First, all of the earnings of the European Investment Bank have been retained for reinvestment in strengthening the capital structure of the European Investment Bank. This is a different use of retained earnings than those of either the Alaska, Inc. proposal or a proposal to use the earnings for General Fund purposes at some future date.

Second, with a strong equity base the European Investment Bank has been very successful in borrowing the substantial amount of its capital needs in European and worldwide private capital markets. This is a very important model for the Alaska Permanent Fund. In designing the Alaska Permanent Fund the $2 to $4 billion of oil revenues should be viewed as a paid-in equity capital base for the Alaska Permanent Fund against which it can then borrow for its lending purposes on world markets.

Third, the European Investment Bank has a nice balance of its sources and uses of funds. The majority

of the European Investment Bank's borrowings in world capital markets are for seven to ten years, to support expansion capital lending running seven to ten years. The longer infrastructure loans of 15 to 20 years are then in turn supported by borrowings in the international capital market of from 15 to 20 years.

Fourth, all of the infrastructure investing is backed by a government guarantee. In my judgment, it would be much more efficient for Alaska to do the majority of its infrastructure financing through the Permanent Fund, but backed by general revenues.

Management and Accountability: The management and accountability issues of the European Investment Bank are less relevant to the Alaska Permanent Fund.

I. PURPOSES

The British Columbia Central Credit Union is a private, federally-chartered financial institution owned by the credit unions of British Columbia. Established in 1944, its major function is that of a reserve bank for British Columbia's 178 credit unions. In 1970, it merged with the B.C. Credit Union League, a promotional and educational institution and has since provided a wide range of financial and administrative services to its members. Credit unions require most of these services in order to compete with other types of financial institutions for the deposits and loan business of British Columbia savers. In general, credit unions are too small to undertake the capital expenditure and staff requirements necessary to provide these customer services efficiently.

Credit Unions in British Columbia - Credit unions are deposit institutions offering a full range of customer services. Their investments tend to be concentrated in home mortgages, consumer credit and property development. They are distinguished from banks in that they are cooperatively owned by their depositors, each of whom is entitled to one vote in electing the board of directors and who may participate in membership-management meetings.

All members are required to have a "common bond," a legally construed economic association. These bonds may be of three types: community (those who live or work in a given political jurisdiction serviced by the credit union), associational (e.g., ethnic or church groups) or occupational. About one half of the credit unions in B.C. have community common bonds.

In 1975, there were 178 credit unions with 261 branch offices in B.C. These serviced some 600,000 members, about 23% of the population and composed some 23% of all deposit institution offices in the province. About one half of these offices are located in the greater Vancouver area.

The industry has grown remarkably and become more concentrated in recent years. Since 1971, membership has been growing at a compound annual rate of 11%, assets at 35%. In 1971, there were 217 credit unions holding slightly less than $500 million in assets. In 1975, the 178 credit unions held over $1.5 billion in assets, with half of these held by the 15 larger units. (The remaining units are extremely small, median asset size being less than $70 million.) Credit union assets account for 10% of those held by all financial institutions in the province (20% if corporate business is excluded). Individual units are usually located within communities serviced by commercial banks and are in competition with them for deposits.

Distribution of assets - There has been a sharp rise in the demand for housing in B.C. due to the migration of large numbers of young families. Consequently, the credit unions' assets have become concentrated in home mortgages. In 1971, they composed 62% of the $400 million in loans outstanding. In 1975, they composed 76% of the $1,280 million in loans outstanding. Other credit union assets include municipal, provincial and federal government securities and consumer loans.

Liabilities - The main source of funds to credit unions is the deposits of members. Credit unions offer term and demand accounts as well as retirement and home owner savings plans. The latter two types of deposits have grown at a remarkable compound annual rate of over 100% in the past four years. Of the $1,409 million on deposit in 1975, 36% were in demand and 64% were in term accounts.

Liquidity - Credit unions are required by law to maintain liquidity reserves with a bank, a central credit union or in qualifying federal government securities equal to 10% of deposits shares and borrowings. Virtually all British Columbian credit unions maintain their reserves and surplus in B.C. Central. In recent years, aggregate Loan/Deposit rations for the industry have exceeded 90%. The credit unions as a whole, then, have

demanded funds from other sectors of the capital market. This borrowing and the cash management involved have been handled by B.C. Central. B.C. Central's functions within the credit union system and its mediating role between the system and the outside capital market is the subject of the following sections.

B.C. Central Operations

Financial - B.C. Central's main financial function is to provide individual credit unions with funds sufficient to meet local loan demand when local deposits prove inadequate. These funds are provided in the following forms:

- non-restricted reserve credit lines equal to 10% of the credit union shares and deposits for use only in meeting any net reduction in shares and deposits due to increased loan demand;
- restricted and non-restricted credit lines to credit unions equal to four to six times a credit union's monthly cash flow for operational purposes. Approved lines of credit under these first two provisions equaled $262 million in 1975;
- term loans to credit unions to finance office buildings and credit union mortgage loans;

- emergency loans through the Canada Deposit Insurance Corporation.

Actual borrowings by credit unions from B.C. Central have grown rapidly in recent years from $26.1 million in 1971 to $91.8 million in 1975, reaching a high of $108 million in the tight money market of 1974. Credit union credit line and loan requirements are worked out annually in consultation with B.C. Central's financial staff on the basis of financial statements, loan records and cash flow projections.

Credit union deposits are not covered by the Canadian Deposit Insurance Corporation. Insurance of deposits is handled by another central institution, the Credit Union Share and Deposit Guarantee Fund. The Fund is administered by a five member Board of Directors, three of whom serve on the B.C. Central Board. The Fund, which stood at $13 million in 1975, is capitalized by annual assessment of member credit unions. The Board of the Fund may intercede directly in the operations of individual credit unions experiencing financial difficulties and may grant financial assistance where deemed necessary.

B.C. Central provides other important financial services to its members. These include centralized check clearing, bad debt collection, investment management for retirement and home ownership saving plans and secondary marketing of credit union

mortgages. The last service is another form of increasing member liquidity.

Non-financial services - B.C. Central's most important non-financial service is the provision of on-line teller terminal data processing to handle deposit and loan transactions in local offices. In 1975, this system covered one-half of all credit union offices. The savings in time and cost effected by this system increase credit union ability to compete with other deposit institutions. Other nonfinancial services provided for the most part on a fee basis are economic forecasting, personnel recruitment, printing and supply purchase, collection assistance, data processing and systems development, market research, facilities design and planning, education, advertising and public relations, legal counsel, housing development and travel services. B.C. Central also provides financial services to British Columbia's 108 cooperatives.

II. SOURCES OF FUNDS/CAPITALIZATION

Equity - B.C. Central's major source of equity is the sale of shares to member credit unions. In 1975, members held 6.26 million shares with a par value of $31.3 million, all of which was paid in to B.C. Central. B.C. Central is required by law to maintain a 10/1 debt/equity ratio. Their debt consists

of deposits and borrowings; equity of membership shares, retained earnings and provisions for dividends. Despite rapid recent growth of deposits in the credit union system and consequently in B.C. Central's deposits, its debt/equity ratio was a fairly conservative 5.7 in 1975.

Deposits - B.C. Central's deposits are comprised of the liquidity reserves and surplus funds of its members. As credit union deposits have grown, so has B.C. Central's; from $49.7 million in 1971 to $195.8 million in 1975. These developments are illustrated in Table I. B.C. Central also receives one-half the total in the Credit Union Share and Guarantee fund as deposits. In 1975, this amounted to $6.2 million. Central pays interest on all deposits, which composes its largest capital expense. See Table 3.

Borrowings - Because credit unions' lending activity has outstripped their deposit base in recent years, they have been demanders of funds from sources outside their system. These demands are mediated by B.C. Central. To finance loans to credit unions, B.C. Central borrows from Canadian, US and foreign banks and has established non-restrictable credit lines with three of the largest Canadian commercial banks. Borrowings vary greatly from year to year depending on the level of deposits

FIGURE I

Credit Union Financial System in British Columbia

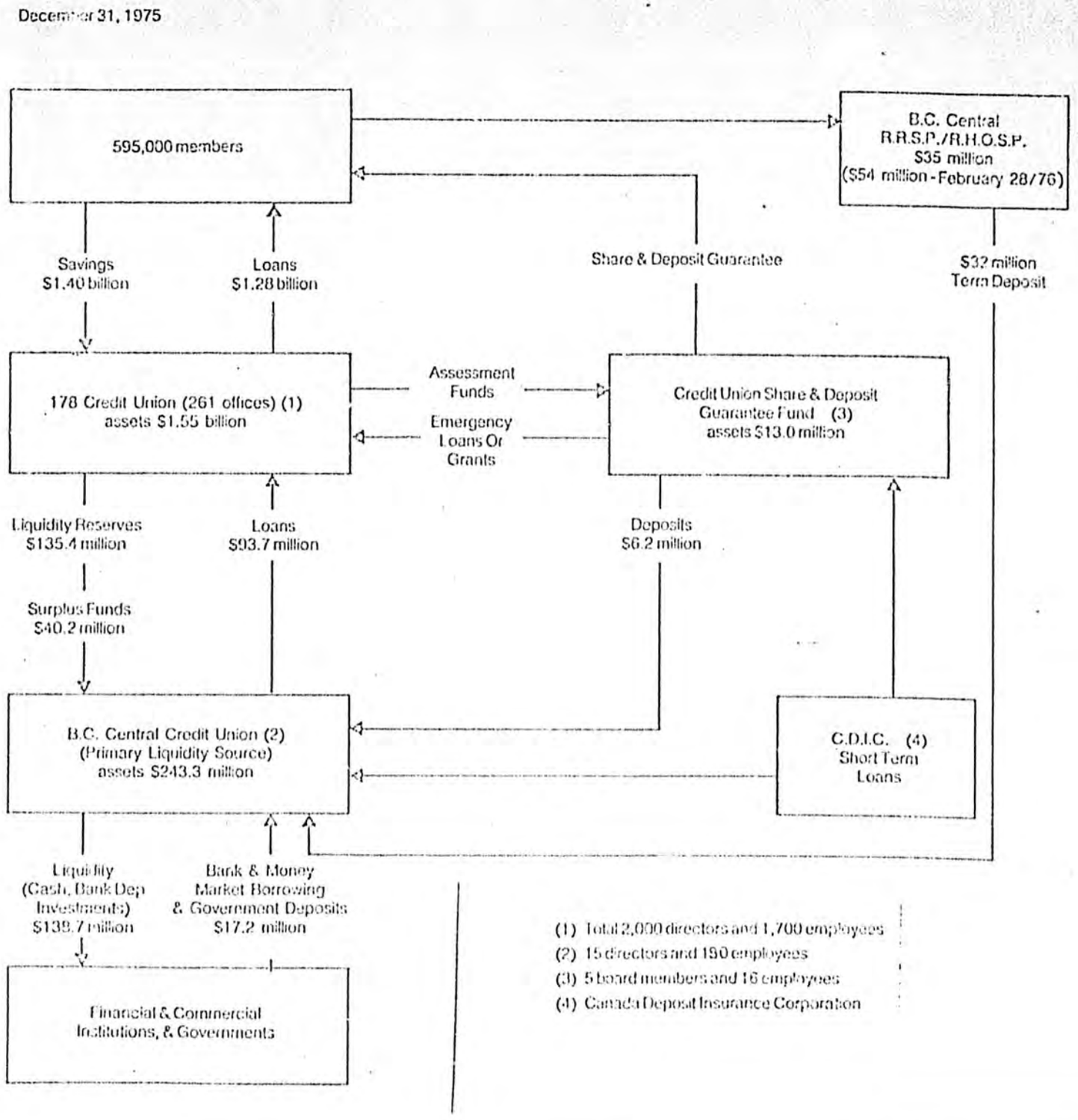


TABLE I

Summary Statistics for B.C. Central Since 1971

(000's except where indicated)

	1975	1974	1973	1972	1971
ASSETS					
Liquid Assets	$127,885	$ 61,824	$ 64,408	$ 50,541	$35,626
Loans to members	91,823	108,973	56,705	45,371	26,177
Total assets	243,290	193,225	141,721	109,027	67,807
LIABILITIES					
Notes payable	4,500	12,490	13,150	23,519	5,643
Members' Deposits	195,817	145,048	101,685	66,389	49,679
Members' Shares	31,300	24,815	18,317	12,746	9,153
INCOME AND EXPENDITURES					
Income	27,175	19,938	12,768	7,296	4,916
Expenses (financial)	18,941	13,906	8,032	3,962	2,706
Net Income	2,299	1,621	1,103	1,343	1,008
Dividends per share	35¢	35¢	35¢	30¢	30¢
Percent Growth in Assets	25.9%	36.3%	30.0%	60.8%	29.7%

and loan demand at the local level. See Table I, "Notes Payable," for the level of debt outstanding in recent years.

Income - B.C. Central derives between 80 and 85% of its income from interest payments on loans and returns on investments in securities. The split between loan interest and investment income varies from year to year, depending on loan demand from members. Other sources of income are service charges, fees for services to members and membership dues. Gross income has grown from $4.9 million in 1971 to $27.2 million in 1975.

III. USES OF FUNDS/INVESTMENTS

Reserve Requirements - B.C. Central is required to maintain liquidity reserves in cash or short term assets equal to 20% of its deposits and commercial paper liabilities. In 1975, it held $48.3 million in such assets; 23.5% of its deposits and market liabilities. See Table II.

Loans and Investments - B.C. Central's longer term uses of funds are concentrated in loans to members and investments in securities. The flow of loans to members varies from year to year, depending on demand. Interest rates are adjusted to B.C. Central's borrowing terms, and a spread of 1/2% is permitted by law.

B.C. Central invests primarily in high yield, short term notes of Canadian corporations. Other securities held include Canadian Governments, Canadian corporate bonds, bonds of co-operatives and shares in other credit unions and cooperatives.

Operating Expenses - All expenses involved in providing B.C. Central's many services--salaries, materials and rents--are paid out of B.C. Central's operating income. After-tax earnings, having subtracted financial and administrative expenses, came to $2.29 million in 1975. Of this, $1.87 million was distributed as dividends to members. (The current dividend on membership shares is 7%.) Retained earnings at the end of 1975 totaled slightly over $3 million. See Table III for a complete breakdown of income and expenses. See Figure I for a schematic representation of the relationships described above.

IV. MANAGEMENT

The strategic management policies of B.C. Central are set by a 14-member Board of Directors elected by the member credit unions. Day-to-day management of the institution is handled by a managerial staff of 80 (total staff - 180) in three divisions: Adminstration and Finance, Services and Development.

Each division is headed by a manager and is further subdivided along functional lines.

V. ACCOUNTABILITY

B.C. Central is a privately owned institution and is subject to no special forms of government oversight or control. Its operations are inspected annually by the federal Superintendent of Insurance office. On the provincial level, Central's operations are monitored by the Department of Consumer Affairs to ensure that consumer and mortgage credit practices accord with department guidelines and provincial usury laws.

VI. EVALUATION

B.C. Central has performed its function of helping a system of small depository units operate effectively and grow in highly competitive and quickly changing local markets. The most remarkable feature of B.C. Central is that it invests primarily within the system from which it draws its funds. Of its $173 million in loans and investments outstanding in 1975, 50% were directly in cooperatives and credit unions. Another 36% were held in very short term corporate notes for cash management purposes and could presumably be converted to cash should there be a sudden increase in membership loan demands. Thus,

virtually all credit union deposits remain within the system.

B.C. Central's importance as a promotional institution should also be noted. Competition for deposits demands timely and cost-efficient customer service as well as professional promotional activity and well-trained personnel. These are functions which all but the largest credit unions could not afford to undertake on their own.

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes: B.C. Central, as noted in the July 11, 1977 report, is the best model of a cooperatively owned state central bank capable of providing deposit and lending services to those rural areas too small for full commercial banking services. It has the twin advantages of insuring local, cooperative ownerships sensitive to local needs on the one hand. On the other hand, it provides aggressive centralized capital and management services to ensure that each village receives the most sophisiticated economic development assistance possible.

It is also important to note that British Columbia's economy, geography and demography is not unlike Alaska's.

Sources of Funds: B.C. Central's equity comes from the local member cooperative banks or credit unions. It is owned

and governed by local users. As noted in the July 11, 1977 report, the Permanent Fund could initially capitalize the state central bank, and then arrange to transfer ownership to the local cooperative banks. This could be along lines used to devolve ownership of the Farm Credit System from the Federal Government to local users. For a description of that procedure, see II.

Regionalization Models and Options in this Report

B.C. Central's debt is raised in international capital markets, based on its strong equity base and sound management. The Alaska Permanent Fund and its affiliated Alaska State Central Bank could do the same.

Uses of Funds: B.C. Central is a model of a strong central organization capable of raising international capital to support effective local economic development under effective local control.

Management: B.C. Central is governed by its local user institutions and attracts extremely able and aggressive central management.

Accountability: B.C. Central is fully accountable to its local member cooperative banks. The Alaska Permanent Fund could ensure that it is equally accountable to public purposes.

TABLE II

Consolidated Balance Sheet
1975

ASSETS	
Cash and Demand Deposits	$35,296,728
Short Term Deposits, due 1976-1979 (callable notice 1 - 15 days)	13,000,000
Investments	81,680,246
Loans	91,823,385
Mortgages Receivable	15,165,509
Accounts Receivable and Accrued Interest	4,099,861
Land, Buildings and Equipment	2,224,522
	$243,290,251
LIABILITIES	
Notes Payable and Deposit Balances	$200,317,269
Accounts Payable, Accruals, and Outstanding Acceptances	6,495,372
Deferred Income Taxes	215,400
Provision for Dividends	1,875,595
Retained Earnings	3,086,610
Members' Shares	31,300,005
	$243,290,251

TABLE III

Income and Expense Statement - 1975

INCOME	
Loan interest	$ 7,745,411
Investment income	15,096,769
Service charges and sundry	1,340,040
Fees for services to members	2,643,521
Members dues	349,007
	27,174,748
DIRECT EXPENSES	
Interest on deposits	14,393,292
Interest on borrowings	4,123,399
Service charges and sundry	423,963
	18,940,654
INCOME LESS DIRECT EXPENSES	8,234,094
ADMINISTRATIVE AND GENERAL EXPENSES	5,803,650
EARNINGS BEFORE TAXES	2,430,444
Income taxes - deferred	131,609
NET EARNINGS FOR THE YEAR	2,298,835
Retained earnings - beginning of year	2,659,631
	4,958,466
Dividends	1,871,856
RETAINED EARNINGS - END OF YEAR	$ 3,086,610

I. PURPOSES

The Deutsche Genossenschaftsbank (German Cooperative's Bank or DG Bank) is the central reserve bank of the vast West German cooperative system. Founded as the Deutsche Genossenschaftskasse, a cooperatively-owned financial institution, shortly after World War II, it was reorganized as a corporation and renamed the Deutsche Genossenschaftsbank in 1972.

DG Bank is the apex institution of a three-tiered system which holds 13% of all deposits in German financial institutions. The base of the system is composed of some 6,400 small banks and building societies which service the members of agricultural, industrial and trade cooperatives, as well as unaffiliated depositors. Ten regional cooperative banks provide liquidity management, auditing, check clearing and investment services to the base. DG Bank provides similar services to the regional banks. This system and DG Bank's place in it are described below.

Cooperatives in Germany

Structure of the Movement - After World War II, the German cooperative movement was organized into four sectors, each with its own credit system and network of regional and national unions.

The four sectors are agriculture, industry, consumers coops and non-profit housing finance societies.

By far the largest of these sectors is agriculture. In 1971, more than 1.8 million farmers were members of one or more of the 12,590 local societies. 1,650 marketing and supply cooperatives, 4,300 trade cooperatives and 12 centralized cooperatives with 1,500 branches or depots were engaged in the buying and selling of goods and achieved a total turnover of $6.4 billion.* In addition, there were in 1971, 4,780 specialized cooperatives with 29 affiliated regional federations. The agricultural credit coops take deposits from and finance the fixed and working capital requirements of their members.

The industrial and trade cooperatives perform similar functions, and are active primarily as central material purchasers for their members. They were serviced by 624 coop banks in 1971.

Consumer and non-profit housing coops (central purchasing agents for the residential construction industry) comprise a relatively small part of the system.

The breakdown of local financial institutions servicing these sectors in 1971 was as follows:

*All monetary figures in the text are given in dollars, converted from DM at the exchange rate prevailing at the time the figure was reported. This is done for ease of comprehension. Figures in Tables I and II are presented in DM, where a sense of proportion is more important than absolute totals.

Agriculture	5,680
Industry	668
Housing and Consumer	45
Total	6,393

The system also includes 10 mortgage banks unaffiliated with cooperative societies.

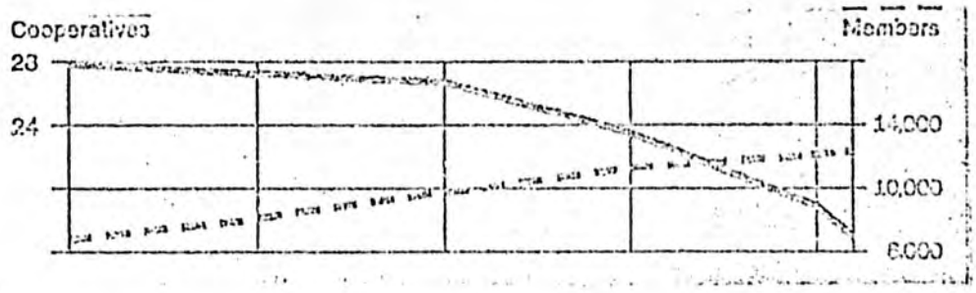
Recent trends in total units and membership are illustrated in Figure I. Overall, the graphs show increasing membership and concentration, especially in the two most important sectors, agriculture and credit. Concentration has mostly been achieved through the merger of two units.

Despite these mergers at the local level, the cooperative system maintains the most extensive branching system of any sector of the German financial market, and its units are incredibly small. In 1971, there were 18,665 coop bank branches, compared to 14,506 for savings and 5,428 for commercial banks. In terms of aggregate balance sheet totals, the cooperatives are behind both the other sectors. The average balance sheet total for the banks serving industrial coops was $23.3 million; for those servicing agricultural customers, only $3.7 million.

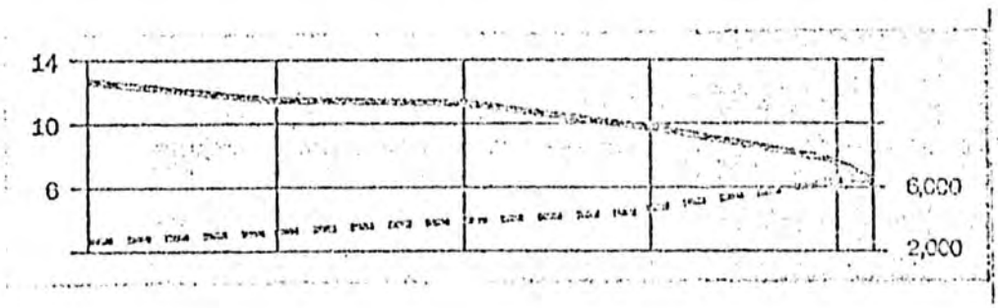
These changes at the primary level have affected the structure and operations of the regional cooperative banks. Each merger of two local units tends to reduce deposits with the regional banks, because the compensatory movements of

FIGURE I

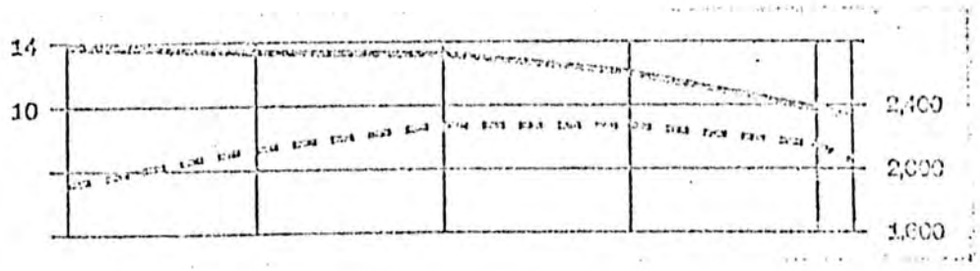
Cooperatives and Their Membership in the Federal Republic of Germany



Primary Cooperatives - Total



Cooperative Banks

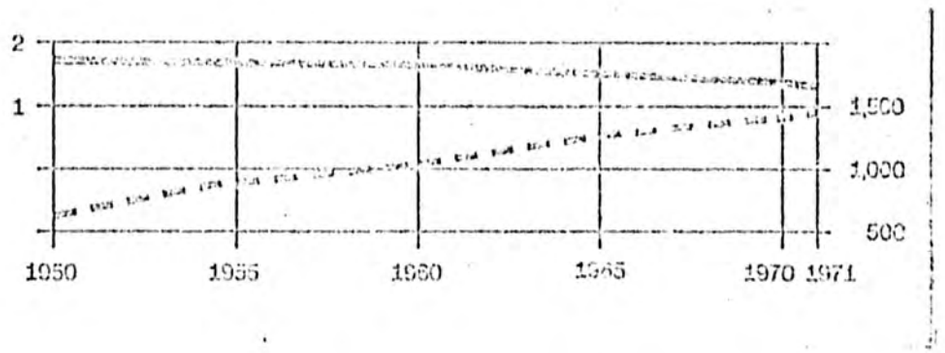


Trade and Service Cooperatives

FIGURE I (continued)



Consumer Cooperatives

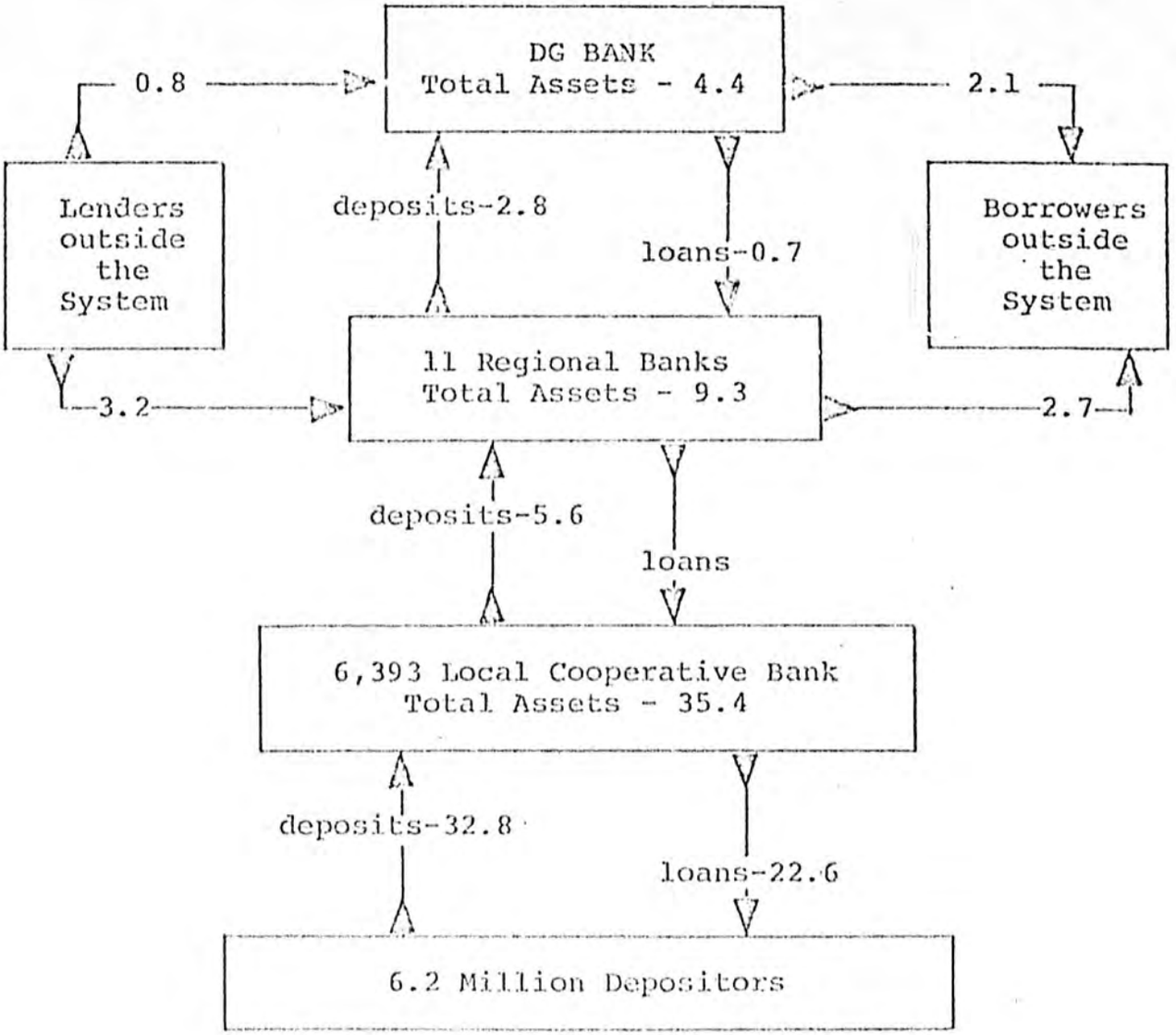


Cooperative Building Societies

FIGURE II

The German Cooperative Financial System (1971)

Figures in billions of dollars (US) at the then-prevailing exchange rate



liquid funds increasingly take place within the new unit, instead of passing through the central institution. The percentage of customers' deposits held by the local cooperative banks at their affiliated regional bank has therefore been declining. Also, larger local cooperative banks usually make heavier demands on their regional banks, on which they depend for long-term funds to finance expansion in the volume of lending.

This situation has led to the need for larger units at the regional level, capable of maintaining larger balances of loanable funds and providing services such as check clearing where economies of scale can be realized. Since 1968, the parallel regional systems of the various primary cooperative sectors have been in the process of consolidation, and the number of regional cooperative banks has fallen from 18 to 10. Of these, seven have reorganized as corporations able to sell shares to the general public. These regional banks, in turn, rely on DG Bank for depository, liquidity management and other essential services. The financial interrelationships of this system, from local depositors to DG Bank are shown schematically in Figure II.

Sources of Funds - The source of funds to the local system is the deposits of members. The local coops offer a full range of deposit accounts and instruments: checking and savings

accounts, negotiable and non-negotiable savings certificates. These last instruments are issued for terms of 7 years and their proceeds are earmarked for term lending to medium-sized firms.

Uses of Funds - Besides consumer, home mortgage and business loans to members, coop banks undertake a number of lending and investment activities. These include construction financing, term loans to other credit cooperatives and industrial customers and leasing.

DG Bank Operations - DG Bank provides financial and non-financial services to the regionals in order to help them facilitate these local activities. Such tasks performed jointly by DG Bank and the regionals include check clearing, centralized electronic transaction procession, property broking, secondary mortgage marketing, advertising, personnal training, and the placement of reserve and surplus funds in investments outside the cooperative system. This last function is reserved primarily to DG Bank. They underwrite and market domestic and foreign corporate equities and securities of various governments and public authorities.

II. SOURCES OF FUNDS/CAPITALIZATION

Equity - DG Bank is capitalized by the purchase of shares. Of the $134.5 million in paid-in equity in 1975, some 75% was

held by the regional banks. The rest was held by corporate and institutional investors outside the cooperative system. The current dividend on shares is 8%.

Deposits - DG Bank's main source of deposits is the regional banks' reserve and surplus. Of the $7.92 billion on deposit in 1975, $5.36 billion was attributable to the regionals. Other banks and corporations provided the balance of the deposits. DG Bank pays interest on these deposits at prevailing rates, and these interest payments compose their largest financial expense. The volume of deposits in the entire system has risen rapidly in recent years.

Borrowings - When necessary to increase its base of loanable funds, DG Bank will raise money on the European bond market through issue of its own bonds. In 1975, it had $832 million outstanding--down from recent years due to the simultaneous increase of deposits and decrease of loan demand within the coop system.

Income - Net interest payments on loans compose by far the largest portion of DG Bank's income, some 86% of the $606.5 million in 1975 gross earnings. Other sources of income include that from investments and securities, commissions and fees and miscellaneous sources amounting to $11.8 million.

III. USES OF FUNDS/INVESTMENTS

Because loan demand in the sectors from which the cooperative system draws its deposits--agriculture, small business and middle-income individuals--has fallen in recent years, DG Bank has had to find uses for its investible funds outside the cooperative system. Some 57% of its $7.5 billion in loans outstanding in 1975 were to banks outside the cooperative system. Another 26% were to non-bank, corporate customers, leaving 17% to be channeled back to the regional banks. Over 70% of these loans were for terms of less than four years.

Unlike American banks, German banks are not restricted from engaging in equity and underwriting transactions involving corporate securities, and they may own subsidiaries directly instead of through a holding company. All these activities figure prominently on DG Bank's balance sheet. Of the $1.24 billion in investments held by the bank, 46% are in corporate bonds, many of which DG Bank underwrote. Three percent was held in other securities, mostly corporate equities, 12% in shares of subsidiaries and 39% in Treasury notes.

DG Bank's underwriting business is substantial. In 1975, it underwrote 17 large issues, mostly for German public authorities and political units. The Bank also participated

in 47 other issues as guarantors for various private and public entities.

DG Bank held equity interest in over 50 other financial institutions, including the seven regional banks reorganized as corporations. Among the Bank's wholly-owned subsidiaries is the Deutsche Genossenschafts-Hypothekenbank, one of Germany's largest mortgage banks, several closed-ended mutual funds and several foreign subsidiaries engaged in placing DG funds in investments abroad. DG Bank also owns 19 and 50%, respectively, of the shares of the two leasing firms whose services they broker to the regional banks.

Thus, using the very sparse information provided in DG Bank's annual reports and including accounts which may register holdings outside as well as within the cooperative system, it appears that only 18.6% of DG Bank's investments are in the cooperative system.

IV. MANAGEMENT

The top level of management is the Managing Board, composed of five members elected by representatives of the regional banks and cooperative unions. DG Bank does not report the breakdown of managerial responsibility between its various divisions. Nor do they present any overriding management policies besides

a commitment to helping local credit cooperatives achieve a greater market share.

V. ACCOUNTABILITY

DG Bank is a privately-owned corporation and thus enjoys almost total freedom in its investment and liability-generating policies. It is restricted only insofar as it must obey laws designed to protect depositors.

VI. EVALUATION

DG Bank's major purpose is to help the thousands of tiny financial units which compose the cooperative credit system remain competitive with other sectors of the German financial system characterized by larger units. Banks in these other sectors tend to deal in larger blocks of money and thus have lower unit transactions costs. DG Bank and its regional affiliates seem to do this job well. From 1973 to 1975, the share of deposits in all German banks held by cooperatives increased from 11 to slightly more than 13%.

Perhaps the most striking aspect of DG Bank's operations is the extent to which it invests outside the cooperative system, especially when compared to the British Columbia Central Credit Union. Such a comparison is misleading, however, in that the

real economic conditions in the two institutions' deposit markets may be entirely different. Young families are heavily represented among the British Columbian cooperatives' members. Their demand for large mortgage loans is high, and they tend to keep little in savings. Thus, their central bank must channel funds from outside the system to its member units if they are to continue to compete for loan business.

DG Bank is the lead institution of a complex system financing many types of economic activity. Its managers claim and behave as if loan demand is declining in these sectors. An analysis of these sectors and a critique of DG Bank's lending policy is impossible given the paucity of information on these activities available in secondary sources and the Bank's own tight-lipped reporting policies. Management may be doing its members a service by investing outside the system if that is where their funds can earn the greatest return.

However, one of the Bank's financial policies does seem to be a disservice to the member cooperatives. This is the selling of shares by both the regional banks and DG Bank to investors outside the cooperative system when liquidity appears to exist among the individual cooperatives to buy these shares. Thus, earnings on the deposits contributed by the units at the base of the system (and ultimately their members) are siphoned off

to outside investors through the payment of dividends. According to our own calculations based on information given in DG Bank's annual reports, these payments outside the system amounted to 18.9% of the Bank's net earnings in 1975.

VII. RELEVANCE TO THE ALASKA PERMANENT FUND

Purposes: DG Bank provides an important counterpoint to BC Central. It shows what happens to a similarly constituted cooperative development bank when it matures in a mature industrial economy.

Sources and Uses of Funds: DG Bank is no longer wholly owned by its users. It now is a net exporter of funds---not only out of local cooperatives, but out of Germany.

Management and Accountability: DG Bank is increasingly less accountable to its local cooperatives. It manages its funds similar to a large multi-national bank.

TABLE I

Balance Sheet - 1975

	DM Million
ASSETS	
Cash and Bills Receivable	627.4
Due from Regional Cooperative Banks	3,198.3
Due from Other Banks	
Less Than Four Banks	9,852.9
Four Years and Over	909.5
Treasury Bonds	1,313.1
Bonds and Notes	1,625.5
Other Securities	117.8
Loans and Advances to Non-Bank Customers	
Less Than Four Years	3,324.9
Four Years and Over	1,459.6
Due from Public Authorities - Equalization Claims	86.9
Own Bonds Held for Trading Account	38.0
Fiduciary Transactions	165.2
Investments in Subsidiaries and Affiliates	413.0
Premises and Equipment	45.1
Other Assets	107.6
Total Assets	23,284.8
LIABILITIES	
Deposits of Regional Cooperative Banks	13,381.9
Deposits of Other Banks	
Less Than Four Years	3,528.4
Four Years and Over	1,683.9
Deposits of Non-Bank Customers	1,192.5
Bonds and Notes Issued	2,302.1
Fiduciary Transactions	165.2
Other Liabilities	283.5
Capital Stock	366.6
Reserves	355.0
Profit After Transfer to Reserves	25.7
Total Liabilities	23,284.8
Endorsement Liabilities	417.8
Guarantees	1,694.7

TABLE II

Income and Expenses - 1975

	DM '000
INCOME	
Interest Earned	1,305,936.6
Income from Securities and Investments	159,911.1
Commissions and Fees	18,741.5
Other Income Including Adjustment of Special Reserves	29,471.3
Total Income	1,514,060.5
EXPENSES	
Interest Expense	1,272,019.7
Commissions	1,813.7
Depreciation, Provisions, Transfer to Special Reserves	32,048.8
Staff Expenses	34,542.4
Other Operating Expenses	23,918.2
Taxes	19,192.4
Other Expenses	4,852.5
Total Expenses	1,388,387.7
NET INCOME	125,672.8
Transfer to Reserves	100,000.0
PROFIT AFTER TRANSFER TO RESERVES	25,672.8

International and Domestic Patterns

International development banking provides a pattern for regionalizing the Alaska Permanent Fund which is strikingly paralleled in a number of publicly-sponsored American development finance systems. In each instance a three-tiered arrangement has evolved with these common elements:

First, a government-sponsored development bank or fund which oversees the whole system.

In the middle, regional development banks or corporations which are more sensitive to local differences and act as a bridge between local needs and national or state resources.

At the bottom, local development corporations or banks with a great deal of autonomy and flexibility to respond to local needs and differences.

This essential three-tiered pattern is found in the international development banking system headed by the World Bank, in sophisticated national development banking systems in Third World countries such as those of Brazil, Mexico and India, and in regional development banking systems of developed countries of Europe such as France or Italy. The same pattern is followed in publicly-sponsored American credit systems such as the Farm Credit system and the Federal Home Loan bank system.

It is no coincidence that this pattern repeats itself in such a range of settings. The advantages of this pattern are elementary, sensible, and obvious.

In each instance, the system is publicly-sponsored and accountable but independently operated by an experienced, career-minded professional staff. Both capital and management are organized on a long-term basis and initial public investment is used to generate larger amounts of private capital from the private capital market.

Just as international and domestic experience provides us with important parallels, each gives us a better understanding of different aspects of the overall structure and organization which could help define the Alaska Permanent Fund as a development bank capable of supporting the quite different regional economic needs of different areas of Alaska.

For instance, international development banking systems are superior to American development finance systems in the provision of infrastructure financing and venture capital. By definition two major American credit systems, the Farm Credit system and the Federal Home Loan bank system, do not provide either long-term infrastructure finance or essential venture capital to new enterprise. Venture capital is essential to the development of rural regions of Alaska and lower-income

communities in those regions, as it is in Africa, Asia or Latin America.

Just as the international development banking systems help us understand the basic capital formation instruments for development banking systems, particular American experience in structuring financial institutions gives us a set of basic guidelines for constructing the regional units of the Alaska Permanent Fund. After looking at the evolution of international experience, it is worth taking a close look at the specific legal, financial and organizational mechanisms used by successful American development finance systems.

International Models

One of the most appropriate transferable lessons from international development banking experience is that a network is necessary in order to support regional economic development--not a single, monolithic institution. This is especially true where regional and ethnic distances are great, where infrastructure is inadequate, and where sensitivity to local needs must be particularly acute.

The evolution of the international development banking system into a geographically decentralized and functionally differentiated worldwide system was neither wholly planned nor

conscious. It simply evolved to fit the rising needs of various developing countries and regions of the globe.

For instance, early on, the World Bank began to recognize the value of working through local intermediary development banks, since they were much more sensitive to local practices and, in many cases, more likely to make sound financial judgments about loans and investments. The World Bank group began to work with existing national development banks and to sponsor the creation of a worldwide network of national private development finance corporations in a host of Third World countries.

Second, in large and complex countries with large geographic areas and significant regional differences, we can observe a tendency to complement this international decentralization with an intranational regional decentralization to subnational institutions. In one study of 209 development banks, nearly 40 percent were located in 10 countries--Argentina, Brazil, Colombia, India, Malaysia, Nigeria, Pakistan, the Philippines, Spain, and Venezuela--each of which has developed extensive, decentralized and regionalized development banking systems.

Third, this pattern repeats itself once again in the sophisticated and elaborate regional development banking systems which have been organized in France, Italy, and the United Kingdom.

At the base of each system is the fundamental unit--the local development bank or corporation which serves to broker the risk between the local entrepreneur and the outside sources of capital. Between the local development corporation and the apex of the system there is often a regional development bank or corporation which mobilizes its own capital for local use and may be required to broker-finance between the local and the top institutions. At the higher levels in any event there is also a careful elaboration of different infrastructure and equity "windows" to provide more discrete forms of capital for specialized purposes. Figure 1 provides a highly abstract and stylized version of the institutional relationships among the World Bank, multinational regional development banks, and local national institutions on the one hand, and national development banking institutions, regional and local development corporations on the other hand.

An American Parallel: The Farm Credit System

The Farm Credit system has evolved as a highly sophisticated, publicly-sponsored but user-owned development finance system like the international development banking network. It has unfolded gradually since its establishment in 1916, assuming new functions and becoming more decentralized in response to

the credit needs of farmers. Today the federal Farm Credit Board and the Farm Credit administration operate at the financial level, while twelve district Farm Credit Boards at the regional level serve hundreds of constituent associations and cooperatives at the local level. The functional diversity of this system is reflected in twelve federal Land Banks serving 594 constituent Federal Land Bank Associations, twelve Federal Intermediate Credit Banks working with 442 local production credit associations, and twelve banks for cooperatives serving constituent farmers in cooperatives. This arrangement provides three different functional "windows" of credit to member farmers and ranchers in each of the twelve regional Farm Credit Boards.

The Farm Credit grid system, then, parallels the international development banking patterns both in its geographic decentralization of decision making and its separation of different functions. The pattern of geographic decentralization is repeated again in other American financial networks such as the Federal Home Loan bank system and, of course, the Federal Reserve system. These important domestic parallels not only confirm international experience; they also provide us with proven, workable, legal, financial and organizational precedents for a regionalized Alaska Permanent Fund.

The Farm Credit system has, for example, developed two structural attributes worth noting and using in constructing a regionalized Alaska Permanent Fund. In a characteristically American fashion, on December 31, 1968, the Farm Credit system became 100 percent user-owned with retirement of the original federal government capital investment in the system. Part of each farmer's loan purchases stock ownership in the capital structure of the banks and associations. Member farmers elect the Board of Directors of the Federal Land Bank Association, production credit associations, and cooperatives; the Boards of the associations and cooperatives in turn elect the District Farm Credit Board and make nominations to the President for the federal Farm Credit Board (see attached Figure 2).

The local users govern the system by electing or nominating each governing board in the system. The local users eventually repurchase the ownership of the system from the federal government with a small percentage of the proceeds received from the system. This user governance and eventual user ownership is a critical precedent for establishing local cooperative banking institutions in communities in the state too small to properly support a full-service bank.

Second, the private capital market finances the $8 billion debt of the Farm Credit system through the sale in the bond

market of consolidated federal Farm Loan bonds. "Consolidated" is primarily what they are: thousands of individual farm mortgages, crop loans and farm equipment loans which have been put together by the Farm Credit system for resale in the private capital market. The private capital market supplies the bulk of the funds used, not the Treasury. On the other hand, the Treasury's standby credit is assurance to the market that the government stands behind the obligation, even though there is no direct government guarantee. I similarly feel that with the huge paid-in capital base of the Alaska Permanent Fund it will similarly be possible to sell many such packaged private obligations in consolidated bonds in the marketplace with the standby backing of the Alaska Permanent Fund itself.

Unlike virtually all international development banking systems, the Farm Credit system has not developed an affiliated venture capital corporation. As a result, the Farm Credit system is precisely that--a 100 percent debt financing system which is no longer able to respond adequately to the needs of those low-income farmers and lesser-developed regions of the country which it was originally set up in the 1920's to serve. Nor has it been able to be effective in its original purpose of seeking to end farm tenancy by making landowners out of sharecroppers. Credit does not make owners, only debtors. The

banks for cooperatives, for example, usually limit facility laons to not more than 60 to 40 percent of the value of the security offered by the cooperative, and expect the balance to be financed by the association's permanent or long-term capital. This is fine for a wealthy cooperative that has built up sizable membership equity, but it is not very helpful to low-income cooperatives whose members by definition have no equity and, therefore, whose cooperative is ineligible for a loan from the bank for cooperatives.

It is for this reason that I have argued strongly in my memorandum to the committee of July 11, 1977 that the community development provisions of the Alaska Permanent Fund legislation should provide for equity investment as well as debt and guarantees, just as with productive private enterprise.

Other Domestic Models

The pattern for establishing and operating the Farm Credit system is parallelled in other major American financing systems such as the Federal Home Loan bank system. In each instance there is one initial large public capital stock purchase by the Treasury, which starts the system. After that the system pays its own way except for relatively small periodic appropriations to cover non-recoverable infrastructure and social overhead

capital costs. Eventually the Treasury stock is repaid and completely replaced by user-owned stock. For example, the initial $75 million of Treasury stock that started the Federal Home Loan bank system in 1933 was fully retired by 1950, just as was the Farm Credit system.

With strong debt to equity ratios most of these same systems have been able to raise the substantial body of their capital on the private market through secondary marketing operations with strong paid-in equity capital backup.

FIGURE 1.

The International Development Banking System

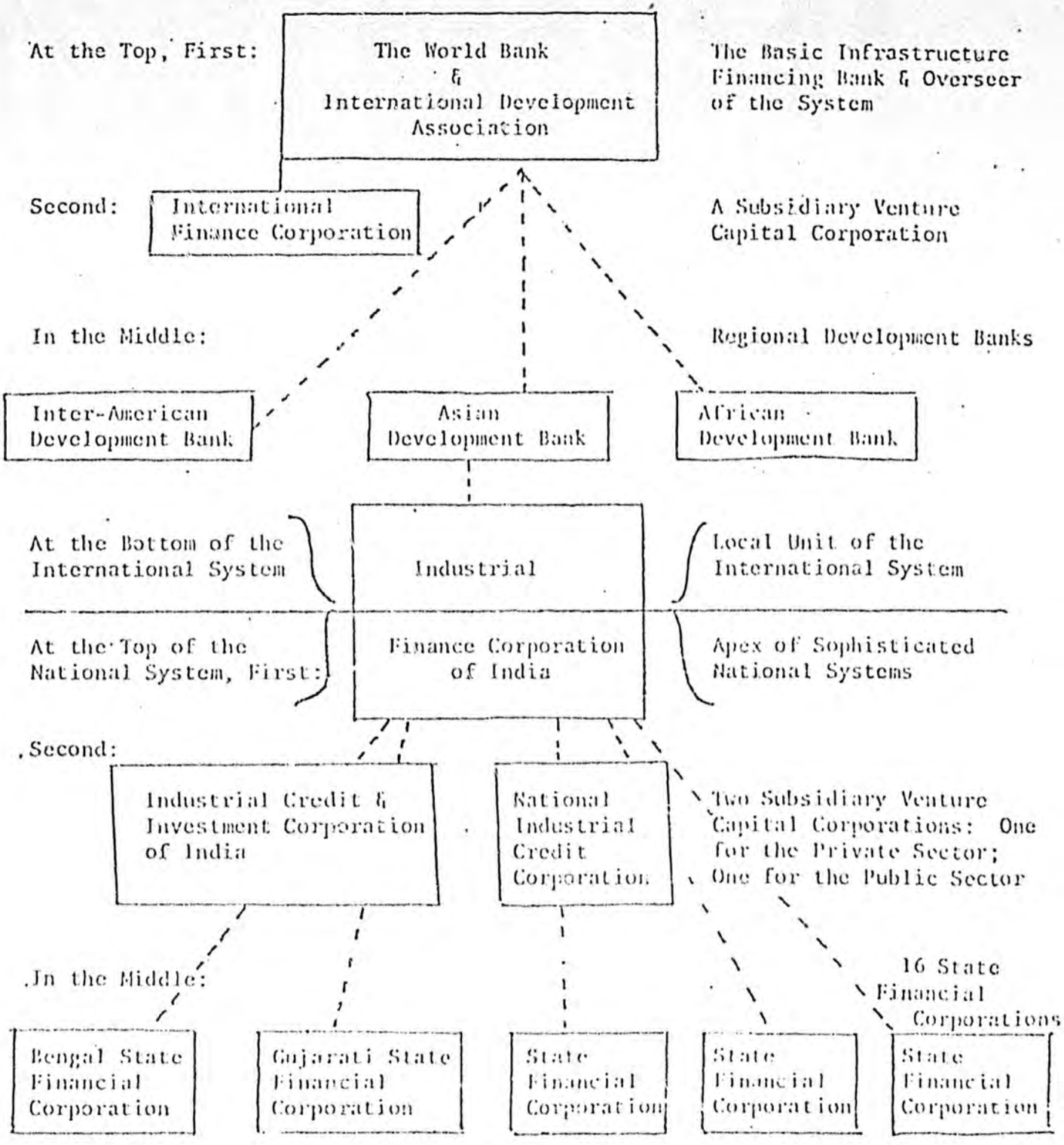
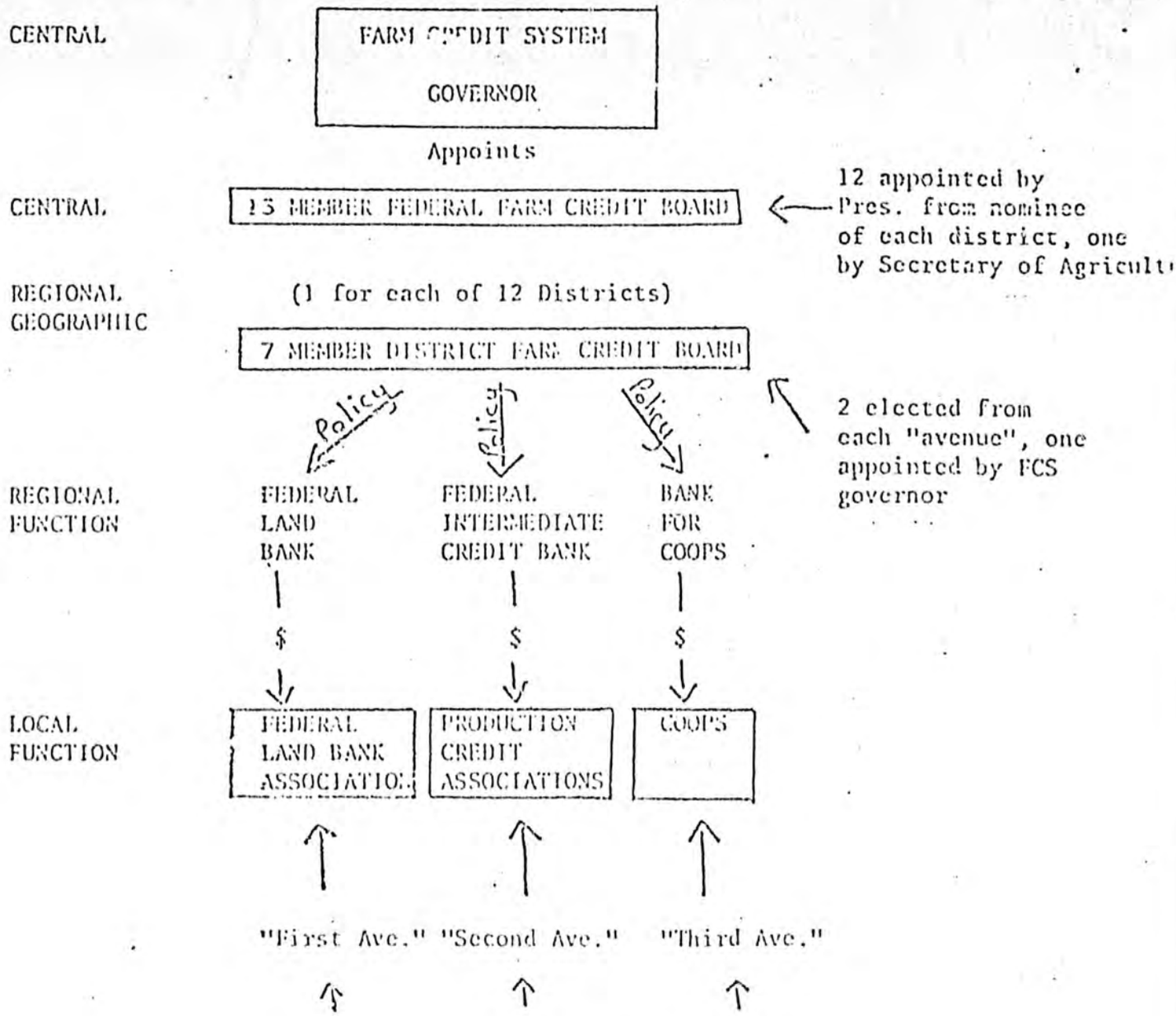


FIGURE 2

THE FEDERAL CREDIT SYSTEM



The Boards of Directors of the Federal Land Bank Associations, Production Credit Associations, and Cooperations are elected by member farmers.

In Summary: A Range of Options for Regionalization Available to the Alaska Permanent Fund

The experience of domestic and international development banks points out that the Alaska Permanent Fund has a number of specific options that might be used for purposes of regionalization. Specifically, the Alaska Permanent Fund might make local regionalized investments through: independent regional or local development banks or corporations; affiliates; subsidiaries; user-owned local institutions; branches; or some flexible combination of the above developed on an ad hoc basis. Each of these will be briefly referred to below.

Independent regional or local development banks or corporations: The World Bank and the European Investment Bank are both examples of institutions which primarily operate by making loans to and through independent regional and local intermediaries. Analogously, the Alaska Permanent Fund might make all regional investments to or through Alaskan regional and local community development corporations.

Affiliates: The French Crédit National finances its regional development through affiliated Regional Development Corporations. It has a substantial although not controlling stock interest in each of these SDRs. The predominant equity interest is held by local financial and development institutions with a greater sensitivity to local needs and conditions.

Subsidiaries: To the best of our knowledge, no development banks within the United States or overseas operate through their regional development programs through wholly-owned subsidiaries. On the other hand, many development banks, including the World Bank and the D.G. Bank, do use wholly-owned subsidiaries in order to undertake specialized functional financing activities such as equity investment.

User-owned local development banks or corporations: As we have extensively documented, the Farm Credit System, the Federal Home Loan Bank System, the British Columbia Central Credit Union, and the D.G. Bank are all institutions which are user-owned at both the regional and central level by local, cooperatively-owned development banks.

Branches: The Federal Reserve System and the British Finance for Industry are two central financial institutions which operate their regional activities through branches.

A flexible, ad hoc approach: The National Enterprise Board and the Canada Development Corporation are two large national development banks which have taken a needs-oriented ad hoc approach to regionalization. The National Enterprise Board, for instance, has recently established branches in Liverpool and Newcastle in order to get a better sense for how they could intervene in regional economic development. The Canada Development

Corporation has a sole branch in Vancouver in order to be more responsive to the regional economic development needs of western Canada and is undertaking its venture capital program through investments in affiliated privately-owned venture capital companies.

Our purpose in this regionalization paper, as in each of the sections of this second report, is to suggest a number of options which can then begin to be tailored to fit the specific purposes, needs and political economy of Alaska in designing the Alaska Permanent Fund. Based on the response of the legislature, this paper may also raise a number of follow-up questions which deserve further attention.

III. THE PROBLEM OF ACCOUNTABILITY

AN INTRODUCTION TO THE ISSUE

The question of assuring the accountability of the Permanent Fund management to the electorate, legislature and executive to carry out its public purposes is probably the single most important issue before the Special Permanent Fund Committee. In this final section of the report, we begin to suggest some measures by which the management of public enterprises such as the Alaska Permanent Fund may be held accountable for their performance. Because this is such a central issue, our aim in this section is simply to introduce the problem and begin to suggest some of the options available to ensure public accountability. We will detail some of the tradeoffs involved and cite specific cases from domestic and international experience.

It is important to point out at the beginning that the record is generally not a good one. In more cases than not, public accountability has been sacrificed for market efficiency. The task of overseeing the Permanent Fund to ensure that its public purposes are carried out will not be an easy one. Our sense is that this introductory discussion will raise many more questions that the Committee will want to consider between now and December 31, 1977. By "accountability" we mean the effectiveness

of the mechanisms by which the government seeks to assure that the managers of a public enterprise invest public resources in order to maximize the benefits to the ultimate providers of the funds. In the case of the Permanent Fund, those providers are the people of Alaska.

In some respects, the position of Alaskans in this enterprise is analogous to that of an investor in a private firm. The active investor gathers as much information as possible about the firm in which he invests. Using this information, he forms an independent judgment on appropriate management policies. He then seeks to have these judgments acknowledged and effected by participating in shareholders' meetings and by voting his shares. If, after these measures are exhausted, he is dissatisfied with managerial performance, he will seek to impose sanctions on the firm's operations by voting out management or, more likely, by withdrawing his money from the firm. In all these activities he is motivated by the principle of maximizing his benefit from the investment--his short-run money profit.

The benefit Alaskans expect from the Permanent Fund, however, is a good deal more complicated and long-lived than that sought by the private capitalist. Certainly, short-run financial results must be considered, but the idea behind the Alaska Permanent Fund is to convert non-renewable mineral resources into renewable

capital resources which benefit the Alaskan economy and Alaskans. These investments could generate many types of public costs and benefits. A small sample of costs Alaskans would seek to avoid includes degradation of the environment and social dislocation caused by the boom-bust nature of certain enterprises. Benefits might include wider participation of Alaskans in the management and wealth generated by business enterprises and the improvement of human services.

Experience has demonstrated that publicly-capitalized investment banks tend to operate solely under commercial profit-maximization criteria unless they are compelled to do otherwise through various forms of government direction and control. Our basic problems, then, are: 1) How is the substance of these directions to be determined? and 2) How are they to be enforced?

It is likely that no stable consensus can be reached on the proper mix of objectives for the Permanent Fund. Rather the Fund has many constituencies, each with different and often conflicting economic interests and with differential access to the political and economic means by which to have these interests effected.

To design the institutions surrounding the Permanent Fund as if the consensus mentioned above existed, as if it were the Fund's only task to interpret these objectives in its investment policy, may be virtually impossible, based on the experience of others.

Rather, the design of the Permanent Fund must provide a forum in which conflicts of interest can be aired and resolved on a continuing basis.

These conflicts are likely to arise at two points in the continuing operation of the Permanent Fund: first in the formulation of investment criteria and then in the application of those criteria. Those affected by these processes must have a chance to influence each of these sets of decisions. They must then have the means by which to review how these decisions are implemented.

In our investigations of the institutions profiled in Section I and other public enterprises we shall note, we have identified four stages in the accountability process. Two may be classified as forums in which the decisions mentioned above are made, two as means by which these decisions are implemented. In practice, these processes are carried on simultaneously.

Specifically, these stages are:

1) Setting of Goals and Priorities: The essential questions here are: Who sets the goals and how are they phrased in legislation, statutory directives, or guidelines?

2) Formulation of Measurement and Reporting Procedures: Goals are given operational substance by the establishment of measures to evaluate management performance. The issues here are: the relevance and quality of the measurements, the form in which

this information is presented, and who gets the information?

3) Governance: Public Inputs into Operating Decisions: In most public enterprises, the elected government usually has a variety of formal and informal means of influencing day-to-day operating decisions. The enterprise's various constituencies also have such means. The important issues here are: Whose interests are made known to the Board? How and at what point in the decision-making process are they made known? What influence do they actually exert on the institution's operating decisions?

4) Operating Sanctions: What can an elected government do if it is dissatisfied with the results the management of a publicly-capitalized enterprise achieves? The most frequently available formal sanctions are the replacement of management and the withholding of funds from the agency. There are informal sanctions as well, such as publicity of mismanagement.

In the case of dismissal of management, the issues are: How and for what reasons can management be removed?

In the case of control of funds, some of the issues are: The source of funds and the conditions on which they are provided, who controls the funds once they are pooled for agency use, and the conditions under which the sanction of withholding funds can be exercised?

At each of the four stages, democratic elements of the

process must be traded off against the operating requirements of an efficient investment bank, i.e., the ability to make independent investment decisions and effect those decisions in a timely and flexible manner.

At each stage, outside control can range from zero to a level at which the operations of the agency are totally disrupted. Each level of control is characterized by a set of costs and benefits. In reviewing the four stages outlined above, we will present examples of mechanisms which have been used. They will be ranked from lowest to highest by the degree to which they effect management's deviation from standard commercial investment criteria. Finally, we will begin to suggest the nature and incidence of the costs and benefits of each strategy examined.

A. Setting of Goals and Priorities

Historically, the determination of goals and their definition in legislation has been the least important element in the accountability structure of public enterprise. In terms of enabling legislation itself, provisions for capitalization, organizational powers and management selection have had a much greater impact on the performance of these enterprises. The outcome of informal political and economic power struggles among the enterprises' various constituencies and principals has been more important to the active operation of development banks.

The goals of public banks are found in the opening sections of their enabling legislation. Seldom, however, do they represent the results of legislative deliberation. Bills are generally drafted by individuals who have some interest in the successful and continuing operation of the entity they are creating, and legislative attention is usually directed toward the operational aspects of the draft. In a few cases, the goals and objectives of development banks have been publicly debated, but, as in the case of the Canada Development Corporation, this does not assure that the public interest will be served.

The legislated purposes of most public enterprises tend to be more exhortatory than directive, legalisms intended to justify the use of public funds. In the case of authorities producing a good or service, the purpose is to do so efficiently; in the case of a public investment bank, it is to encourage the development of productive enterprise in the jurisdiction.

There are good reasons for leaving the statement of purpose vague, which have to do mainly with the legislative process: It is easier to build legislative consensus, easier to change operational direction to fit changing economic conditions, and harder to make small changes in language as the bill proceeds to enactment which substantially changes the intent.

Still, attempts have been made to formulate goals so that

they are useful as guideposts to management and criteria for managerial performance. Usually this entails relating goals to specific measurable achievements and administrative procedures in the legislation.

In most cases, the legislated goals of public enterprises or banks have had little bearing on their actual operations. This condition breaks down into two sets of conceptually separable experiences: In the first, management has found it convenient as well as legally and politically possible to evade its statement of purpose, undertaking operations for which the institution was not designed or refusing to undertake mandated functions. In the second, the statement of purpose has been so vague or founded on faulty analysis that the management has effectively been given a free hand.

Examples of the first type of experience occur most frequently in public authorities providing a good or service. Instances of selective adherence to statement of purpose arise in the history of the Port of New York Authority (PNYA). Established in 1921, the PNYA was charged with "developing terminal, transportation and other facilities of commerce." After a decade of unsuccessfully and unprofitably attempting to rationalize rail-sea connections, the Authority was allowed to acquire three motor vehicle bridges and the Holland Tunnel from other authorities.

These facilities were highly successful financially, and the Authority justified their continuing ownership of the bridges by claiming the revenues they generated were necessary to meet Authority bond contracts.

The PNYA used this same tactic in reverse in the Fifties and Sixties to resist public pressure to assume the ownership and management of the region's undercapitalized and unprofitable commuter rail system. Maintaining that the projected deficits of such operations would prevent them from executing bond contracts in good faith, the Authority's management withstood this pressure to undertake its mandated purpose for over a decade. A compromise was reached in the late Sixties when the Authority took over the most heavily-used portion of the commuter network in return for the approval of the Governor of New Jersey to use PNYA funds to build the World Trade Center. Many analysts view the Center as a speculative real estate transaction only peripherally related to the Authority's purposes. The commitment of substantial funds to the Center has in turn precluded the Authority's taking a significant role in the rail lines.

A similar instance can be found in the now-infamous case of Robert Moses' Triborough Bridge Authority. Its legislated purposes were solely to construct and operate the Triborough Bridge until it was paid off. However, through the imaginative use of

bonding power, bond contract drafting and the subtle use of clauses in the powers sections, the Authority's life and latitude in operations were enormously extended.

The statement of purpose for most public development banks fall into the second category outlined above: they are too inclusive to effectively direct managerial policy. The Canada Development Corporation is a prime case in point. In the CDC profile we noted how management's interpretation of the Corporation's goals threatened the achievement of the public purposes of the institution. This interpretation was permitted, however, by the CDC Act's statement of corporation objectives. These read:

> "The objects of the company are:
>
> a) to assist in the creation or development of businesses, resources, properties and industries of Canada;
>
> b) to expand, widen and develop opportunities for Canadians to participate in the economic development of Canada through the application of their skills and capital;
>
> c) to invest in the shares or securities of any corporation owning property or carrying on business related to the economic interests of Canada; and
>
> d) to invest in ventures or enterprises including the acquisition of property likely to benefit Canada;
>
> and shall be carried out in anticipation of profit and in the best interests of the shareholders as a whole."

These objects permit virtually any investment activity so long as it is profitable. They offer no priorities. More

importantly, only in the case of expanding investment opportunities do they provide an occasion for the application of quantitative measurements to some recognized standard of achievement. CDC's financial participation has led to the creation of only one new enterprise so far and has done little to open up investment opportunities for the greater number of Canadians. Yet this result is perfectly compatible with the Corporation's goals.

The British National Enterprise Board's statutory purposes, while broadly stated, are more amenable to measurement than CDC's and could thus become the basis of an accountability process. The purposes of the Board, as listed in the Industry Act of 1975, are:

> "a) to develop or assist the economy of the UK (or any part of the UK),
>
> b) to promote industrial efficiency and international competitiveness; and
>
> c) to provide, maintain or safeguard productive employment."

The first purpose is so broad as to accommodate any action the Board wishes to take within its extensive powers. The second two, however, are expressions of economic phenomena for which accepted empirical measurements exist. Industrial efficiency can be measured by cross-national comparisons of costs within sectors and the changes in profitability of individual firms; international

competitiveness by changes in the volume of export sales. The provision or maintenance of employment is similarly measurable, with differing degrees of sophistication.

The Community Development Finance Corporation Act goes one step beyond providing measurable goals by relating the goals to a specific set of problems described in the Act. Thus, the bill performs a clarifying function usually reserved to committee reports, and reduces the possibility of misinterpreting the goals in their implementation. The essential elements of the findings preceding the statement of purpose are:

1) that a substantial and persistently low level of employment and economic activity exists within certain areas of the state;
2) that it is beyond the ability of the government to correct these conditions solely through the exercise of regulatory power;
3) that it is beyond the ability of the private sector to counter these tendencies without capital assistance;
4) that Community Development Corporations have made substantial improvements in these areas, but cannot continue to do so without public provision of investment funds.

These findings all point directly to the purpose of the institution, which is to "increase the number of development projects in decadent substandard and blighted areas" through the agency of CDCs. The findings also militate against any alternative reading of the Act which might permit evasion of the administrative procedures outlined in the Act.

Such a specific set of findings, tied to specific objectives,

administrative procedures and reporting requirements, is one way of making the legislation statement of goals more meaningful.

F. Formulation of Measurement and Reporting Procedures

Public accounting is an essential element of governmental control over the activities of a public enterprise. This exposure forces management to keep operations in line with what is expected of them, and this pressure can work in anticipation of government censure as well as retrospectively.

Overseers of the Alaska Permanent Fund are interested in the social as well as financial achievements of the institution. On the financial side, public enterprise must be held to the highest standards of financial disclosure now universally applied to private enterprise. On the other hand, universally recognized measurement and reporting procedures have not yet been developed for social impacts. Many of the items presented for consideration by Singer and Mollenkopf in "After the Oil is Gone" are not amenable to quantification or comparison with unlike outcomes. This problem is treated in that useful paper, and we will not discuss it further here. Rather, we will note some practices used by some development banks to measure non-financial results, and comment on their appropriateness to the Permanent Fund.

Finally, accounts are inherently incomplete in that they

show only what has already happened--and not always very accurately. If an institution is expending public money, it should be concerned with the social choices it faces and present these choices to its overseers. We will look at some of the attempts public investment banks have used to address this problem through cost-benefit analysis and various other types of projection techniques and discuss their applicability to contemplated Permanent Fund operations.

Financial Reporting

Given the geographic and cultural distance from the institutions we have noted, it is difficult to evaluate the accuracy or fairness with which they represent their performance in annual reports. It must be noted, however, that management of public as well as private firms is motivated to present its accomplishments in the most favorable light.

What, then, is presented besides the usual balance sheet, income and expense statement, and report of changes in capital? One of the most important and useful parts of the annual report, usually required by national corporation laws, is separate reports on the activities of subsidiaries, major loan recipients or subdivisions. Consolidated financial records may conceal cross-subsidations, multiple accounting of depreciation of a given

asset and, most importantly, the true cause of poor performance, whatever it may be. This has been the case with the Small Business Administration's loan guarantee program. For years, the high loss rate of this program had been attributed by the SBA to instability in the small business sector. Investigation of the program by the General Accounting Office, however, revealed that poor administration and intentional disregard of program guidelines were responsible for a large percentage of loan losses.

For the most part, the degree of detail in the reports varies by who gets them. Usually the funding source has privileged access. For example, the report of agency financial operations in Connecticut Development Authority bond prospectuses are much more thorough and scrupulous than the report which goes to the Commissioner of Commerce. Similarly, the British Cabinet Secretary overseeing the operations of the National Enterprise Board may requisition all operating records. Generally, the legislature and the public must accept annual reports prepared by the enterprise and occasional ad hoc investigative reports as their sole sources of information on the financial activities of the enterprise. In the institutions we have noted, these vary greatly in the detail and usefulness of disclosure--from vague accounts for CDC, to quite detailed accounts for NEB.

Social Reporting

Few of the investment banks reviewed make any use of social performance accounting. CDC, NEB, and EIB make no specific provisions for reporting even easily measurable social indices such as total employment of the firms in which they invest. NEB lists environmental impact and encouragement of worker participation in management as criteria for investment, but they provide no benchmarks, measurements or reporting schedule by which to evaluate projects, prospectively or retrospectively, along these dimensions. The Connecticut Development Authority reports total employment of the firms it finances, but this is an utterly inadequate measure of its performance in creating or maintaining jobs. As with all expenditures of publicly-raised funds, it is the marginal addition to some stock (such as employment) rather than the gross size of that stock which is the barometer of performance. Proposed CDFC economic impact indices, described in that institution's profile, are somewhat more sophisticated but still do not address the "with/without" problem in evaluating the benefits of social programs. In other words, would any of the benefits have been realized anyway even if CDFC had not made the investment?

Projections

Projections are necessary to evaluate investment projects,

especially when there are several competing for the same pool of funds. CDFC is contemplating a simple projection procedure: applying its social accounting procedures to the business plan projections of investment applicants. Thus CDFC will have a two-track set of projections--for both financial and social returns, both of which will be subject to post audit.

Cost-Benefit Analysis

More elaborate methods of project evaluation have been developed by the World Bank and its national affiliates. These address the divergence of market and social valuations of the costs and benefits which can be anticipated from various large-scale capital investment projects. These divergences are usually caused by such factors as monopoly domination of markets, state regulations and externalities. The method is essentially one of cost-benefit analysis in which all quantities are reduced to monetary terms, as described in John Mollenkopf's paper.

These types of analysis are expensive due to their enormous requirements for data and skilled analysis. Therefore, they are usually applied only to large projects such as capital-intensive industrial plants or infrastructure which require massive fixed investments. There are some institutional benefits to offset these expenses. Such studies are usually carried out by consultants

in cooperation with local officials and managers. Thus, some permanent, resident expertise in this kind of analysis can be developed. Also, data developed for one study may be used to analyze subsequent projects.

In summary, again, the record to date of detailed financial reporting by development banks is mixed, at best, and social indices are virtually nonexistent.

C. Governance: Public Inputs into Operating Decisions

The most important factors affecting the results achieved by public enterprises have been the structure and dynamics of the day-to-day decision-making. For each institution reviewed, there has been a complex web of attachments, interests and attitudes which are brought to bear on each type of operating decision. For each institution these circumstances are different.

We can begin to analyze this experience by identifying the groups of players involved in the operation of all public enterprises and the nature of the relationships between the groups. We will then explore examples of these relationships, focusing on elements of democratic or at least pluralistic control.

The four basic groups with whom we are concerned are:

1) Elected officials and their appointed ministers or secretaries: This group is usually (but not always) statutorily

responsible for the oversight of the public enterprise. Their degree of involvement in day-to-day activities of the enterprise is slight--generally by design. After all, the enterprise's very existence is premised on its carrying out social purposes without the full expenditure of effort by the government itself. Elected and appointed officials are lumped together here because their tenures tend to be coterminous.

2) The Board of Directors is usually the ultimate authority for all decisions concerning the sources and uses of funds and setting the overall strategy for the enterprise. They generally serve finite, overlapping terms which may or may not be renewable.

3) The Professional Staff carries out the policies of the Board, policies which they generally propose to the Board. Their initiative in promotion and competence in administration has the single greatest impact on the overall performance of the enterprise. Generally, they prepare the analyses on which the Board makes its decisions. Their attachments to the enterprise tend to be of longer standing than any of the other groups, a situation which enhances their power considerably. Also, they are closest to the enterprise's constituencies at all levels of decision.

4) Constituents: By constituents we mean those groups in the general public which have organized, regular dealings with the enterprise. These groups include firms which do business

with the enterprise either as clients or as providers of goods and services, citizen action groups, community development corporations, labor unions, etc.

The important relationships among these groups are:

a) Elected Government to the Board: Who appoints the Board? How is the tenure of the Board related to that of government officials? Are there government officials with voting power on the Board? Are there required consultations between members of the government and the Board?

b) Constituents to the Board: How are the interests of constituents represented to or on the Board?

c) Professional Staff to Board and Constituents: Whose interests does the staff tend to promote? Are they under effective control by anyone?

Relationship of the Government to the Board

With the comic exception of some of Robert Moses' one-member authorities, the Boards of public enterprises are appointed by the Chief Executives of the political jurisdictions in which they operate. The Chairman, if he is designated as such by the Chief Executive, generally serves at that official's pleasure and is often a cabinet member. Such is the case with most state development authorities. As pointed out in the CDA profile, this

situation carries costs as well as benefits. In addition to the benefits of coordination of Authority activity with executive promotional and overall economic policy, staff may be pressured to undertake loans which are politically useful, but financially unsound. In Maine, for instance, the Commissioner of Commerce, as Chairman of the Main Guarantee Authority, pushed through the approval of a guarantee on a $12 million loan to a sugar beet processing factory. This enterprise quickly went bankrupt, and the state was able to recover only 15 percent of its money through liquidation. It was later discovered that the Commissioner of Commerce had financial connections to the project.

This situation (of top staff being subordinated to the Board) is reversed at the Massachusetts Bay Transportation Authority (MBTA), which services the metropolitan Boston area. There, the five-man Board is chaired by the Chief Executive Officer (CEO), who serves at the pleasure of the Governor. The other four directors serve simultaneous four-year terms coterminous with the Governor's. Their powers are limited and mostly advisory. Massachusetts' Secretary of Transportation, who framed these regulations, justified the authority structure by claiming it was necessary to provide "a stronger basis for holding the Commonwealth's chief executive accountable to the legislature and the people of the region and state for the use of the state funds for

the MBTA." This provision does make the CEO an easy target in times of crises. On the other hand, it tends to strengthen the Governor's ability to direct the agency when public attention is not directed towards it.

In Europe, especially in France, government representatives on the boards of public and mixed enterprises are generally granted veto power over Board decisions involving the raising or expenditure of capital. This power has usually been used to delay the implementation of controversial decisions until they can be worked out between the management of the enterprise and its supervising Ministry.

The relationship between the government and the public enterprise can take other forms. For instance, these might consist of required consultations for various types of transactions or activities, the submission of reports and auditing by some agency within the government designed specifically for that purpose. In general, these controls are seldom exercised. They do not play an important role in the operations of any of the institutions reviewed except the NEB. The relationship between NEB and the Secretary of State for Industry is described extensively in that institution's profile.

Relationship of Constituencies to the Board

The interests of an enterprise's constituencies are most effectively represented to the Board by direct membership on it. Frequently, the distribution of directors among constituencies is dictated by the enabling legislation. This is not the case with CDC, and all 19 of its voting members are business executives. Certainly this provides no counterbalance to the profit-maximizing policies of that institution's management.

The distribution of Board membership is usually designed to accommodate political conflicts which are anticipated to arise in the operation of the enterprise. Thus the NEB, which is charged with making nationalized industries more efficient, is composed of six representatives of business firms, three representatives of labor unions, and an economic consultant. Similarly, the Board of CDFC is composed of three cabinet secretaries, two financiers, three representatives of community development corporations, and a representative of organized labor.

While such an approach to Board composition seems to be a logical strategy for dealing with political conflict, the record of this strategy has been ambiguous or worse. In Yugoslavia, where workers, union officials, management and consumers' representatives sit on the Boards of industrial enterprises, most observers report that management practices have not changed signif-

icantly in the directions desired by the workers. In Germany, the similar Mitbestimmung system has long been recognized as an instrument for the cooptation of labor. The record to date of non-expert representation on the Boards of development banks is, unfortunately, filled with more hope than effect.

The Role of Staff

The staff of a public enterprise generally outlasts its directors. Like most bureaucracies, it tends to operate in its own best interest. This is an area of public affairs which is virtually undocumented, but Jameson Doig's article on the PNYA provides some substance for the average social scientist's suspicions.

The Authority's top management is appointed by the Board and can serve indefinite terms. During the Sixties, the average length of company experience among the top staff officers was 30 years.

Realizing the threat to PNYA solvency posed by public pressure to acquire commuter lines, Doig reports that the staff orchestrated an elaborate resistance which included lobbying of the state legislatures, both directly and through favored contractors, wide-scale publicity campaigns and influencing a purportedly independent study committee formed by the state legislature to investigate the problem.

Such overreaching may be countered by the imposition of civil service or other personnel and conduct regulations on the staff. This tactic has its costs, since sufficiently skilled personnel will not be attracted by civil service salary scales and may be put off by complicated hiring procedures. The Connecticut Development Authority has experienced this difficulty. So has SBA in much more severe fashion. The real power in SBA resides in the regional officer positions, which are appointive. The regional financial officers may override loan decisions made at lower levels. Lately, there have been several documented cases of political uses of SBA funds by persons in the regional offices over the objections of the district level loan officers.

Professional staff competence is the most important element in determining the performance, financial and otherwise, of all the development banks reviewed for this report. For the most part, the top staff consists of men experienced in banking who have been able to transfer their experience and judgment to the public sector with considerable financial success. In general, they tend to reject the idea of being bound by the social consequences of their investments, claiming the institution will accomplish nothing unless it maintains its financial credibility. Statements to this effect have been made publicly and privately by the executive directors of CDC and CDA. The directors of EIB

and NEB have explicitly pledged themselves to the accomplishment of social goals, such as the rationalizing of industry and the provision of employment opportunities. So far, however, they have not discovered a framework for bending their organization's energies to those purposes.

D. Operating Sanctions

There are essentially two types of operating sanctions which can be imposed on the management of a public enterprise. One is the removal of responsible personnel; the other is the control of the flow of funds to the enterprise. These sanctions are imposed only after an enterprise's problems have reached crisis proportions.

Removal of Personnel

In public enterprises, the government can remove Directors only, usually only for cause. Where such action has been taken or threatened, it has usually been in response to evidence of financial failure or personal abuse of corporate power on the part of Directors. This is the case with current investigations of the private use of Authority facilities by Directors of the PNYA. Edward King, former Chairman of the Board of the Massachusetts Port Authority, was removed by Governor Dukakus for policy reasons. King had been openly antagonistic towards citizens' groups seeking

a noise-prevention curfew on Logan Airport, which was one of the key factors. This is, however, the exception that proves the rule.

Control of Funds

There are two basic types of capitalization for public enterprises. One is essentially private. Investment funds are raised through the sale of securities backed by the revenues of the bank and often guaranteed or leveraged by the tax revenues of the political unit of which it is a subsidivision. The second is the direct provision of tax revenues to the enterprise under various conditions set by the government. Our investigation provides no clear indication of which type of financing is the most effective in holding an enterprise financially or socially accountable. However, we will review the evidence before us for each type.

Private Market Finance

The experience of PNYA and the commuter lines has demonstrated that reliance on the bond market--even the claim of such a reliance --can be used by an Authority to delay or refuse action on a potentially desirable and widely demanded social project.

On the other hand, recent experience of public authorities has discredited the frequently-heared claim that dependence on the

bond market imposes "market discipline" on the management of public enterprise. For example, by the time the New York state legislature refused to bail out the Urban Development Corporation in February of 1975, the agency had run up over a billion dollars in debt it could not cover from operating revenue. It was estimated that the state would have to put up $240 to $320 million simply to complete projects UDC had left unfinished. Investors had counted on the political power of UDC's management and had largely ignored its internal finances once the Corporation had been cleared by the rating agencies. The arbitrariness of this particular system is well-documented by John Peterson in The Rating Game.

Still, the use of bonds can work and can effectively redistribute capital if the institution is prudently managed. This is the case of the European Investment Bank and B.C. Central, whose financial operations are described in the profiles section. CDA's Umbrella Bond Program is another good example of the redistributive possibilities of using private market finance. Here, the Authority performs the function of evaluating the prospective risk and return of lending to small- and medium-sized firms for institutional and individual investors in marketable securities. It has thus opened up a hitherto untapped source of funds for its borrowers. Ultimately, the market discipline of this system is under-

mined by the extensive backing the state offers the program. Its success to date has been due primarily to high-quality management.

Financing Through Tax Revenues

Control over the provision of state revenues to public investment banks ranges from nil to finicky. At the bottom of the scale is CDC, to whom the Canadian government has provided a block initial capitalization of nearly $300 million. This policy has assured CDC's virtual freedom from any type of control or accountability.

At the upper end of the scale, NEB's investment funds are provided on an annual basis, and their release must be justified to the Secretary by three-year plans covering both financial and non-financial aspects of the firms designated to receive funds. So far, the Secretary's office has shown little regard for the social aspects of NEB-financed enterprise.

The Small Business Administration relies on periodic Congressional appropriations to finance its lending and guarantee operations. This method of funding imposes costs in that it is cumbersome and time-consuming. Theoretically, it should yield benefits in terms of increased oversight of agency operations. However, the sheer number of loans SBA makes and the complexity of the decentralized administration of the program have made

Congressional oversight impossible. As we have noted, as late as 1974 it was assumed by the SBA's observers that its high loss rate on guaranteed loans was due to chronic instability in the small business sectors. A 1975 study of a large sample of SBA loan records revealed that many guarantees were made for reasons other than to finance the expansion of small business facilities. Over 20 percent of the loans guaranteed were used to pay off existing debt, and of these about one-quarter were to firms which did not meet minimum standards of creditworthiness.

Contrasting the NEB and SBA experiences, one might reasonably conclude that executive oversight may be more rigorous than legislative oversight.

CDFC's capitalization demonstrates a compromise between the lack of control inherent in CDC's capitalization and the complex, potentially disruptive day-to-day supervision of NEB's flow of investment funds. CDFC has been granted a modest, non-renewable sum of $10 million which it may use as it sees fit within the administrative process laid out in the legislation. The legislature, in providing this form of capitalization, has essentially recognized the experimental nature of the program. If this experiment turns out to be successful, on financial, political, or social terms, the state legislature may choose to augment the original capitalization. The technical details and consequences of CDFC's capitalization are fully explained in its profile.

The problem with most financial sanctions is that they come into play only after the damage of mismanagement has been done. Continuous governmental control over an enterprise's flow of funds imposes costs in terms of limiting public bank's investing flexibility. The benefits, in terms of use of funds which corresponds to government policy or statutory mandate, have not yet materialized in practice.

E. Conclusion

The problem of holding public enterprises accountable for their performance is largely unsolved. Total accountability is neither possible nor efficient; public supervision itself is costly, and it can damage as well as promote performance in the public interest. The contribution of specific institutional structures and prescribed administrative procedures is largely unpredictable.

The workings of accountability systems is further complicated by the fact that public enterprises themselves control information on plans and operations. Past experience has shown that concerned officials have had to undertake extraordinary measures to get enough information to understand what is really going on in these enterprises. If this kind of vigilance were constantly maintained, the purpose of having the public enterprise

would be undermined. Generally, public enterprises are set up to relieve the government of a portion of the costs of administering some area of responsibility which, like assistance to productive economic activity, should generate enough surplus to finance the institutions set up to pursue this purpose.

On the financial side, the success of public banks has depended for the most part on the honesty and competence of their staff. Most public financial institutions rank high on these dimensions when compared to state-owned industrial or service firms. A set of acknowledged reporting conventions and simple criteria of success exist for the financial operations of public banks. These have been developed in the private sector and transferred intact, through the importation of management, to the operations of public financial institutions. As assets and profits mount, management's position becomes more secure, its decisions less open to question and influence by the government and its various constituencies.

On the other hand, public banks have been relatively unsuccessful in taking the social consequences of their activity into account. It must be said that they face substantial problems in doing so even if they are committed to the effort. First, reporting conventions and performance criteria are at a primitive stage of development and are subject to a great deal of controversy.

Second, management tends to be unfamiliar with what has been done in the field.

Social costs and benefits generated by an enterprise are distinguished from the phenomena that show up in its balance sheets mostly because they are not given a money value in the market. Still, the realization of these benefits or the minimization of costs requires that money be spent or that certain income-generating activities be restricted. This is a form of redistribution of the economic product of the enterprise which requires a political decision on the form the benefits and costs are to take and how they are to be distributed.

Therefore, the Permanent Fund must provide a forum in which the range of choices can be exposed and conflicting interests heard. It must then provide a means by which to assure that the decisions reached are carried out, especially when this implies a deviation from conventional commercial practice. Here the record of public enterprise is, to date, unfortunately quite uninstructive. In such an enterprise, the framers of the Alaska Permanent Fund must follow their state's tradition; they must be pioneers.

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Appendix

to

Final Report

of

The House Special Committee on the Permanent Fund

VOLUME I - Transcripts, Minutes

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

These transcripts were taken from tape recordings. They have been edited for the purpose of clarity. The original recordings are in the possession of the committee and may be heard upon request.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Bill Miles, Russ Meekins, Leo Schaeffer; Hugh Maline; John Rader; George Hohman.

TUSSING: I am not going to read the paper, nor am I going to go through it point by point. Frankly, it is is a little too heavily steeped in jargon and it is hard for me to get back and read it through a couple of weeks after I have done it and exorcise all of the economist catch phrases and financial catch phrases.

GRUENING: Arlon, give us a little bit of your background. There may be a few people who haven't heard of you.

TUSSING: I know almost everybody here. If they don't know me, maybe it is their hard luck. I am a adjunct professor of economics at the Institute of Social and Economic Research at the University of Alaska. I have been connected with the university in one way or another for eleven years. With the short study requested by Representative Gruening to cover some of the background of economic issues that the committee felt had not been really treated before the committee got into looking at the organization in terms of the permanent funds. I have read Dr. Daniel's paper, and let me assure you that until this morning I had never met him and we did not cooperate or collude in any way. So I found nothing in his paper that I could disagree with and a great deal I could

agree with.

GRUENING: I might just introduce the committee. I am the chairman of the House Permanent Fund Committee and sitting next to me is George Hohman, the chairman of the Senate Committee on the Permanent Fund. Two members of the Senate committee are here in attendance, the president of the Senate, John Rader. At the end of the table, Senator Pat Rodey, from the Senate. On my left, from the House, is Representative Terry Gardiner who is vice chairman, and Representative Bill Miles. Going down on the right side, Representative Russ Meekins and Speaker of the House Hugh Malone who is not a member of the special committee, but has an interest in the Permanent Fund.

TUSSING: Let me emphasize one issue in particular which is mentioned in my paper but does not have---does not really focus on as much as I would like to focus on. That is that the investment policy of the Permanent Fund will have far less influence on the rate and shape of economic development in Alaska than the amount of money in the general fund and the way the general fund money is spent. For one thing, the general fund is going to be much larger than the Permanent Fund according to the kind of numbers we are talking about, as far as revenue dedications to the Permanent Fund.

A Department of Revenue projection issued in February of this year, assuming a 25% contribution revenue to the fund projected in 1985 Permanent Fund balance of $1.8 billion and a general fund

balance in the same year of $6 billion, as based on the projections of existing programs and the anticipated gross rate in state spending. That $6 billion is surely not going to accumulate in the general fund. There is going to be enormous pressure to spend it. But the general fund---the money available in the general fund will be much greater than the money available in the Permanent Fund. For another reason the general fund will have more influence is that its expenditures in general move directly into a spending stream in the state's economy through payrolls and procurement while the Permanent Fund money, much of it will be invested outside and, as I will explain in a moment, probably all of it will be in effect invested outside no matter what the investment policy the Permanent Fund is.

Thirdly, the Alaska demand for Permanent Fund investments is extremely low. There is very little additional demand in terms of potential income earning projects which can be funded by the Permanent Fund which would not be funded through existing financial sources and much of my paper is devoted to this. An examination of the question of whether or not there is a capital shortage or not---in other words whether or not the existing financial institutions are sufficient mechanism to bring capital into the state.

My conclusions are this: Major industrial ventures in Alaska, and this includes ventures in fish processing, mining

timber, major agriculture developments, major tourist operations, are very adequately served by existing financial institutions. That there is no financial obstacles to their continued rapid development in the state. The obstacles that exist tend to be problems of resource location and marketing regulatory problems including state leasing and permitting and federal leasing and permitting. But they are not financial problems, for the kind of large industrial venture that would significantly diversify the state's economy, or the kind of large industrial venture that would be piggyback on our oil and gas industry like petrochemical. These investments will be made by large national or multi-national corporations drawing on their regular sources of finances. For those that are independently developed within Alaska, the new ventures with new enterprises, there are a large variety of institutions in the capital market that are interested in the financing required investment.

I will give an example of this from my personal experience and involved in a new fishing port in a remote totally undeveloped site in Western Alaska. The preparatory work putting together of the land leases and getting the engineering design on the port facilities had just barely begun and we have made no public announcement of this, yet within a few weeks after this started we had been approached by three major outside banks---one New York bank, one California bank and one Canadian bank, who were very interested in putting together a financing package for this venture which is

just a beginning of a conception. All of these banks have specialists to deal in Alaska and there is no lack of information to prevent them from going and looking for more information and looking for investment opportunities. They are as aware of anybody in Alaska or as aware as the managers of the Permanent Fund of the opportunities that the expansion of U. S. National Fisheries jurisdictions and the growing world demand for protein and the opportunity that it will create for bottom fisheries and other fisheries in Alaska. One of these major New York banks has a specialist who is heading up a whole team dealing with these problems specifically.

Another experience we had was that directors of the new firm were immediately inundated with approaches from friends who had invested and who were looking for places to put venture capital. High risk, high potential return ventures with large tax write offs. People come in and say I have got $29 million I have to place during this tax year, or I have got a problem. They want a potential rate of return but most of these big development ventures aren't terribly sensitive to the small differences and the amount they pay per capita. A major venture, a big venture, that where there are millions of dollars involved, those millions of dollars can carry a great deal of investment research and exploratory work on the part of either the ultimate investor or the financial intermedior, the insurance companies or brokerage houses.

So my conclusion with respect to major industrial venture, not only is there no problem, no specific problem, but that Permanent Fund investments in these ventures will essentially displace capital that would come in from the outside. So from the point of view of impact, the point of the impact in Alaska's economy, or the impact in diversification of Alaska's economy is going to be very little. A concentration on these ventures might on the other hand affect the security of the quality of the loan portfolio of the Permanent Fund because, in a sense, you are putting all your eggs in one basket called Alaska and the very thing that may make your regular revenue fall may make these investments in Alaska enterprises particularly risky.

Move on to another area in which the Permanent Fund probably has no role and no particular effect, and that is the commercial loans in the urban areas of Alaska. There is no capital shortage here. The existing financial institutions, the commercial banks, thrift institutions, factors, mortgage brokers, etc. and both the commercial and residential, it is the same way in Alaska as in the rest of the country---there is no substantial interest rate differential between Anchorage and communities of comparable size in the rest of the United States. There seems to be a greater availability of loan money, partly because the people in some of the outside financial institutions have a great faith in Alaska because the growth is assured. There is no problem, there is no capital shortage to be filled by the Permanent Fund in the area

of equipment financing, the kind of item trucks, construction equipment, generators, compressors, aircraft, etc., which are movable where the financing is available from vendor to manufacturer, from equipment financing companies, from banks and smaller units from credit unions and the like. No matter where you are in Alaska, if you need a backhoe and you've got something useful to do with it, and a prospect of some income, you can finance a backhoe. There is no capital gap for the Permanent Fund to fill here. The question of utilities and other utility type interest subsidy investments is often raised and I see quite a bit of talk about the Permanent Fund providing credit to the Alaska Power Authority or to the Susitna project. This could be done but it is another incident where the Permanent Fund would probably simply be displacing money that would be available from outside. If the Susitna project is viable, if it can prove that it can pay its debts or can be financed conventionally, and the reason that---there are several reasons why the Permanent Fund should probably not be involved in financing the long term debt of the Susitna project.

First is that the Alaska Power Authority can issue tax exempt bonds, while at the same time the Permanent Fund can invest in taxable corporate bonds, for example, or federal securities that get a higher rate of return that the Alaska Power Authority or any solidly based Alaskan utility would have to pay. It makes no sense for the Permanent Fund to be

getting a low rate of interest on its investments than it can get in the open market while at the same time the Alaska Power Authority doesn't get any break on the cost of capital.

Now, conceivably, the Permanent Fund could be used as a source of equity capital for joint ventures. However, going through most of the major categories of the capital market in Alaska, these are either areas which are adequately served by the existing financial institution or ones in which the Permanent Fund could probably not make a useful contribution anyway.

One area does stand out as an area of opportunity and in this very preliminary survey it seemed to me that the one capital market that is not serving its constituents well is that serving small community business, medium size business in the small communities and in the Bush in Alaska. The urban commercial banks in Alaska just don't reach out far enough. The cost of information gathering, of servicing loans, the cost of collections and repossessions, foreclosures, resale and things are just too much. Outside institutions don't deal with them. The demand is too sparse. So the tourist oriented business or a local store or a small locally owned fish processing venture or something on that order may not be able to borrow, or, for that matter, to obtain any sort of capital on terms comparable with a similar venture---a venture with similar early expectations in a major community. And so I think there is an area in which the state could look at the formation of regional development. Probably a statewide development bank would be too

big and would be too far from the---the problem in the Bush and the small communities have people on the scene oriented to problems of the particular community. I would suggest looking at the possibility of setting up a state-chartered regional development bank in each of the regional corporation areas and working together with the regional corporations, or having the regional corporations participate in these rural development banks, but having a professional management supervised by the Permanent Fund using Permanent Fund money. The problem here is that I doubt whether the aggregate demand for capital from all of these banks would be greater than forty or fifty million dollars at the present time. A great number of people in smaller communities in the Bush who feel that they are not well served by the existing banking system. But the total amount of real business they would generate is relatively small and you are not talking about billions of dollars---you are talking about tens of millions most likely. Just think of what it is in the Calista region which has induced the Calista Corporation to put its money outside of the region. How much potential private investment that could be locally developed does exist? How much opportunity is there in the Calista region? It is nothing like the kind of funds we are talking about with the Permanent Fund. So I would say by and large the potential role for the Permanent Fund money in altering the shape or

character of Alaska's economy on a business-like basis is rather small.

I go on to say the Permanent Fund is not a very promising tool for short economic stabilization. I am not sure how many people really think that it could be but I've heard it referred to as something that could feed money into the economy in a slump period and slow down the investment activity in a boom period. Now as far as dealing with the regular business cycle that lasts two or three years, there is a number of reasons why Permanent Fund is not a promising tool.

In the first place, its impact is less and slower than that of the general fund. The impact of the Permanent Fund investment policy is going to be very, very minor compared with what is done with the general fund. The general fund expenditures are direct injections into the state's economy. They occur now and secondly because Permanent Fund investments---many of them will simply be displacing capital which would otherwise come in but there is another fundamental problem that, even if these were not ---even if these previous problems were not involved, there is another problem that would probably make it impossible to use the Permanent Fund or general fund appropriations for that matter as a significant stabilizing force. That is by the time it takes the management to recognize that we are in an overheated boom situation that something out to be done about, we may well be approaching a turning point. So it takes some time to recognize something ought to be done. Then you have to implement the policy. And by the

time the loans are made and the people or concerns who receive those loans start paying construction workers, it is very likely that we are going to be on the other part of the cycle. But the effect of the Permanent Fund---or for that matter the effect of the legislature---trying to use the capital budget as a stabilizing device is that you are going to zig when you ought to zag.

There is a very good persuasive case on the part of some economists that the federal reserve has been more often ---that the effect federal reserve policy nationally has been more often wrong than right. We could build a business cycle model of the Alaska economy and give legislators in the--- give them say $4 billion on a computer to play with. We will start the thing off at 1964 after the earthquake and see whether there is any---see what you can do on the basis of the effect on unemployment, building starts, on gross products if you have gross products, and things like that. See what happens as you try to influence the economy with this. My intuitive guess is that it would create---no matter what you did trying to do it would create oscillations in the economy that wouldn't have existed before. I just don't think that it can be done.

There is another problem. It is a practical, political one. That is, when the money is available, when you are in a recession situation, when the money is available there is

resistence to spending it. You are in a boom, no matter how high the rate of inflation and how great the pressures that boom is creating on public facilities. It is going to be very hard to get anybody, whether it's in administration, legislature or managers of the Permanent Fund, to say we ought to turn off the water when the revenue is more available than it has ever been before and the needs are growing by leaps and bounds because of this boom and population influx. If you are skeptical about that, look at what happened to all the talk about stockpiling of public works projects until after the pipeline construction is over. It just is not going to happen.

Nevertheless, the Permanent Fund can be an important long-term stabilizing influence. That long-term stabilizing influence as the main intention of the people in voting the Permanent Fund and the legislature for establishing one. That is the result of the fact that state spending is the main engine of growth in Alaska. It determines in the long run the level of employment and level of population and determines the needs for government service. The principal influence of the Permanent Fund on growth and on the size of the state's economy is the amount of money it takes out of the general fund.

The Permanent Fund is going to influence the rate of growth of the state's economy, but not on the supply side. It is going to have almost no impact on the rate of growth by the way it spends

money, or the way it invests money. It will have a gigantic impact in terms of the amount of money that is dedicated to the fund because, for every hundred million a year that goes into the Permanent Fund, there is a hundred million that is not in the general fund for current operations and for state capital expenditures or for current consumption. In the next decade or two, the legislature is going to determine the rate of employment and population growth in the state and it is going to determine the rate at which the need for state services increases by the way in which it spends the money. It makes some difference whether this money is spent in tax reductions, in transfer payments such as Alaska, Inc. or welfare, on regular operations of government or on construction.

It would be worthwhile to have a comprehensive fiscal model of the state's economy so that you can look at what the differences are, but the differences aren't as important as similarity. The more you spend, the bigger the economy is going to grow, the more population we are going to have in the state and the greater the need for state services are going to be a year or two or five years down the line. So the more money that is not available for this process today, or the more money that is not spent, the smaller the employment and population base and the smaller the needs will be.

What the Permanent Fund does and its principal function

and principal predictable function is that it slows down the development of the state by diverting money from current expenditure. There is hope that it creates enough income and it grows to the point where it can sustain the state expenditures that sustain the rest of the civilian economy of Alaska in those days after the oil money is gone or when the oil money levels off or when the oil money stops increasing in amount as fast as the perceived need for population are increasing.

So if you take this revenue bubble and put it in the future, you stabilize the economy. I have two final points on this. The eye of the legislature ought to be much more on the amount of money that goes into the Permanent Fund than it is now, and probably a little less on dividing up the---or deciding what kind of portfolio the fund should have. And that the 6%, say 25%, does not solve the problem, it does not---25% of the nonrecurring oil revenue going into the Permanent Fund does not do away with the revenue excess, nor does it do away with the use of this oil money to create here in Alaska an economy.

It is just not when the oil money runs down and the oil runs out, that will be a long time, but when the rate of growth of state revenue starts to slow down. So putting 25% just means you got 75% left there with an enormous growth in those years when you have got a lot of revenue and very little when the revenue stops coming. So it seems to me we ought to start thinking in terms of what kind of formula for contributions to the Permanent

Fund will stabilize or create stable growth over the long term in the general fund and to do this you have to get some view---have some philosophy of growth for the state. That is, how rapidly should the state's economy grow. As I said, the legislature is going to determine how fast the state is going to grow by the amount of the money spent.

So you need some sort of formula and it should not be a fixed percentage. It should be something on the order of after your studies have determined the 6% or annual rate of growth, the real value of the general fund expenditures is what you need to sustain the reasonable growth in the standard of living in Alaska and a reasonable rate of population growth.

So, as far as what needs to be known, the research ought be be done. I think the legislature ought to look very heavily at just what are going to be future revenue needs. What is the projected income from other sources. And just how much of that gap is going to have to be filled from mineral royalties. Assuming that Prudhoe is the last big field and put in some speculative reserves and making assumptions about the price of oil and the rate of other resource development, and you say at what point are current revenues not going to be enough to sustain the level of government, the level of population, the standard of living that we want to maintain, and that will

tell you at what point you are going to have to start drawing out of the surplus in the capital fund to maintain this economy. If people are lucky, the growth will have a sufficient momentum that you will have future oil discoveries and you can keep putting off that day of reckonning, so that you may never have to draw on the accumulative surplus, much less the capital. But the principle remains the same. The most effective use of the Permanent Fund is to control what is available in the general fund, to make less available now and more available in the future. What should be in the general fund probably is the most important to know in setting up the Permanent Fund.

GRUENING: Thank you very much, Arlon. As usual, you have raised a few questions.

TUSSING: In summary, I think most of the investments of the Permanent Fund in Alaska will simply displace money that will come from somewhere else. Now it is possible to increase investment of various industries by subsidization or making loans available cheaply. The problem is that most of the ventures that would take advantage of them are ones that would be viable in any case. Both Dr. Daniels and I made the point that most new ventures, their feasibility is not very sensitive to interest. I mentioned in here that a new venture probably that expected to be able to be

written off in five years or so, which means a growth cash flow is in 30 to 50% of investment capital, and when you have got to have cash flow of that magnitude, a couple percentage points difference from what you are paying for, capital is not a crucial factor.

Well, I admit there might be some cases---in fact I was going to---there will for certainty be some cases which a prudent Permanent Fund manager might reasonably deem to be a prudent investment and managers of other outside financial institutions might not. Those marginal cases are probably so limited compared to the number of---if you are going to cover those, you are probably going to be giving money at subsidized interest rates or giving higher leveraging to a lot of other people who don't need it, and in those other cases you are simply giving away potential earnings from the Permanent Fund and for the propose of backing out capital which would otherwise be there. There may be some such cases at the margin, but I am very skeptical, first, about how many there are, and too the volume in terms of capital demand, and secondly, the ability of the Permanent Fund managers to discern those. I would ask why it is if these are trustworthy investments that can earn a market rate of return and the risks are not too great, why it is that some combination of investors and lending ---why the promoters who are putting it together haven't been able to package it attractively enough that somebody will

finance it in view of the enormous diversity of capital market. As I say, there is the availability of the insurance company money in large amounts for wealth secured investments of the availability of high return---high cost, high capital for the others and there is everything in between, I would just ask the question in this case, why is it that the Permanent Fund manager thinks it is so much better than the investment and there may be some---there may be some---but most of them are limited by resources or by the local interest structure or something of that nature.

GRUENING: I think Terry has a question here.

GARDINER: I have got a couple. What is the advisability of the Permanent Fund financing the El Paso gas line?

TUSSING: Well, it seems to me that the talk of the Permanent Fund financing is a political gimmick to get some support outside. There may be some resistance in Congress, the federal loan guarantees and if the State of Alaska will undertake those guarantees, maybe the Congress or somebody...

GARDINER: Are you saying that...

TUSSING: Well, I said in the past, I am skeptical about financing

viability of any of the gas pipeline projects in standing on their own two feet. That is, there is an enormous danger that the full cost of service of moving the gas from Alaska to the lower 48 is more than the gas is worth in the lower 48.

If there is a national decision that we ought to have a gas pipeline from---how do you cover the risk of that possibility? The financial market---that is, the bond houses and the insurance companies who are lending other people money are not going to be satisfied with a three-to-one probability the thing is financially viable, let alone only one-in-three possibility. So people are trying to come up with ways of providing that backstop. Now the pipeline companies essentially propose the consumers provide that backstopping simply by rolled in pricing, which means that the gas utilities use the fact that they have got a lot of gas that they hang on old long term contracts at regulated prices lower than the value of the gas to---they use that to subsidize the fact that Alaska gas will go into the market at more than it's worth, more than the consumers are willing to pay. You have rolled in pricing and you have the so-called all events tariff where the gas utilities, the buyers of the gas, will sign a contract saying we will pay for it, no matter how much it costs, and even if it is interrupted. We will pay the debt service on the pipeline. We will guarantee the debt service and will sock our consumers

for that debt service by adding it to the price of the other gas they get, you know, the gas that doesn't come from us.

Well, the notion of a state loan guarantee is just another attempt to find a gimmick to---or another backup for the fact that these things probably will not stand on their own feet economically. Now if there is a national decision to build a pipeline, there will be the national federal government finding some way of guaranteeing the financing. If consumer guarantees are not enough, there will be federal loan guarantees---and I really can't see Alaska coming up with a proposition that it wouldn't guarantee the bond of El Paso is going to have any effect on national decision. In fact, we may well be setting ourselves up to be sandbags on this if the commissioner of revenue comes back here and says that Secretary Blumenthal and Governor Brown and these people are going to support El Paso if we do it. And you rush it through the legislature in a special session before September 1st and the president makes his decision for Alcan on September 1st. Then they come back and say, well you lost your virginity, now we want you to do the same for the Alcan line.

The Treasury Department has been saying all along Alaska is the principal beneficiary of the pipeline. Alaska ought to be putting in the loan guarantees. Alaska ought to take the risks. And now they have got you. But what have you got? You've tied up a lot of Permanent Fund money at a public ut lity rate of return in a risky

investment that---I want to know on these loan guarantee programs the seniority of the state's guarantee; that is, if the pipeline can't pay, if it's revenue can't pay its debt obligation, who is it---is it Alaska that gets stuck first, or is it somebody else? If Alaska is going to be hit at the bottom of the list; that is, if somebody else is going to be hit first, it is not going to have much effect on the cost of financing the pipeline in its feasibility. If Alaska is going to be hit first, we have got a very expensive continued liability on the Permanent Fund.

GRUENING: I would like to just follow that up with---do you intend to follow that question up? I just wanted---before we got off---there has been a rumor around that there is some plan to suggest the Permanent Fund get into financing the gas pipeline. But assuming there are some business risks involved, does that---would that reflect on the reason there is a cause that the producers or the lessees of that gas had not come forward to finance a line?

TUSSING: I don't see any reason why a producer should want to finance it. They are not in the gas business, they are not financial intermediaries and the cost of capital---is maybe 20% or 25% after taxes. That is their opportunity

cost. Now why should they acquire a contingent liability against capital that can be invested that way but limits what they can do with it. The most they can get from money invested in the gas pipeline system is the public utility rate of return. The cost of the capital to them is much greater. ARCO cannot go out and borrow money as a public utility at the kind of rate the public utility can. If the income is not guaranteed the---proposing to set up companies to guarantee the gas pipeline their revenue, have consumer guarantees, etc. ARCO and Exxon didn't have any guarantee of revenue. And so, from their point of view, I would regard it as an outrageous suggestion. They are not going to---of the notion before the Federal Power Commission that they are going to be that enormous beneficiary from the sale of the gas. Who knows what the price is going to be and whether it is going to be a great boom. It is very minor compared with the oil revenue. If the president adopts the FCC's proposed pricing scheme, that is to price the gas at Chicago on the basis of the price of No. 2 fuel oil, to set the price at $2.25 in Chicago and subtract the cost of transportation from it, the oil companies really don't have a great interest in building that pipeline, or in helping build the pipeline.

MEEKINS: Yeah, but on the other hand, if they are concerned about, you know, increasing the wellhead and the state's case would

be similar, there might be---really don't know---there might be a motivation of an extra benefit that guarantees a substantial portion of the debt would reduce not only the interest cost but the---maybe the debt equity ratio and that might possibly, I understand, decrease the---it would lower the cost of service and increase the wealth.

TUSSING: Well, it might be, but the people who are advocating this approach are those who were saying a few months ago that the cost of service would categorically have no effect on a wellhead price. As I say, when the figures came out showing that El Paso would result from the highest cost of service, they said, well the cost of transportation has no effect on the wellhead price. Now you have the same people turning around and saying, well now let's commit our Permanent Fund money to lower the cost of service to El Paso and we will more than get it back in increased wellhead price. For the same people to make both of them is not credible.

MEEKINS: I agree.

GRUENING: OK, if we can get off the reality gap...

MEEKINS: I have another question. You were talking about the various economic growth of...

...and so the question is, when you are looking at it, did you come across anything that you felt could create, whether Permanent Fund or not, could create economic growth in the state that would be real economic growth in the sense that it doesn't necessarily increase population in the state but increases real economic activity...

TUSSING: Real economic activity increases population. The mechanism is you create jobs and people come in to fill the jobs. There are people coming to Alaska and leaving all the time. It is not a question of attracting people. What happens is the higher the unemployment rate here the more of them leave after... It is essentially the same question. Now, what industries you get may affect---and others---you know, they may have a higher average wage, but of course that will affect if they have a relatively high component of skilled and technical personnel and professionals they will attract and---the people who are qualified for those. No, I don't see how over the long run you can have a large effect on the---you can't create any real economic growth in Alaska unless you know, economic activities---the rest of the United States.

Oh, economic growth is proceeding in Alaska at a very rapid rate. Alaska economy is growing faster than that of any other state in the country. We are increasing in the sense we still have the same unemployment rate, or greater, and, you know, the people

after the pipeline---know what our average incomes show, but basically, we have got a bigger pie, but it is the same pie. And so what I am saying---you know, that is why I say, can you create real economic growth in the sense that people might be better off here, but it is still the same amount of people.

Well, what is better off, to reduce the seasonality? I think part of the extreme seasonality in the economy comes from the weather in the first place, but it happens because people like it. They want to go outside in the winter and they don't like to work construction in the winter. And things like that. It may be you can stabilize by spending the money on salaried state employees to work the year round in nice comfortable office buildings. That is one way of doing it. And you get...

GRUENING: Are there any other questions?

RODEY: You mentioned the Permanent Fund and financing those projects that normal private institutions won't finance. How can you avoid what Mr. Daniels called---that is Permanent Fund getting all that bad debt portfolio. There seems to be a consistent danger we are going to face as we develop some scheme for investing money.

TUSSING: If you look at the history of development bank

type institutions, of special lending funds in Alaska, look at EBA, FBA, BIA loan programs, etc. If you instruct the managements to make loans only to those ventures that can't get money otherwise, you are asking them to invest in those who are, by definition, high risk ones, and you are going to have a lot of bad loans and portfolios. That is the way it is going to be. If that is alright---if this is the way of spreading the money around, well fine. When the money first started coming in, the government purchased all the land in a city and then sold it back to the people at lower prices. That is the way of getting money into the---it was an urban development program. If you want to get the money into people's hands, that is one way of doing it. You get a lot of---projects that can't get financing when you got too much money. If you are going to give it away, well there are all sorts of ways to do that.

No, I don't think you are going to avoid that. I would like to see a real audit of loan quality in the existing state revolving loan program. And what the real subsidy is. When you take into account---when you classify these loans the way the banks are suppose to classify their loans and write off the ones that are really no good and write down the ones that are only partially collectable and then add the administrative costs, and say what have we got from the agricultural---for the small business loan. It frightens me to set up a multi-billion dollar---without taking a

hard look at what went wrong with the other loan programs. And taking a hard look at all these EDA projects, the EDA financing of industrial parks, the BIA industrial park projects and infra-structure projects that we were supposed to encourage in rural areas.

GRUENING: Hugh, did you have any questions?

MALONE: Thank you, Mr. Chairman. In the report that you prepared for the committee, in discussing the accumulation of surplus balances in the state general fund, it states that one way to make use of general fund balance would be to reduce the personal income tax. It says that the analysis showed a significant reduction in the general fund balance of a highly stimulative effect by the increase of disposable income increased demand, but it says that if additional revenues would be generated it would not be sufficient to maintain constant per capita at government expenditures. General fund balance would be depleted more rapidly than initial calculations indicated. It concludes by saying if the Permanent Fund is interpreted as a fund to benefit Alaskans the expansion generated by the income tax---I believe that would be the reduction of the income tax---could be the worst possible use of the general fund money. The question I have is---the next page at the

bottom there, discussed an idea that has been brought up from time to time, the transfer of payment directly to individuals. That would provide an economic increase in private---my question is, would the same considerations apply to that transfer distribution of monies to some form of Alaska, Inc., would apply to an income tax cuts. That is to say that you would generate additional revenues but you generate government costs that exceeded those additional revenues in that you might have a case where the expansion generated could be the worst possible use of general fund money and would you care to comment on that?

TUSSING: OK, as I said before, we can model the different impact tax deductions of Alaska, Inc., welfare payments, increases in state operating expenses, and there would be significant differences because they will be distributed differently throughout the population by income level and by region and some would have larger impact outside the state than others and it would be worthwhile to compare them. What we are saying here is all of these things do have impact and those that feed cash directly into the economy might well have more impact---or likely to have a greater effect on the management of state services than on the secondary ability to adapt to the time at which you couldn't maintain the services of the population you created. You may be asking---you said one of these uses may be worse, probably should say among the worst, from the point of view of stabilizing the growth. It could apply to the others as well.

GRUENING: Mr. Malone.

MALONE: Thank you, Mr. Chairman. Generally, one of the ideas was discussed when the various legislation creating Permanent Fund was under consideration. One of the ideas was that there would be some sort of buffer against the decline in state revenues with the dropoff in production of mineral resources. Does that make any sense to save money for a rainy day, or is that only a question of considerations. Can you put that into perspective?

TUSSING: Alright, you can model the situation. Assume that the demand for state services is going to remain constant in per capita dollars and you can add to say---increase 2% a year and you are aiming for a population growth rate of 2% or 5% a year, something like that. Then you can put it into your model and can see how much revenue is necessary. Then you can project how much your regular taxes would maintain the same structure of personal taxes in the state, the nuisance taxes, the gasoline tax, etc., how much that rate---and how much you are going to need from supplemental sources which would be either current mineral leasing revenues or Permanent Fund income. For every rate of contribution in the Permanent Fund you can show where the lines are going to cross, the point

at which the growth of the amount---the current revenue plus Permanent Fund income wouldn't be enough to sustain that level of service. Now for some amount of Permanent Fund contributions you may find that that point never comes. That the Permanent Fund may---and that you will always be able to maintain---well, your rate of increase in state services may be growing at 5% a year and the Permanent Fund's spendable income may be at 7% or something like that. It is entirely conceivable. But you would get that result only with very large early contributions, trying to minimize the budget growth---trying to keep growth in the next decade to a very low level.

If you spend 75% of the oil revenues every year, you are going to get to the point where the state's economy and the state government can no longer sustain the needs created and get to that point much faster. The model is very useful for that. The model did some preliminary projections on the basis of 25% contribution on the basis of various assumptions as to what happens to the general fund, but you can put together whatever assumptions you want. You can test various formulas for Permanent Fund contributions and come out with a theoretical golden path, where each year you assure that at least for 20 years, maybe for 30 or 50 years, there is always enough surplus revenue in the Permanent Fund to meet the requirements of the growth. But that can be accomplished only on the basis of an assumption as to what your goal is for population growth or growth of state gross income.

GRUENING: Are there any further questions of Dr. Tussing?

RADER: Doctor, in regard to the trans-Alaska gas pipeline, you are saying that if it is a viable economic project that money would be available to us at a public utility rate through normal public utility sources throughout the United States. It is possible that Alaska, in order to get in its royalty gas to tidewaters the trans-Alaska line would have an interest rate---would be justified in financing a line which would not be financable at a normal utility rate in order to have that option of 25 years of recall of our gas?

I have no idea of what the value of that option is. But I am only assuming, first of all, that you could establish going in, that the ability of Alaska to tax and the ability of Alaska to---the desirability of keeping that option of tidewater availability of oil and gas. Is there room for argument that we could participate in that situation in a project that a New York investor would not be interested in?

TUSSING: It depends how much it is worth to you to get to tidewater.

RADER: How do you think of that 25 year option with the gas pipeline? What do you think?

TUSSING: I don't think it is worth very much, myself. I think that we are going to have a lot of oil and gas explorations in the Gulf of Alaska or Cook Inlet, and there are presently uncommitted gas resources in Southern Alaska. If the state builds a spur from an Alaskan highway pipeline to Cook Inlet, for example, it is much more likely that the gas would go north on that spur than south. It is conceivable the cost situations may change sufficiently to make the Inlet area or Prince William Sound an inviting area for industrial development, based on the gas. No study has yet indicated that that is in the offing. There is no evidence for it and there is no serious argument anywhere that there is a petrochemical or major gas using industry waiting to be established because of the availability of gas at tidewater in southern Alaska. Any sacrifice the state makes now, either in gas revenue or in Permanent Fund earnings, speculating on what is going to happen five years from now, is that thing that happens 25 years from now has got to be awfully big at compound interest to justify the sacrifices made now.

The gas on the North Slope probably should not come to tidewater in southern Alaska. There is very likely to be a big surplus of gas in southcentral Alaska, the Gulf of Alaska, lower Cook Inlet, out the chain, etc. and it is going to be extremely difficult to market.

The trans-Alaskan gas pipeline is an idea, it is a vision, it's very little else in terms of the prospect for further development. It is a big payroll boom and that's why it is so attractive. Do we want another big payroll, big construction boom for the difference between the El Paso and Alcan in terms of the payroll. How much are we to pay?

How much is it worth to pay to get gas directly to Glennallen. Wouldn't it be a lot cheaper to give them the money to haul propane in for free, or something like that? I know how much it is worth but a lot of this discussion takes it completely out of economic reality. It has become a religious thing and I don't know how much it takes.

GRUENING: Now that we are into religion, can we get back to Permanent Fund? Do you have any other questions?

RADER: I have a couple of others, if I could, Mr. Chairman. During the discussion of Permanent Fund, it has been brought up from time to time that Permanent Funds can be used as a vehicle. You touched on this during your discussion and I apologize for not having read your paper. I assure you I will. It has been suggested that the Permanent Fund be used as a vehicle to handle the transition of Alaska non-renewable resources to renewable resources and I assume inherent to that would be that we would take the Permanent Fund and use it to

subsidize what would apparently be non-economic agruculatural products or fishing ventures perhaps on the Continental Shelf and the 200 mile limit or something else, I don't know. To use---I don't know really---I am not one of those who made that agrument. It was made that this fund could be used as a vehicle to get us from a non-recurring resource revenue to a recurring resource revenue. Do you really see that?

TUSSING: How long are we going to subsidize them and compare the cost of continuing subsidy to just how much income you could bring in by investing that money at the highest rate of return and using it to sustain normal state activity. I am no more sure than you are what the people who talk about this mean. I would like to see what kind of venture and what kind of subsidy is involved. Suppose the Permanent Fund contributes free half the money to establish a processing plant for bottom fish. Over long term the operating cost---or the revenue to cover the operating cost and the depreciation---are you going to just keep feeding in money from somewhere to keep that project going it it's not otherwise viable, and if you have to do that what do you want it for? Does this make the state's economy any less precarious than it was based mostly on oil? I don't quite understand the argument myself.

RADER: I don't either. I thought maybe...

TUSSING: Let me say, I have faith in the ability of the fish processing industry and of Alaska-based fisheries to grow and make enormous investment in the next two or three years or in the next five or ten years, and there is virtually nothing that can stop this aside from state and federal regulatory policy, but the pace and shape of that development is not going to be determined by the cost or availability of venture capital. That will be there if the projects can show that they are worthwhile. There may even be too much because there are a lot of Japanese and Korean companies who are writing down and writing off their previous investments in processing plants back home and who will want to get involved at almost a non-economic basis in Alaska industries and may want to get a foothold now and will invest at less than, you know, it thinks a prudent investor might hesitate at. That is true, we have another source of capital in the native corporations who have been doing that, too.

RADER: A different line of inquiry. Have you given any thought as to the governmental structure that you would recommend? You and I are both aware to some degree at least of our past, in the way we handled the past lending activities and whether they have been economic. I am like you. I have some question about the management ability of some of our agencies. Have you given any thought as to how the fund should be structured

for an executive and legislative oversight but with a view towards insulation from legislative pressures and public pressures, etc.?

TUSSING: Not enough to spend time on my prejudices.

RADER: That concludes my question.

GRUENING: Thank you, Senator Rader. Are there any further questions of the committee? Representative Meekins.

MEEKINS: Dr. Tussing, you were talking about providing some loans for small and medium enterprises in the rural area and that private institutions don't provide the captial needs there. Is it your view that in order to do that that we would have to set up regional development banks or some sort of development banks and that that wouldn't be possible or preferable to work through the financial institutions?

TUSSING: Well, I think most investments in Alaska should be done with or through or in partnership with existing financial institutions. I haven't given a great deal of thought to how this would be structured, but I would see the regional development banks being formed in some sort of cooperation between the Permanent Fund and existing financial institutions and the regional corporations. For example, they might joint venture, which would be utilizing the services and get money from the existing financial institutions. Might guarantee them and sell bonds---have a correspondent relationship---there is just many ways of doing it and I simply haven't devoted a lot of thought to its structure. It will be a

difficult problem. It is not an easy thing to work out.

GRUENING: On that line, Mr. Belden Daniels, who is our next witness, will give a little more thought to that. Are there any further questions from the committee? I want to thank you very much for a very thought provoking presentation. Thank you. I would like to call our next witness because I would like to wrap most of this up today. I think he is in the audience. Mr. Belden Daniels from Harvard University has submitted a very, I think very, comprehensive report and I would like to hear your initial comments, Belden. You have a resume here that looks pretty impressive. I know you are pretty modest and maybe you could summarize it for us.

DANIELS: Thank you, Clark. I am a lawyer, a former international banker. I teach development finance at Harvard and I am actively involved in putting development banks together in a number of places in Asia, Europe and in the United States. That provides me with a very good point of departure because I suppose that in the last 18 years of working in development banking and in the last 13 years or so in working specifically with regional and community economic development problems that I have read several hundred development banking acts and draft bills and I participated in drafting and having passed and funded a dozen or so myself.

I begin with a very strong feeling of genuine excitement about the quality of work which the State Investment Advisory Committee has already invested in this issue and which the consultants for the state, Price Waterhouse, White Weld and Bob Richards here in Alaska, have contributed. It is much easier for someone in my position to offer refinements and additions and clarifications on a draft which I think is essentially very sound. I am speaking specifically about House Bill 298 and I think somewhat improved version of that House Bill 300, which are the two that I have looked at in some detail.

I have about eight points, if I could kind of quickly go down them and make them fast, and then open it up to your discussion as much as possible. I guess I want to say one or two more preliminary things. I confess to being somewhat overwhelmed by both the potential size and scope of the Permanent Fund and also by the size and nature of the Alaskan economy in relation to your population base and I feel very cautious about wanting to be too quick in making judgments about the relevance of my own experience in many other parts of the world because, as Arlon Tussing has point out, you are faced with an absolutely unique situation. There are really no comparable situations in my experience in either Asia or Europe or in the United States which combine the particular concentration of extraordinary resources, capital and natural, in such a vast area with such a limited population. So I would like

to reserve the ability to be somewhat tentative in---as an outsider in offering too much advice and council about how you should proceed here.

I do think that there are at least three major areas in which that experience is relevant to you and useful to you; that is, the world wide experience is relevant and useful to you, without presuming what your goals are. And they get, Senator Rader, to some of your questions.

One, I think there is a way that you can look at your problems or your opportunities---a great deal of learning with regard to structure that is worth your careful consideration and I am mindful that having read all of the minutes of the Advisory Committee and the reports of your previous consultants, that through Price Waterhouse and White Weld you have had a rather thorough consideration of lots of that international development banking experience.

In the third area that I would offer some comment on, related to Representative Meekins' question, is the specific applicability of regional and community development experience to some of the structural problems that you are facing. The title of my paper I believe in very strongly and that is that I would urge caution on all of you in several levels. One I think, it is very important for all of us to recognize the very real limit on the capacity of any state government to influence profoundly the course and direction of economic

development within its boundaries and this is one of the areas which Arlon and I certainly share---one of the many areas in which we share a common kind of sense of caution.

Secondly, I think that all of us need to be extremely cautious in anticipating too much impact on the economic development of the state from the Permanent Fund. And, in my eight points that I would like to make, Clark, I think I can bring out the specifics of that in, I hope, at least quick conference. The punchline, of course, in suggesting this caution with regard to the role of the state in economic development and the role of Permanent Fund in economic development is that you have the opportunity of enormous scale, either to waste these tremendous capital resources that you have or to husband them very carefully, both in terms of the maintaining the value of the capital itself and invest in ways which will at least marginally contribute to the overall economic development of the state.

Point One: No development bank, no financial intermediary, can create any economic activity that isn't there in the first place. Development banks and any financial intermediary operate only on the supply side of the economic equation. If there is real economic activity for which there is not available capital, then the intervention of the Permanent Fund can affect that positively and can add economic value to the state. But if there isn't a market, if there aren't sufficient---if the costs of production are too high, the intervention of the Permanent Fund is not going to

affect that at all. Specifically, it is my understanding that at the present time petrochemical industries is not viable on a world-wide basis. The cost of production of petrochemicals in Alaska are too high to be competitive on the world-wide market. Now that may change and then maybe things that will lower those real economic costs. But there is nothing that the Permanent Fund can do to intervene in order to lower the costs sufficiently to compete in the world-wide market. Now that is very, very important, I think, in terms of lots of thinking about the Permanent Fund.

That means, for instance, in terms of Point Number Two, that subsidies are not the issue. We have a very interesting case in point in Massachusetts right now where we have very rapidly growing, high technology companies, between $50 and $100 million in sales, that are between 20% and 40% profitable and growing, and growing at the rate of 20% to 40% a year, which have a great deal of difficulty accepting capital in either equity or debt form for their needs. But these companies could be financed on Master Charge, and I think that that is a critical idea. In fact, there may be circumstances where you want to increase the price of capital in the Permanent Fund because it discourages non-economic activity and you want to discourage all of the dogs that will be attracted to the Permanent Fund if there is subsidy available. The issue is the availability of capital.

Point Number Three. The general fund is far more important--- and I am saying this in emphasis to Arlon's point---the general fund is far more important in terms of its impact on the overall economic development of the state than the Permanent Fund. I devote time to this in my paper, and I don't want to repeat any of that now, but the issue of expenditure policy, tax policy and regulatory policy will more profoundly affect economic development than the Permanent Fund. But the key punchline in Point Number Three is that you have got to operate your expenditure policy, your tax policy, your regulatory policy, and the use of the capital resources of the Permanent Fund as part of a coherent economic development effort in the state. If you don't the opportunities for sound investment on the part of the Permanent Fund will be less, the jeopardy of Permanent Fund investments in the state will be greater, and the likelihood of your general expenditure policy through the general fund and your investment policy operating against each other, I think, are very great. I suggest that there is extraordinary opportunity right now for the State of Alaska to think about a coherent overall economic development approach that recognizes the limits of all of its policies, individually and collectively, to affect the economic development of the state, but still is operated in combination, will have a much greater impact than operated separately. Just a simple illustration.. A couple of the issues that I have had the pleasure of talking about the last couple of days is from some of the native corporation areas

and with---in specific projects, one in the Aleutians, one in the Kotzebue area. You can't begin to talk about a significant fisheries project that is going to be sound unless you get the concrete in there for the pier first. And so, obviously, the infrastructure decision made through general fund investments has got to be made side-by-side with the Permanent Fund.

Point Number Four. The private market needs to be used first in terms of solving both market and capital issues within the state, and all of your planning and development in terms of any financial intermediary specifically that might be set up within it have got to be planned in collaboration with the private market and implemented in collaboration with them. This is essential if you are to husband your resources properly, both in terms of lowering the risk in which state funds are invested, and also lowering the cost. And I would suggest that ---and I will cite some specifics before we finish---that there are lots of opportunities for that kind of collaboration which are mutually attractive to the market sites, to the population of Alaska, and to the state government. And therefore, specifically, in the case of regional development banking subsidiaries of the Permanent Fund to deal with some of the problems of capital availability in the regions, I strongly support Arlon's position that they should be a collaboration between the native corporations, between the private market

place, and between the Permanent Fund. I will give a few specific cases in a moment. Without knowing in great detail the operations of the present revolving loan funds, what little I know confirms the experience in many other states and many other places that those funds which are in collaboration with the marketplace have a portfolio which is not only financially of better quality but in terms of the economic impact has a greater impact within the state.

Point Number Five. What are the potential areas for use of the Permanent Fund and how might the Permanent Fund be organized in order to deal with them? I think there are four that deserve very careful consideration by you and I will try to highlight those points which are either extending on a point that Arlon has made or in addition to them. First of all, in terms of large scale economic activity in the state, the very efficiency and consolidation which is taking place in money and capital markets on a worldwide basis means that there is capital available for those large enterprises and I think you should ask very carefully what the market imperfection is, either in terms of the private market or financial market, which would lead you to be asked to undertake either an equity investment in or a debt loan to or specifically a debt guarantee of a large activity which you should presume can be handled by the marketplace. Now, I would like to introduce another issue with regard to large scale enterprise. At the present

time large scale enterprises in Alaska are primarily being developed by resources from outside Alaska and you may want to ask yourself the question whether or not there is a reason to intervene in order not to change the underlying economic viability of the project, which is presumed to be sound, but to change the ownership, both in terms of who is bearing the risk and who is bearing the reward for that particular large scale undertaking. I am going to suggest a number of points a couple of models around the world which your---which the previous consultants of the state were not asked to look at because they were asked to look primarily at international development banking experience. There is very close to you a model that deserves your careful consideration in terms of this issue of shifting ownership for very large scale enterprises and it is the Canada Development Corporation.

Canada Development Corporation was created in 1971, I might note after a 10 year debate. I don't mean to suggest that this process may go on for a while, but I am fascinated that it did take 10 years to do it in Canada. It was created with an initial public investment by the federal government of Canada of a quarter of a billion dollars. Three years later it was able to have the largest public offering in the history of Canada, $150 million public offering, primarily by small individuals in Canada, primarily because of the soundness of the investments which it had made. It now has total assets in

less than a 6 year period of over a billion dollars and is producing a significant return on investments and has repurchased a number of rather large corporations which were originally under foreign ownership, primarily American ownership. Now, it is a mixed success, depending on the standards that one uses. But it is one alternative form of use of the Permanent Fund in which you would be operating on a market basis but with a somewhat different public purpose.

Second, in terms of uses. There are on a world-wide basis--- there are problems of the availability of intermediate long term capital for small and medium size businesses generally and particularly in remote areas. Now it is very important to note that this is not an Alaskan problem. This is a world-wide problem. And the question then that you have to ask yourself is whether or not you have an economy that is in some way particularly dependent on those kinds of enterprises for economic growth and therefore there is warranted on the part of you and the Permanent Fund some intervention. In Massachusetts, for instance, we are a particularly dependent economy on small and medium size businesses. We are also particularly dependent on the creation of new high value added and high technology companies, which, as I mentioned earlier, have difficulty of access to the capital market. Therefore, we have created a series of new development banks in Massachusetts, two wholly privately owned and several that have a mixed and private capital in order to deal

with that problem. Very critical point. That activity must be undertaken, planned and implemented in collaboration with your existing commercial banks and thrift institutions both federally and state chartered in order to create a mode of investment that is sound, from a risk standpoint, spreads the cost and builds those institutions more deeply into the economy on a sounder basis.

There are a number of models that warrant your careful consideration. One, again, is the Connecticut Development Authority, which in my judgment is the soundest of the intermediate and longer term joint ventures between public capital and private capital. Every European nation, every Canadian province, almost every state in the lower 48, has this kind of intermediary. This one just happens to be the best of them. OK. Third. There is a particular problem that deserves your attention in terms of support for regional and small community economic development and I would say on the basis of my experience in Appalacia, my experience in New England, and my experience with regional economic development efforts in Europe, that without knowing precisely the nature of your own economic situation in the---outside of the major cities, that this is a very serious problem, as Arlon has already noted, and that---but I think the extraordinary thing is you have a resource that does not exist in any other state, and that is the existence of the native corporations.

What I think is worth your serious consideration is the regionalization of parts of the Permanent Fund to deal on a joint venture basis with the native corporations. And I would like to note that this is the one case in which I think, underlined many, many times, that there may well be a sound economic and financial reason for the Permanent Fund to take a significantly lower rate of return, and that is this: The native corporations have a very high need to produce at the highest rate of return at the lowest risk on a worldwide basis as they can in order to husband their own resources and protect their stockholders. They are therefore naturally looking to investment opportunities in the Anchorage area, Fairbanks area and outside the state, as they should, I think---because of their opportunity costs. I think that they are essential to the sound investment in their region. It is not sound for them to have all of their economic eggs in their local basket, or even in the basket of Alaska as a whole, but that development will only take place if in fact the Permanent Fund is willing to compensate for their opportunity costs. This will require much more careful consideration and analysis, but I think in principle the idea is sound. I just, in fact, had the opportunity to sit down and talk in more specific terms about a specific project in Kotzebue where I think this is true. The project will be financed but it may well not be financed as soundly as is good for the project in order to have the shopping mall to get started in Kotzebue.

Once again, there are very good models for your consideration, some new and some old, in terms of this kind of collaboration. One set that deserves your further attention is the British Columbia Central Credit Union, which has had an enormous impact on regional and small scale community development in an economy which I would presume is not radically different from the Alaskan economy in terms of its overall construction, political dimension and demographic dimension and underlying economy. Related to that is an extraordinary institution in Germany called the DG Bank, known as the largest bank in the world, starting from small scale community development, now investment opportunities on a worldwide basis. A new institution in Massachusetts not yet operational but I think conceptionally very sound, the Community Development Finance Corporation is an institution that I think deserves consideration by you in the planning. I might note a small kind of example of refinement I would suggest for consideration in HB300, and I know this---I think it is a mistake in the community development of units of the Permanent Fund to limit the form of investment to only debt and debt guarantee. I think equity is essential for community and regional economic development and the Permanent Fund should have the opportunity of making those kinds of equity investments on a joint venture basis in a minority position with the native corporations in the kind of case that Leo and I just had an opportunity to talk about.

Fourth and finally, in terms of uses of infrastructure investments. Be wary, be cautions. There is an enormous body of experience on a worldwide basis of public investments made in anticipation of private market investments following and those public investments are lying in the fields. Now, where there is the opportunity for a market investment like a fishery, like a fish processing plant and in the Aleutians, but an infrastructure investment needs to be made first, then we have---in order to realize the private investment---then there is a very great need for collaboration between general fund infrastructure investments and Permanent Fund income producing investments.

Point Six. Without having access to either private market projections for the economy or the university's projection, or the government's projection, under no circumstances in my judgment will there by the capabilities for absorbing substantial amounts of Permanent Fund resources in any of the above four categories over the foreseeable future. And it is interesting that I arrived at the need to make private market investments, not from the standpoint of security, not from the standpoint of evening out the long term ups and downs in the cycle of state government revenue, but from the standpoint of development banking. And I very much support the language of 298 and 300, which say no less than 40% in terms of investment grade secruity and---but no more than 30% in community development, or no more than 30% in productive private enterprise

Now, Point Seven I have already covered and that is good. There are other models in addition to the ones which you asked the original consultants to look at that are worthy of your consideration. There is no need for any kind of activity that you might undertake with the Permanent Fund to reinvent the wheel. Somebody has been there first and made plenty of mistakes and finally of all there were times creative models ---models are available for your use and should be used.

Eight. Looking at the structure of the development bank and is proposed in 298 and 300. A general proposition first, very important. Some members of the committee, I think, will be a little sick of hearing me stress this. There is one great strength in a development bank and one great weakness. The great art in design is to maximize that strength and minimize the weakness. The strength is that it is the most efficient mechanism for making a public capital investment that is sensitive to market conditions in order to contribute to economic development. It beats setting up a bureaucratically administered fund in terms of both equity and efficiency by a very long distance, and it beats tax expenditures and tax incentive by a very long distance, which are the two other principal forms of public investment. But the price that is paid is the price of accountability to a public purpose, both to the executive and to the legislature. There is a history of development banks

being lost from public control. Now, I want to re-emphasize that I think the basic plan of 298 and 300 is very sound. I think that in terms of both counsel and the decisions of the investment advisory committee and the drafts that have come from the executive and legislature are essentially sound in detail, as well as concept. There are 30 or 40 pages in my paper that literally go through the draft line by line, comment on them, the meanings of the phrases and any more detailed technical issues that I think deserve some consideration.

What I think deserves your consideration is how to insure that the resources of the Permanent Fund are planned and implemented in conjunction with the general fund for purposes of economic development, not for purposes of market security investments, investments for purposes of economic development, that insure that the planning is consistent, but that the investment decision-making of the Permanent Fund is in no way compromised. The whole idea of creating the Permanent Fund is in fact to remove---one of the major ideas as I understand it---is to remove revenue from the expenditures of state government. And if you think it is done in Alaska, you should see it in Massachusetts. The expenditures always rise to meet revenue whether you need them or not.

Forcing an investment pace which is not there is another problem. I have lived through disastrous efforts of the federal government in the '50s to try and jam money into ghettos at a rate that could not be absorbed. If you want to see economy in people's lives

destroyed, that is a good way to do it. So the issue here is to make sure that not only is this avoided but that the investment pace---that the legislature and executive do not insist on an investment pace which will create unwise investments that will only come back to be of much greater problems in the end. Now, I am going to take advantage of the fact that I am an outsider, unfamiliar with the custom and history of executive and legislative arrangement in Alaska and not propose a specific solution to that problem. I think my function in that case is better served by reacting as counsel to ones that fit the genius of the Alaskan situation, based on the experience in many other settings outside of Alaska. But I guess my summary feeling is that there is a---that a very fine start has been made through the drafting of 298 and 300, through the kinds of sensitivities I have been hearing from private market people, people in the executive and legislature, people in native corporations over the last couple of days. And the issue is to build on that excellent start in a process which continues to collaboratively involve the private market, the executive, the legislature and the users of---services in the further refinement and in the implementation of the plan.

GRUENING: Thank you, Dr. Daniels. Are there any questions from the committee? I have one, if no one else does, to

start with. Earlier, Arlon testified he saw the range of possible investments in the magnitude of $40 or $50 million range and you are aware, Dr. Daniels, of course, that the two bills that you mentioned---298 and 300---set aside 40% of the incoming Permanent Fund revenue to kind of savings, which wouldn't be used for that kind of investment in the state development banking and investment in the state. Given the fact that its magnitude is somewhat smaller than you might have guessed earlier, would you suggest that that percentage in investments---let's say not a development banking type in the state---be larger. In other words, that 40% ought to be raised?

DANIELS: Well, I would have several observations. One, if I understand Arlon correctly and understand the paper where he talks about this in somewhat detail, that's a hunch on his part subject to more careful econometric modeling on the part of the university, further grants that might be made by administration for consultant assistance in that regard. I think that one of the tasks that is before the committee is to take a very careful look at kinds of projects like the ones that Representative Schaeffer and I were talking about earlier, in order to see totally what is out there. You also do need to do some very careful modeling and you need some computing models so you get some different judgments because, as you know, you are still very much in the dark as to how to use some of

these econometric models. So that needs to be done before anybody can start making some more rigorous hunches.

Two. Having been through this for 18 years, and having just been through it in Massachusetts with six new development banks, in the end no way to know until you get out there. Because you are operating on the supply side, you take your best anecdotal information and you take the best econometric information, and on the basis of that you make a judgment. Then you create a mechanism which will grow according to real demand being out there. I want to give you an example. Massachusetts has probably the best housing development agency in the country---probably the world---in terms of the state housing finance agent. When that institution was first created in 1968---that is a very short time ago---that institution was created with an initial $50 million. That institution less than ten years later is a $2 billion institution because the demand was out there and it grew to meet the demand. The initial ceiling was set and the demand appeared to be greater than initially anticipated. The control was a ceiling of indebtedness which it could incur and the legislature consistently raised the ceiling as the demand was demonstrated.

GRUENING: Do you see a possible parallel in initially setting the ceiling for the development corporation that we

may establish in either 298 or 300 below that that would come into the Permanent Fund from the 25% mandatory contribution?

DANIELS: Well, I would make one other observation. You already have a ceiling.

GRUENING: Well, no. You have one in the constitution. You have another one from a draft standpoint. You already have a ceiling in 298 and 300.

DANIELS: That's right. A ceiling on two categories of presumably higher risk investments in which all of the balance must go into investment securities. I think I want to be cautious at this point in suggesting that it is possible that the legislature could set lower ceilings and then subject to proven demand to raise them. I think I would want to suggest that this is a possibility which others have tried worthy of your consideration. I don't think I want to make a judgment at this early stage in the game if that is precisely the rule that they follow. I would like to note, however though, that with regard to investment grade security, it is my understanding in reading the legislative history and reading the minutes of the committee, in reading the work that has been done today, that the intention is to invest in the full range of marketable securities that are available in order to maximize return at a prudent level of risk, and that what is at issue here is a

form of investment that is considerably beyond characteristic short term secured placement of debt on the part of the state with idle cash flow. I also think it is important to realize that the Permanent Fund is not only potentially one of the largest development banks in the world, it will be a very large investment bank by world-wide standards operating on a world-wide basis in terms of this portfolio investment and has got to have the most able management that money can buy. One of the reasons again, from an efficiency standpoint, that independence for investment decisions has got to be protected.

GRUENING: Questions?

MEEKINS: You have down in your paper and re-emphasized today it isn't enough for the Permanent Fund to plan what we would like to do with the Permanent Fund, but it must be coordinated with the expenditures of the general fund for a number of reasons and that brings up a question related to that, that the planning course in order to do any kind of planning or thinking needs to have information and judgment about what's going to happen in the future or what is happening. You have to take inventory of the current situation. It seems to me that---I have been thinking about that after reading your paper and others that one of the benefits of the Permanent

Fund, even though the major impact is going to be what we do with the general fund, one of the real benefits of the Permanent Fund provides a kind of catalyst or reason to get organized and that is what we are doing now. I am wondering how you feel---what kind of--- if you thought about what kind of things we need to do in order to start gathering information. I know that is necessary, but I can't really perceive what steps we take in order to have information that we can make decisions upon.

DANIELS: I really appreciate that question because it gives me an opportunity to say that we have this unfortunate tendency in the United States to think that planning somehow is useless in America---and yet what I would like you to do, and I think you precisely hit the nail on the head. The Permanene Fund creates an opportunity to begin to think about Alaska as a public enterprise, and what I am suggesting for you is simply that you begin to adopt as a state the same standards of planning that any multi-national corporation takes for granted as a mechanism for marshalling and husbanding your assets in order to produce larger return on those assets.

I do think that there is a way of thinking about the general fund and the Permanent Fund, in which the Permanent Fund is really the retained earnings of the people of Alaska. There is the difference on an annual basis between your revenue and your expenditures. Now, most states live by the hand-to-mouth business where they spend

every penny of today's expenditures to meet whatever revenue they have in hand without any thought toward investing those resources in order to create a sounder longer term public enterprise. I never thought about that idea before until I had put before me the kind of awesomeness of the Permanent Fund itself.

The issue every year is to expend and invest on a current and long term basis the expenditure of the state as a whole in order to, number one, produce a higher annual net earning which will go into the Permanent Fund, and in order to produce an increasing growing revenue base. Now, without going into all the details of it, I think we do need five year planning, or if that is too dangerous a phrase, pick three or seven, and that you need to begin to project both for the general fund and for the Permanent Fund expected revenue, levels and qualities of expenditures.

I do want to make one disagreement which I will illustrate in a moment. In order to be sure that you are husbanding all of those resources and maximizing them, you are going to make mistakes. You know, we do create Edsels in this world. And---but you aren't going to make as many as you will if you just go willy-nilly. Now, I do want to make one, I think, distinction---and I don't know whether Arlon is still here to respond. Well, I want him to. I will get him in a bar or something afterwards, but we are unfortunately still living in the

never-never land of dear Keynes who told us that every public expenditure was a good as every other public expenditure and it ain't true and all you have to do is look at England and Massachusetts as two terrible cases in point if you want to see that it is not true. The Permanent Fund must also require that you increase the quality and productivity of your general fund expenditures so that they are made only in terms of the increase of return that they are going to produce. I further suggest in the paper that you must begin to project, not only the financial soundness of Permanent Fund investments, but the economic impact of them, and then as part of this planning process you must measure---you must audit the economic impact as well as the financial impact to determine whether or not those investors did in fact live up to their economic projections, as well as their financial projections. That is part of the planning process, too. In that regard I think 300 is better than 298 in one specific where 300 requires that annually the executive and the Permanent Fund management account to the legislature for what has been invested and report in terms of what future plans are.

RODEY: Let me shorten Russ's question down a bit. What is th best measure of the amount of additional capital that our economy can absorb and where do we go in the parameters of the desirable amount of capital?

DANIELS: That question is a little different than I thought. I can't give you the answer you want. The measures that you want are the specific fiscal measures of return to the state. If you make an investment of state capital, if the state takes some of its revenue and invests them in the Permanent Fund, then the returns for the state is not only the return to the Permanent Fund itself of the soundness of that investment, but the returns in tax dollars to the state itself. We are now putting on the new development banks in Massashusetts a two track accounting. One that accounts for the financial soundness of the enterprise and one that accounts for the reduction in social overhead costs and the increase in tax revenues created.

Now, we are very much at an early stage, all of us in the world, in being sharp in that kind of analysis and projection, and even the cost benefit analysis of the World Bank, the InterAmerican Development Bank, don't apply because for better or worse the State of Alaska does not have its own currency and does not---and so you cannot be as rigorous in the attribution of the economic benefits based on your investments. We have to factor that down. The process is two points. One, I can't say what the quantitative answer is, but I can say that it is the use of some of these techniques of measurement that are crude at this point, but I think over the next

ten years are going to become much more refined and you should be a part of that refining process.

Obviously, as public trustees, what we would like to do and must do is to draw a curve and we want to know the point at which the capital going into market can't be absorbed in an acceptable manner, whatever the acceptable manner is.

That starts by not subsidizing. That starts by the fact that those investments that are going to be made are going to be made in terms of a market return and that it's only in terms of infrastructure investments where the subsidy already, according to 298 and 300, is borne by the general fund and not by the Permanent Fund. It's really a capital subsidy and a proper one because the external benefits again returns to the state. And possibly with the one exception---the one that I introduced---the possibility of differential costs for joint ventures with the native corporations for essentially sound projects in order to correct for their opportunity costs, which rightly encourages them to invest outside of the region, not inside. Are we together or not?

RODEY: One last point. Are there a number of models we can look to for the limited purpose of development banking in determining what capital or proper capital absorption is in a market?

DANIELS: Well, analysis as I understand it right now is being proposed to be done with the executive---with consultant

help, using models which they already have available to them. I think that is absolutely essential to your purpose. I think that should then be corroborated by anecdotal evidence that you gather and I think it further then should be tested by putting a series of assumptions into the several models that are available to you. I was out of the room when Arlon was referring to the man in the arctic model, but I am aware of it and it seems to me that it is a tool, that is---you want to take the analysis that is done by the treasury and perhaps there is some other data that is now available and I am not yet aware of, and then you want to begin to make some assumptions in terms of investment modes through your econometric models and begin to see.

GRUENING: Representative Miles had a question.

MILES: Thank you, Mr. Chairman. Dr. Daniels, I missed a point that you made early in your presentatiaon when you were speaking of the potential areas of use of the Permanent Fund in the regional small community development entities. We have been hearing quite a bit this afternoon about no subsidization and if it is an economically advisable program private capital will generally come in and take care of the project. But you indicated, and I didn't follow from Point A

to Point B that in the small community or regional development area we could take a lower rate of return. Can you tie those back in?

DANIELS: Yeah, the issue is somethin~ we call opportunity. First of all, I want to make one thing very clear, that any pro-menance that we have in the money and capital markets today on a world-wide basis are precisely because of the increase in effi-ciency of that market and its consolidation of resources and the problem that is developing is that there are left behind lots of relatively small undertakings. Now some of these you have got to realize can get very big. We literally do have companies in the $100 to $150 million range in Massachusetts that cannot at the present time, because of the structure of the marketplace, get adequate equity and long term debts. Those are pretty good sized.

What happens is---is that the opportunity for substantial return at a lower risk are available to these increasingly large financial intermediaries on a world-wide basis that do not make it worth their while to take the lower return through increased cost and possibly through increased risk. The issue here---and I don't want to get too technical---the issue is to create mechanism in collaboration with the private financial intermediaries which reduce information costs and which reduce transaction costs. I give you specific case in point. John Hancock Life Insurance Company

today invests $1 billion a year. Twenty-two people do that. It is not worth John Hancock's while to consider any investment smaller than about $20 million in a firm that is smaller than about $100 million. The cost of an office and the attendant risk, even though these are otherwise sound investments, just don't warrant giving the opportunity for placing their funds.

MILES: So they wipe out everything...

DANIELS: That's right.

MILES: ...under $100 million...

DANIELS: Absolutely.

MILES: They don't even...

DANIELS: Won't look at it. John Hancock last year made one investment in one company below $100 million. Now, the same is true of the native corporations. Their task is to maximize their return and their opportunity for doing that are greater outside of the region than inside the region. Now because of the enormous public benefit to reducing welfare

costs and reducing unemployment insurance costs---public benefits, forget it, state benefits --- right to the treasury of the state to lower these annual expenditures and to increase tax returns. I am saying, I feel on a hunch, that there are lots of opportunities for collaboration with the native corporations in which the return to the state, a fiscal return to the state, in specific dollar benefits warrant a reduction in return through the Permanent Fund and in collaboration with the native corporations. Now further with your own commercial banks and savings banks there are also mechanisms for making---for dealing with their opportunity costs in terms of extending the terms of financing, in terms of reducing their costs.

I will give you a case in point. We had an analysis in Massachusetts of our fishing fleet in light of the 200 mile limit. In fact, we just considered what are all the issues that we need to undertake in terms of a comprehensive approach on the---with regard to the state to try and see that Massachusetts which has a situation very similar to yours is able to really take advantage of the 200 mile limit. We found that the average life of fishing vessels in Massachusetts is 29 years and 7 months. We further found---you can imagine that there is some real dillies out there. On the other hand, we found that the commercial banks and even the thrift institutions were not making loans beyond ten years. They were doing that for sound reasons. The issue is for us to come up with an

insurance program operated through a development bank so that it is operated on a sound basis which will make it attractive for those banks to extend their term and also make it possible for them to lower their equity requirements from 25% to 10% in order to make it more possible for fishermen to be able to buy their boats and not, you know, be so totally depending on piling stuff up on the---until they could actually go out and get one. Now the point I want to make is that is every instance John Hancock is acting reasonably, your local commercial and savings banks in Anchorage or Fairbanks are acting reasonably, the native corporation is acting reasonably. You also can act reasonably in terms of your return on investment to the state by working in collaboration with them to create a joint venture situation that benefits you both.

GRUENING: Further questions of Dr. Daniels?

MEEKINS: Thank you, Mr. Chairman. In regard to infrastructure investment, it seems to me that some of those--- it goes back to the idea in my mind of fighting with the general fund. It seems to me that a lot or at least some infrastructure invesments, the ones that come to my mind, would likely be good candidates for direct appropriation from the general fund, those that have anything to do with

transportation costs being lowered or dock facilities or something like that. And it would seem then that you would---in some cases it would be better to take money out of the Permanent Fund and invest it in those things and then take the general fund money for the return or just a direct appropriation of the general fund, or would it make any difference?

DANIELS: OK, well, we Americans do some other funny things, and one of the things that we do is we finance long term physical assets---50% of all long term physical assets are financed on a current account basis by government. You don't know, if one were a business one would never think of doing something like that. The point of using the Permanent Fund with regard to infrastructure financing is to take an actuarial view of long term physical assets and say that it is not necessary to pay for 100% of the cost of a dock facility or an airport or a road in year one, if in fact the useful life of that investment is going to be spread out over a period of time, the economic benefit, the tax benefit coming from it, etc. Not only is the cost going to be emphasized over a life, but the returns on the investment are going to appreciate to the state over the term of life. Now what I am suggesting is that I intuitively trust a development bank to make a sound assessment of the cost of that physical asset, you know to control the cost of building the airport and to police the maintenance of it. It is just a different way of thinking, different way of operating,

and you will create a more efficient asset that will be better maintained if the management of that financing--- and it will be financed on a more sound basis if the management of that has gone through the Permanent Fund.

Now what I am saying is that if there is any cost difference between the realistic return on the investment, if in fact it is something that is totally external like a road, and you don't want to put toll bridges up, or for instance you do want to assess part of the cost of that---maybe you do want to assess to the fishing venture part of the cost of that user charge for making the public investment to the extent that there is a return on the investment that is insurance, then that comes back to the Permanent Fund to the extent that it costs $2 million and you are only going to get an internal return over 15 years of $1.3, then the general fund has to pick up the difference of $700,000, but I suggest that is more efficient than the general fund automatically going out and appropriating a million dollars in a rich year for a project which, because you are not paying attention to it, ends up costing $3 million, which then is not going to be adequately maintained because nobody is minding the store.

MEEKINS: What about a case of an infrastructure investment that has completely external rate of return? For instance,

a road where you have one particular group of people, but you don't want to charge a toll because it limits the amount of use and therefore theoretically the total benefit to the public is reduced because some people won't use it if it has that cost. If that is the case you won't have any revenue produced from it. Or very, very little. When you think of efficiency in doing the Permanent Fund, would you think that the total return should be taken up by the general fund or...

DANIELS: Yeah, but you might finance it on a---I mean the Permanent Fund must---I was about to say, you know, hopefully--- the Permanent Fund must be managed and will be managed, or else we are all gone, according to the high standards of a world-wide financial intermediary.

On that basis the Permanent Fund---this gives me an opportunity to make another critical point---don't think about the annual paid-in net retained earning as being the Permanent Fund. That is only the equity capital base of the Permanent Fund. Permanent Fund, if it is soundly managed, like any good development bank, will have the capability of accessing world-wide money and capital market in terms of its paper and the British Columbia Development Authority involved in New York, London, Paris; the British Columbia Central Credit Union that I referred to borrowed in world-wide capital market to support a dock that are in little villages in British

Columbia that no financier in London has any confidence in. But they had confidence in the British Columbia Federal Credit Union or in the British Columbia Development Authority. One good thing, it may well be much more effective for you to finance that airport by accessing international capital market and spreading the cost over a number of years. So you have to look at the expenditure side separate from the revenue side.

MEEKINS: Are you suggesting that that kind of borrowing by the Permanent Fund would be at a lower rate than, say, we can get general obligations bonds for?

DANIELS: It may well be. That depends at various times on the state of the municipal bond market. The municipal bond market is cheaper but it is a very inefficient market and it may not always be the most---it may be at certain times that it is cheaper to borrow on a world bond basis.

MEEKINS: It must be the state's general obligation bonds were more expensive so to speak---why would you bother to borrow through the infrastructure investments? Why would you want to borrow through the Permanent...?

DANIELS: Well, there are other considerations, and that is that the---to the extent that that is an obligation of the Permanent Fund---it is not a part of the indebtedness of the state and frees the indebtedness for other purposes. I don't know the specific structure of your state bonded indebtedness. To my understanding, it is relatively high on per captia.

MEEKINS: Yeah. Usually like these corporations have been set up are viewed anyway by the bond market as being part of the indebtedness, even though you say this is not a...

DANIELS: But the Permanent Fund is a somewhat different creature. It has got, eventually, $1-$2 billion worth of equity standing behind that bond just in and of itself. Why look to the state when you got that kind of a resource standing behind it? The point is that we want to separate out the decision as to whether or not to use the Permanent Fund. We want to look at the expenditure side with one set of eyes and the revenue side with the other set of eyes. It may be efficient to have it managed by the Permanent Fund on the expenditure side but financed through the general obligation bond market. It may be efficient to have it managed and financed by the Permanent Fund. It may be efficient on the revenue side to account for user charges which would come back to the Permanent Fund and make up the difference through the general fund, or it

may be efficient to finance it all through the general fund. I mean I can even envision, and this gets a little speculative for this type of discussion, but you know these facts between the Permanent Fund and the state, where financing constructed by Permanent Fund and the payment from the state is on annual revenues as a user charge by the state as a whole.

GRUENING: Further questions from the committee? He raises a thousand very important, very interesting questions.

GARDINER: I have got so many notes here that I can start with Point Number One.

GRUENING: I hope Dr. Daniels might be available tomorrow and in the future for that matter---that is something we need to discuss. Feel free to put your question in writing.

GARDINER: I appreciate that.

GRUENING: I just have one question. You mentioned something that you may want to follow up later. You mentioned regionalization of the Permanent Fund. What do you mean by that? In what way would it be regionalized?

DANIELS: OK, let me again---and I am kind of looking at Jim Edenso when I say this. In my view, the essential structure of 298 or 300 is very sound for a development bank, subject to specific comments and criticisms that are made in this paper, in which I simply raised further questions. I would suggest that both functionally and geographically consideration be given to some differentiation in terms of task. And if I may take the opportunity to speak for a minute on the functional side before the geographic, because I think they are related. The private market is very wise in separating out its sources and uses of funds, its risks, its management, according to different kinds of tasks. You know, we don't ask thrift institutions to be short term inventory and working capital commercial banks. We don't ask either of them to be venture capitalists because the risks are very different, the sources and uses of funds are very different and the kinds of people who are good at it are very different. My own experience, particularly in the United States in terms of development banking, is that it is wiser to separate out those functional operations as subsidiaries of an umbrella development bank, and I would suggest for consideration the possibility of the Permanent Fund as proposed in 298 or 300 actually having some operational subsidiaries who deal in venture capital in intermediate and longer term debt financing, infrastructure financing, etc., something we just recently did in Massachusetts.

Geographically, we have a world-wide experience. This is true in terms of international development banking, it is true in England, France, India, you name it, that if you are talking about a huge geographic area where the problems are different, the people are different, and the ability to access risk is different, it is wise to have your capital gathering capability and your kind of centralized technical support capability at the center, but to decentralize risk assessment--- I don't know Alaska. I mean, as I said earlier today when I was kind of out in the suburb, the furthest end of the Bush that I have been. I want to be careful. I don't know enough about Alaska to say that your distance is so large, your differences are so great, that it is necessarily important to do that. But my hunch is, it is, and that you would be wiser to have a series of regional subsidiaries of the Permanent Fund as designed in 300 that would operate in different parts of the country under very strong direction from central management in terms of their goal, you know, in terms of their direction and what they do, but not on a day-to-day basis.

GRUENING: OK, it is getting late, but we have other people. I would like to get the feeling of all the members here as to what they want to do. I want to wrap this thing up by early tomorrow and we could go later tonight or we could quit now. What is the general consensus of the committee?

Anyone want to go an additional half an hour? I think we could pick up a report. The next item would be a report from Jim Edenso on where the Permanent Funds are invested presently. Does anyone have any druthers on that?

RODEY: I have to leave personally, but what was your plan for tomorrow?

GRUENING: Start at 9:00 and wrap up about 11:00 or 11:30. I want to ask Mr. Edenso, Jim is it possible---you will be here tomorrow for that?

EDENSO: Yes.

GRUENING: OK.

GARDINER: What are your other witnesses for tomorrow?

GRUENING: We have Mr. Edenso from the treasury and Dick Haggart will be giving us some revenue projections, both short term and long term, and then we will get into asking what the committee members want to do on following up some of the big questions that have been raised today. We did an issue paper

that we want to send out to the people who are interested in the issue and would read the issue paper, and solicit responses and discuss the rest of the program. We may want to work out some sort of joint effort on following up some of these questions. I want to thank Dr. Daniels for a very enlightening presentation. Anything further? We will stand in adjournment until 9:00 tomorrow.

Proceedings

of

The House Special Committee on the Permanent Fund

SYMPOSIUM

September 10, 1977

Anchorage

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

PRESENT: Dr. Barbara Berman, University of Maryland; Dr., Donald Gordon, Simon Fraser University. Citizens' Panel: Dr. George Rogers, John Havelock, Dr. John Lindauer, Jamie Love, Tim Bradner. Members of House Special Committee on the Permanent Fund: Clark Gruening, Chairman; Russ Meekins, Bill Miles, Mike Doogan, Adminstrative Assistant. Senate Special Committee on the Permanent Fund: Pat Rodey, Vice Chairman.

Introductions made by Chairman Gruening--continues:

GRUENING: I had a long statement on the Permanent Fund and my views on it, but due to a self-inflicted wound playing racquet ball yesterday, I'm going to have to cut it short. I would like, before I turn it over to the economists, to state briefly, we do have a very challenging task before us. I know when I originally favored the concept establishing a Permanent Fund, I saw many goals and many objectives that the fund could accomplish. As I get into the subject and see the complexity of it, I see that maybe our goals can be achieved by finding that which is best achieved by a special fund such as the Permanent Fund.

Today, I want to explore that. I want to explore the possibility on a philosophical basis as opposed to what your pet investment may be. I know that people discuss various things the fund can do and we, as committee members, have received suggestions from people for investments--everything from artifacts to wheat.

What we want to explore today are the reasons why that particular investment is consistent with your philosphy or your goal that you wish the Permanent Fund to seek. With that I'd like to turn it over to Dr. Bergman.

BERGMAN: Thank you. In trying to think over what kind of a contribution I could make, what occurred to me was to try to say some things that would sort out the issues, which would try to separate one issue from another and show how they're related. What economists have to offer, I think, is rules of thumb and wisdoms of various types. I think our major expertise is trying to sort out the issues. So let me try to do that. I don't think I'm going to tell you anything you don't know.

A good way to start out would be to discuss three kinds of scenarios for the state. Let me call the three scenarios: the spend as you get scenario--dole it out as fast as you get it--that's one. The development fund approach, which is to try to take some of the oil revenues and use it to develop the state. And the third scenario, let's call the gilt edge approach, which is to take the Permanent Fund and essentially invest it, for the most part, in the Lower 48, in the capital markets and use only the income.

Now, very kindly provided here was a thing which without which no professor travels--that is a blackboard. Let me try to contrast these and then show what they entail in some respects.

We have three panels here and measure time on the horizontal axis and dollars on the vertical axis.

This is the spend as you get approach. Let's assume, without inquiring for the moment where the numbers come from, that at more or less a current level of services there are certain financial needs which the state has. Let me for the moment put those down as more or less horizontal, perhaps with a very slight, a moderate growth trend; but certainly not a big growth trend. Let's call that need for spending. At the moment, there are some non-oil taxes, and let us assume that those also, tax breaks remaining the same, have a more or less horizontal trend. So these are non-oil related taxes. They depend on the economic state. They would presumably grow unless the tax breaks change as the days go. And then, of course, what we've got is this hump of the oil revenues which are going to exceed by some very considerable amount for some considerable time the needs for outlay of services at current levels. The spend as you get approach very simply is just to do this sort of thing: use them all up, and then when they run out, go back to that situation. Of course that is the approach the Permanent Fund presumably designed to avoid. I just put that in as a base line.

The next one represents the gilt-edge approach: g-i-l-t. I suppose some of those who want to see the development of the fund might spell gilt in another way. There again, people assume that the fund revenues will not be used for development purposes. All of it, and this is an extreme case, will again be devoted to gilt-edge investment. So the non-oil revenues will not be any different than they would have been, but the spending will look more like this. There will be perhaps some spending out of the oil revenues for current purposes--again I'm putting needs, the same in the second panel as in the first panel. But, after a while there will be considerable income from the Permanent Fund assets and the Permanent Fund income will take over as the oil revenues come out. So there might be some excess of the Permanent Fund income over needs; but in general, possibly that might be devoted to raising levels of services or sending some of the funds back, possibly lowering taxes or a variety of things.

The third approach is the development fund approach, and then the scenario is something like this.

I might say, the scenario from the developmental fund approach is somewhat controversial; that is, the first two I put down naturally you can't foresee even how gilt-edge investments will do. We all know that. Nevertheless, you might say, this is a conservative approach from the point of

a risk. The one we're about to talk about perhaps is, at least from the standpoint of a risk per se, somewhat more risky.

But the more optimistic scenario, from some points of view anyway, goes something like this. The use of the fund for development purposes will broaden the tax base, and instead of having the non-oil revenues flat, as we do in the other two cases, they sort of take off. Here again, we have the oil revenues helping us and they peter out. It may be that some capital has also been lost because there is going to be a greater risk--the kind of loans we make--so the income from the fund will probably not be as big as it would in case 2. But nevertheless, there'll be some and the non-oil base in the state will have done well enough to cover the needs. Those are the three scenarios.

Now, say the third one is not as sure-fire in the sense of being able to tell what will happen as the others. For example, Dr. Tussing's view is, in general, with certain rather limited exceptions, the use of the fund as a development fund would not have this take-off effect on the economy. In general, the economy is going where it's going. It's got a dynamic of its own. It depends largely on such

an opportunity, the investment opportunities there are will be financed through private channels, which will be adequate to finance in the deserving ones, the ones that will pan out. That kind of adjustment has what the private sector does well; if there is a shortage of some type in Alaska which can be remedied through capital flow ect. This is one view. That view is that, in fact, the development fund scenario that I've drawn here wouldn't really work out. That is the non-oil revenues will not be materially affected by whether it is used this way or that way. What will mainly be affected is the amount of the capital which is left and return on it. If you ask me what I think, I would say that you need to decide whether you do believe in the efficacy of the development fund apprach. I'm sure a lot of people do. I may say, that since I knew I was coming here, I did some work in Washington trying to find out what some people in Washington who are in capital markets think about closed funds to places like Alaska. Ther general views that I got were that the market mechanism for getting funds into places like Alaska has much improved in the last 10 years: federal infra-structure, federal homeowned bank boards.

So if you believe that, then one might be rather doubtful that the development fund should have been. On the other hand, I tend to be skeptical of doctrinaire pronouncements

of that sort. I think there is some merit to that scenario, although I would certainly argue caution. I would say that, in general, the idea of the Permanent Fund--the thing that makes it different from the spend as you get case--is a desire to preserve some of the resources for future generations. I think, in a way, the best way you could put this is comparing the people who have to manage the fund to the trustees for a family.

Suppose the trustees have been given the instruction to make sure the grandchildren are taken care of. That kind of instruction would argue to the gilt-edge route. Suppose the current adults in the family come and say, "we have a family business which is in terrible need of funds, and if we can get these funds, the grandchildren will be better off, not through the silly gilt-edge securities you're going to buy but rather through the business that we are going to develop. Come on, trustee, give us the money." Now should the trustee do that?

I don't think in a doctrinaire way the answer is yes or no. I think you can say the trustee ought to watch out. I think the question the trustee has to ask is why can't the present adults in the family get commercial funding? Does the trustee know something about the family that perhaps commercial markets don't know about that

family? Also, this leads to a rather different point, that you've got more than one grandchild, you have to worry about intra-personal equity; you have to worry about different groups in the constituent population.

Let me turn to that for a minute. I'm used to a much bigger blackboard. This is the only deprivation I've suffered since coming to Alaska. You can think of the cast of characters we have that the people planning for this fund have to take into account. Most planning models involve summary statements of this much income and that much expenditure; but the real guts of the thing are the benefits and costs to individuals or group. Not everybody in Alaska has the same interests and there are some opposing interests, I'm sure. For example, what interests the kinds of people we have here to consider. First of all, the people who are in business; there are people who work in those businesses; there are professional people; and there are native Americans. You can divide those into people who are here now and people who might come if you get this development fund scenario, if it goes the way this diagram says it will go. Even those people you can then branch off into twice as many groups by talking about different values. For example, some business people are here regardless of the special characteristics

of the Alaskan community and environment. They're here to make a buck. Others make a lot of bucks. There's nothing wrong with that; it's the good old American way. Then there are the people who are here because of the special nature of the Alaskan economy: the special nature of the Alaskan environment; the special nature of the peole here. And they have an interest in keeping it that way. So you classify people in three different ways:

1) by their role in the economy
2) by their value system
3) by whether they're here or whether they're not here yet.

It seems to me, that it's very hard to do any planning for the state, should you in some formal way, try to weigh costs and benefits. For example, I would weigh costs to the native American community as very high, in my calculations. I wouldn't just subtract the native American communities costs from the benefits, say to a hotel owner. Usual calculations, you subtract the cost from the benefits; or you take a ratio of the cost and the benefits. If the ratio looks good, say let's go ahead. I think there's a waiting process that has to be put in here. I would discourage any planning process due to the fact that there are the different groups and they do have different interests and different values to be taken into consideration.

GRUENING: Doctor, I just wanted to mention that this hotel is owned by native Americans.

BERGMAN: Why don't I stop here.

GRUENING: That wasn't intended to cut you off. Incidentally, although we're elevated on this stage, it wasn't intentional. I think the audience here is just as elevated, and we want to make this informal. After the panel makes their statements and questions, I hope that people will feel free to come up here and make a statement and ask questions of either the economists, the panelists, or even us, for that matter. Go ahead, Dr. Gordon.

GORDON: Well, to some extent, I think I'll be overlapping with Professor Bergman, so I'll eliminate that kind of consideration.

I am struck, as the Chairman said, with what I consider the awesome responsibility of those people who are to decide what is going to happen to the Permanent Fund in particular, and other oil revenues. I am struck by that because while I find the numbers tossed around a bit confusing, they are all pretty big. If we take the kinds of figures that are in the little green pamphlet, we talk about numbers like $8 billion, whether in the Permanent

Fund, as in some assumptions it is, or whether it's in the Permanent Fund or not, it's a transitory income from these oil revenues.

Now, it's very hard to get people to take numbers like $8 billion and have it mean something. I find it useful to use this as a person in a family. So I got out my World Almanac, I find that there are about 400,000 Alaskans. Suppose this fund has by 1985 about $8 billion, and suppose you can define an Alaskan, and as Professor Bergman pointed out, that may be the trickiest part of the problem, suppose we define Alaskan as people who were here when the oil was discovered, we say it legally belongs to the entity, the state of Alaska, it morally belongs to those people. It's their money. Those people who are going to make the decision have to spend that money for them. If we divide the $8 billion by 400,000 people, we get $20,000 apiece. If we estimate the average family is four persons; that's $80,000 per family.

It's just as Professor Bergman suggested, It's like being in the role of a trustee. If you dress up the story, the father dies, he leaves a young wife and three children, but she happens to have $80,000. You are a brother or a friend or something, you are appointed trustee. It's assumed in trustee agreements, as I've had the misfortune to read some of them, that people who are the beneficiaries of the trust

really can't be charged with spending their own money. So, somebody else has to spend it, and a guess is, the implication of the way the fund is set up. Now $80,000 will set up their whole way of life different than it otherwise would be. The most important thing is to think of this as making a decision for about 100,000 four-person families out there, each of which has $80,000 which you have been entrusted with spending.

Now, the tricky thing is going to be defining an Alaskan. For that purpose, I assume you can define an Alaskan in some limited way as consisting of a certain number of people and it's those people who, in effect, own the $20,000 apeice or the $80,000 per family.

There is another thing that struck me in looking around the world in the last few years. There are countries like Kuwait, Saudi Arabia and the press almost universally, and a lot of people who should know better, go to these countries and say, "You know, these countries have a real problem; they can't spend that money." These countries aren't democracies. So what they must mean is that the king and his bureaucracy can't spend the money, because we all know that if you passed this money around among the average Bedouin in Saudi Arabia, that with the help of Sears Roebuck, a thousand other firms from the

rest of the world, they'd have no trouble spending the money at all. In those countries the money isn't the people's money. It's the king's money. But, again, the notion that you have a problem spending the money is only appropriate for a very different kind of society than we think we have.

A third question that I think is very important, apart from what is currently in the Permanent Fund or what is in the Permanent Fund in the future according to different assumptions, there was a very significant question about what should be treated as income from a depleting resource and permanent income. In economics, there is a very common distinction between what you might call regular income and windfall income. Sometimes these are called permanent income and transitory income. In principal, it's just as every prudent household would treat those two things quite separately. If you have an income of $15,000 a year and you expect it to continue forever, you treat it one way. If in one particular year an aunt dies, totally unbeknownst to you, she has some money and she left you $15,000. Now it's hard to find one person, I think, who would say they'd treat that once and for all $15,000 in the same way as their regular $15,000. They wouldn't just double their spending that year because their income happened to double

The most important thing is to think of transitory income as different from permanent income. When some oil

money is going to last some 25 years, especially at the beginning, that money is partly transitory and partly permanent. For simplification, I want to think of it as transitory.

One way to compare any other ways of treating this money would be to imagine a world in which we don't live and imagine just giving that $80,000 to each family--what it would do for them and what they could do with it. With that as a benchmark, consider alternative problems. In considering these other alternative policies, we have to make some critical assumptions. Perhaps we should investigate the facts.

We have to make some presumption about a very critical thing and that is the flow of labor and capital into and out of Alaska. That's part of the problem defining an Alaskan. That has been already alluded to by Professor Bergman and she referred to the paper by Dr. Tussing in which he argued that, subject to further research, capital flow is very easily into and out of Alaska, and therefore, the rate of return to capital in Alaska is primarily set in the United States, or even better in the world market. Captial flow is pretty easily around quite a few countries.

I would like to extend that and just for the sake of argument, subject to a lot of further research on the problem, that the same is true of labor. The labor flows

pretty freely from one part of the United States to another. If that's true, then there's nothing that can be done with this fund that can change the wage of labor. Now, of course, it isn't the wage of labor, there's a whole structure of wages--from high priced brain surgeons down to busboys. But those wages will be set, not in Alaska, they'll be set in the United States because there's free migration back and forth. I want to make those assumptions for the moment anyway. Assume that there is competitive capital market and competitive labor market. I will modify that later on.

Now consider two or three alternative ways of using this money. One of them I asked my conservative friends. They have the assumption that giving money to the government is pouring it down the rathole to some degree--they have different rathole co-efficients, but it's significantly bigger than zero.

So, they say cut taxes. If we cut taxes, then we won't keep the level of government expenditures at what it would be otherwise. Cut taxes, then the money would be used by the people for sensible purposes--cut sales taxes, cut income taxes, so forth. Now, if you ask yourself what that means, subject to the assumption that the flows of labor and capital between the United States and Alaska

are perfectly free; the initial effect of that would be that real wages after taxes would rise in Alaska relative to what they were in the United States. As soon as they did, more people would come from the United States to Alaska. The final result of that would be that the real wage would be precisely the same as it was before. The real return on capital would be the same. Nothing would happen.

Who would gain? Well, there would be more people. If you would own a local monopoly, with economy of scale, such as the local newspaper, you would probably gain, as opposed to being a barber or even a hotel owner. If more people came, more people would set up hotels. You wouldn't rake off big gain. On the other hand, if more people came, it is unlikely more newspapers would be set up. So that's one small way in which local people would gain. Secondly, local people would gain to the extent they own scarce resources, that can't be reproduced. Not a hotel because you can build another, but not the land on which the hotel is built. If you own scarce, high-priced land in downtown Anchorage, you would gain.

Finally, it could very well be that you have a labor union. I guess economists like to call that a labor monopoly. Unions don't like that word. They don't mind talking about market power, but these are all words. Let's suppose there is a labor group

here which has the power to raise the wage or lower the wage to some degree. Subject to, of course, to the constraint that when they raise the wage, not so many people will be hired as when they lower the wage. Now, if we imagine a cut in taxes, we abolish the competitive market for labor which we assumed. If we imagine cutting taxes, people will come here. The labor union can keep the wage. The people coming here won't depress the wage to make up for the taxes. The labor union can keep the wage the same way because the demand for labor will be the same as before. In the case of a local monopoly in labor, and in the small bits of income that are earned by land rents in scarce areas, there might be some gain. The overwhelming bulk of income, which is the competitive wage plus capital, won't be affected in the long run.

What will happen, of course, is that the $8 billion will be spread over the rest of the United States, because by some small amount, as labor leaves the rest of the United States wages will rise--higher than they otherwise would be.

Let's consider another thing, another scenario. I think this is something like developing the economy. The word development is a bit tricky. It is generally used, always used, in economics to apply to so-called underdeveloped areas, developing economies in places like Bangladesh and

and Peru and Zaire, etc. But that's not true in Alaska, because clearly, even without making the rigorous assumption, those countries think of trying to take an economy where the real wage rises very significantly Nothing is going to make the real wage rise very significantly in Alaska because that's set in the United States. Just as the real wage in Seattle is set in the United States. It's not development in the same sense.

I'm always a little confused about development. Sometimes people say, we want to create jobs. I see in Alaska, people talk about diversifying the economy and developing renewable as opposed to non-renewable resources. But all these things, seem to me, subsidizing local industry in some way so that there will be industries here that otherwise wouldn't exist.

Dr. Tussing, in his paper, was talking about situations where you don't subsidize. He said, as Professor Bergman indicated, that he generally believed that if you don't subsidize, then you're not going to create any more industry. But, he did not say, and I don't think Professor Bergman intended to imply that he did, that you couldn't subsidize industries and create industries that wouldn't otherwise exist.

If you did that, there would be more people. There'd also be a bigger tax base. There'd be more services to supply those same people, presumably required.

Basically, when you got all through that, just as in the, what I call, conservative case, this is the interventionist case. The people who trust government more than the rathole theory. The interesting thing is that they both come out with roughly the same conclusion. You have more people, you have more capital, the real wage is the same, the rate of return on capital is the same, and in the case of a few local monopolies, they have gained but nothing else has happened. The reason it happens, of course, is that the benefits are flowing to Alaskans, but an Alaskan is really defined as anybody who can benefit by moving here. Or by not moving here, for that matter.

Now, let's consider a third thing--amenities. You create amenities. The trouble is if you build a big opera house in Anchorage, I'd be much happier to come for a lower wage than I otherwise would. An amenity is a real part of the real wage. People would then have their real wage and amenities rather than lower taxes. Incidentially, when you talk about amenities and providing government expenditures, there is no difference in principal between whether the income is a renewable resource or a non-renewable resource. If income flows to the state, one question that should always be asked is, if this in-

come is flown directly to the people, it's their income, would they then be willing to be taxed some of that income to create the thing which they would consider building? A better university, a big opera house, play fields, golf courses--all those things. Before you build a golf course, which I'd be much in favor of, you've got to think about the fact, would the people be willing to be taxable on the course, if, instead of going first to the state, it had gone to them? That's of course true whether the funds are transitory funds or permanent funds.

Now, another thing mentioned is stabalizing the economy. I thought Dr. Tussing's paper had an adequate analysis of that question. It is very easy, when one has looked back on a time series, what happened to the economy. To say, if we had only put a little more money into the economy there, and then taxed a little more there, the economy would be much more stable. In fact, it is sort of inevitable to think it sensible to pour money in there and take it out there. The problem is, as anyone who tries to make money in the stock market will know, that's not nearly as simple. If you look back at the stock market over the last four years and you would say, "gee, it was easy to make money in the stock market--all you had to do was buy here and sell here." It may seem that the problem of sta-

bilizing the economy is not that different. It is a problem of prediction. It is the problem of getting the spending going very rapidly relative to when you need it. As Dr. Tussing says, those problems are not easy to solve.

I might add something. If you can predict the economy, then you can stabilize without any Permanent Fund. You borrow the money when you need and you pay it back other times. It's not hard to stabilize if you can predict, without having any special Permanent Fund.

When I think more about this problem, here's this money, which it is said, belongs to Alaskans; but what are you going to do with it so it will make some difference in Alaska, with some real difference to the average Alaskan? I come back to what I call the benchmark. The best thing would be to take it, the $80,000, and spread it around to each family.

Suppose you can't do that. Is there some way you could spread the income from that? Not by cutting taxes. The income from that goes to certain people who, as it is interpreted, own the resources.

Incidentially, I think the idea of just giving the money to the people is somehow associated with conservative views, whatever conservative means. My understanding is that Milton Friedman has suggested that view. Everyone knows he's conservative enough. It must have occurred to a

lot of people since the beginning of time--it certainly occurred to people in Alberta at the time oil revenues were discovered there. Whether it's conservative or not, it's profoundly egalitarian because it would take $80,000 and give it to each family. No depending on whether they're rich or poor. Exactly the same amount. It's not egalitarian because you're soaking the rich to help the poor. That money didn't belong to the rich any more on a one-for-one basis to begin with. So it would have a profoundly egalitarian effect on the distribution of wealth and the distribution of income, if you can't distribute the wealth.

I was intrigued by the suggestion in the green pamphlet of the Governor that you might pass out the income. I understand there's some legal problems in all this. The legal problem is again defining an Alaskan. I understand perhaps the legal problems will be solved if you think of pension for when a person's 55. There's nothing in nature that says a pension has to be distributed at 55--maybe at 45, maybe 25. Anyway, I think if you regard these resources as being morally belonging to Alaskans, you should think of some way to give it to those people you define as Alaskans. Otherwise, you might as well write a check for $8 billion and send it to Jimmy Carter, because that's where it's going, for all practical purposes.

If you took $20,000 per person and put it in the stock market, would he own it--$20,000 per person; $80,000 per family. You notice that the average Alaskan, who let's suppose, is like the average American now, wouldn't have $4,000, rounding out the $3,900 to $4,000, but he'd have $24,000.

Of course, there's other wealth besides the stock market. Houses, some wealth that isn't counted like future pension plans. But, I come back to a number like that to impress, because I'm impressed, to try to impress you with the awesome nature of this responsibility. There are a lot of poor people in Alaska. I can't imagine one way that would do better for those poor people and for some people who are not so poor than to contrive some scheme whereby you can benefit them, if you believe they morally own those resources. Now you may say they shouldn't own those resources, they belong to the United States. You might even say they shouldn't own those resources, they belong to Alaskans, it seems to me, that the thing is to contrive some scheme where, in fact, the Alaskans will do the benefitting. Some defined body of Alaskans.

To make one final note. If you talk about future Alaskans--that's pretty confusing. You see, there's where

the analogy with the family breaks down. If you think of a trustee and a family, you want to take care of the children and the grandchildren; and if Alaskans were defined that way, it would be simple. It would be the children and the grandchildren of the original 400,000. If you talk about who might live in Alaska who now lives in Alabama or New York City or Seattle, then it becomes very hard to do anything with it.

Of course, if you gave the money out as a grant, which you couldn't, chances are the parents would take care of the children; and they would take care of their grandchildren, as is the normal way we treat wealth. The normal way we treat wealth in the United States, we assume people are responsible and are capable of handling their own money better than the government. If we say that's not possible, then we should probably try to devise a method by Alaska, Inc. or a pension at some age, so that the people who morally own the resources get some access to the, really do the benefitting. You might ask them if they'd rather have the income from $80,000 or some vague thing called diversifying the economy. There isn't such a thing as economy or state, there are just people there.

Anyway, I think it's a very tricky problem. It appears to be in a large respect a legal problem. The only economic aspect of it, I think, is to recognize that nothing you do

with this money can change, for all practical purposes, the real wage and the rate of return of the capital, and that's the bulk of normal income. Whether resources invested in Alaska or Toyko, for that matter, or the New York Stock Exchange, it doesn't so much matter. I think it depends more on whether you use it to deliberately subsidize income or not. Presumably, as a prudent trustee, you invest it with considerations of real earnings after allowing for inflation, which makes it more complicated, and some safety. Thank you.

GRUENING: Thank you, doctor. Thank you, Dr. Bergman and Dr. Gordon. I think you've specifically trampled on a lot of people's assumptions. I think they ought to have the opportunity to trample on yours. We have a panel that will hopefully do that. I would like to make just one remark on the figures that are being tossed around today. $80,000 is, of course, very hypothetical. The revenue projection includes both the Permanent Fund and the general fund, based on the pipeline, presuming a full design capacity, based upon a reasonable tariff, based upon a lot of things. We are dealing with a lot of if's. I think the point is well taken.

The panel can proceed in the order in which they were introduced.

HAVELOCK: We must make a determination of how it's to be managed in the future. Both of our panelists have referred to the analogy of the family. We are trustees for a family. You can reduce this to the position of a person in a family.

There are profoundly different ways in which a regional economy operates and in which a family operates. The differences, I think, need to be addressed. I think we need to get the Alaska public out of the situation of thinking about it in purely family terms--the kind of terms, which say, for instance, on the national level, that because the national debt went up last year we're worse off. Those kind of economics are very dangerous.

As far as the scenarios that Barbara pointed out, they're not real--any of them. That is, the scenarios of reality are sort of a merged concept of all three. There is a tendency to confuse oil revenue with Permanent Fund revenue, in fact, so far as you know, the Permanent Fund is only a committed percentage of oil revenue. I don't like little bumps like that, that sort of look like here today, gone tomorrow. We are not talking about a bump. We are talking about a very long curve. It may start high, but oil revenue isn't going to suddenly shut down. The economics of scarcity, we're the last major producer of oil on the American continent, so as the amount of oil available goes down, the value per unit will go up. The whole business of

Alaska running out of money strikes me as a basic error in viewing the situation which could get tangled up in managing the fund.

The discussion of what constitutes an Alaskan has been a troublesome one in this state. I'm not sure it's very fruitful, other than it provides entertainment in setting one group of Alaskans against another, based upon their longevity in the state. But, I think you do need in any scheme that's being set up to look at the winners and the losers under various schemes of investment.

One of the basic problems of the family analogy, of course, is that it assumes that when you put something away we aren't spending it. Particularly if you are involved in investment in Alaska. What the Permanent Fund is really doing is simply shifting the expenditure of funds from more of a tilt to the public sector, which is the effect of having a legislature the dominant controlling factor in the expenditure of funds, to having a predominantly private sector investment to the extent that Permanent Fund money is committed to profit-making enterprises automatically.

It is a long panel. I think one analogy I'd like to throw out for you to think about--it's a long panel so I'm just going to throw a few pot shots and then back out. There are a lot of analogies to what's happened in Alaska. One of them

is presumably supposing you'd had an Appalachian regional commission when they started getting into coal, would you have set up a Permanent Fund and devoted part of Appalachian money into that? What about the grandchildren today in Appalachia? How would they have benefitted from that fund?

BERGMAN: Stock in Gerneral Motors.

HAVELOCK: Well, if the function was to keep people in Appalachia, it worked because there was such a fund in a sense insofar as the United Mine Workers took money and put it into various pension funds, and so on. If we did that, and helped to pin people down to going on and living in an economy which was not self-sustaining, I don't think we've done anybody's grandchildren any great favors.

I think it's great to be an Alaskan, but if there are no jobs here, why the hell not move out--for those who have no employment? I don't see the public purpose served in subsidizing people who are two generations beyond me, who are only marginally going to be related to me, who, if you look at the general trends of the economy of the United States, are going to be far richer than I am anyway. Those are some of the reasons why I think you have to look at the management very carefully.

GRUENING: I have one question. If you want to discourage future generations, what about present generations?

HAVELOCK: The assumption of statehood incidentally, one of the assumptions on that chart, is that we have the income to sustain a moderate level of public need. The assumption of statehood was that we would use resource money in order to meet public need. All over the record of statehood hearings, the basic opposition of making Alaska a state was that there was not the income from regular tax revenues to sustain the public need level. I think you can invest. I would say that we've got to meet a schedule of unmet public sector needs before we start going on with a heavy dose of private expenditure, the worst risk of which is going to subsidize premature development of natural resources that we should be developing at the end of that curve.

GRUENING: Any questions here of John Havelock?

MEEKINS: Mr. Havelock, we hear a lot on this Committee about needs, you know it's very difficult to define needs, pressing needs expand to meet the amount of revenue that's available. I think that the concept is somehow inherent

In other words, saying that we should meet our needs first, we should spend all the money that we have to some people. This argument has been made to me, that we should spend all the money that we have simply because needs will expand infinitely.

HAVELOCK: Well, I think that the legislature can sort of define a minimum sustainable standard of living in Alaska, the kind of picture of Alaska you want and hold to. There is some truth in what you say, that needs will go expanding indefinitely.

The tendency of heavy private sector investments is going to be to spread the benefits to much more extremes. That is, losers in our society are going to go on being losers, even though you're putting all this in. Losers benefit out of public sector expenditure, some kinds of it. I'm not sure I'm ready for the opera house; there are a lot of things before that. I think that is a legislative problem and it involves taking a management approach to public sector needs in terms of establishing your baseline.

MEEKINS: One more question. You were talking about what you consider to be fallacy in the analogy of the family. I'm just wondering if I have it correctly. As I understood what you said, you seemed to be implying that investments are going

to be made with this money because people are going to deposit it in their bank accounts. If we did have an Alaska Inc., this money would then be deposited in the private financial institutions, they would make the relevant decisions about investments. Is that not as preferable in your view as the legislature making those decisions about how that money is invested?

HAVELOCK: Generally speaking, no. My basic point is simply you should know that's what's going on. That you are transferring the decision making process over the use of funds. I think that's obviously very healthy for a pure investment policy, for instance. I don't think you guys know what you're doing if you're giving the legislature the authority to run around money markets and decide what kind of instruments to buy and sell. Obviously, it's the kind of things you want to give to the private sector. Prejudice is the same in any form of development banking. I've seen too much development banking with heavy political control that amounted to shenanigans. I would rather see, if you are going to go into development banking, the use of banking standards of risk evaluation. I'd rather not have that muddied by politics.

GRUENING: Thank you, John. We have now next to him Dr. George Rogers. Incidentally, the two economists, if our panel isn't going to ask questions, you can ask them questions.

ROGERS: Clark, one of the things I'm going to do after this meeting is inquire into the nature of your racquet ball inflicted injury. I think as a public-spirited citizen I might suggest the state invest in racquet ball courts as a means of cutting down on public discussion somewhat.

I, like John, will make a statement and then be available for questions. I am an economist, but find it difficult to act as an economist when I get into a political setting for obvious reasons.

I, unlike John, was not opposed to the Permanent Fund but I was in favor of it for different reasons than the stated reasons. I know how the legislature acts when it gets a pot of money. I know it's going to spend every penny that comes in. I looked upon it as a curb upon legislative spending. I'm not too concerned about the intricacies of whether we call it a development bank or not. I agree with Dr. Tussing, that the development bank has very limited, or will have very limited, impact upon the Alaska economy, which gets me very quickly to my statement.

I would like to put the statements made by Professors Bergman and Gordon into the Alaska economic context. I think this is very important. In Jim Rhode's covering letter, inviting them to attend here, he made one passing remark that, I think the statement was that of every dollar gross state product $.64 leaks out. I think this gives you an idea of the nature of our economy. It's a colonial economy in which the state product is largely exported, the value is largely exported.

BERGMAN: What do you think that statistic is for the state of Maryland?

ROGERS: It's probably something like that, but the point I want to get to quickly on that...

BERGMAN: Alaska's not that very much different from the rest of the country in that respect.

ROGERS: Okay. That's right, because we do--as states we are part of a national entity. There are these traits, etc.

First of all, the value is not an Alaskan value. It is something that goes into the national economy very definitely. Looking at the regional economy, however, you find that we generally define in the terms of such measures as per capita

real income earned by residents and other measures. You find that the Alaska economy is dominantly a government economy.

Very quickly, if you were to look at the basic part of our economy--the part that generates the whole thing--looking at the resource we find that before oil came along, it was very, very minimal. A fading fishing industry, a stagnant forest products industry, and then this great military establishment, construction industry that was generated by that. From 1940 on, whatever measure you use of the regional economy, you find that half or more of the employment, income, etc. generated by it is in terms of state and federal government income directly.

Then the support industry in the private sector is primarily in support. These people, these programs are living off them in some way. If we were to eliminate or reduce the rat hole co-efficient in the Alaska economy back to a level that would be a more reasonable one in terms of Professor Gordon's philosophies, we would have something like the 1939 economy.

At that time, we had a thriving fisheries industry; we had mining industry, which, in terms of labor employed, was probably larger than the oil industry's going to be here. So in terms of a natural resource economy, we would be reducing

ourselves to something like 75,000 people operating primarily a few natural resource extractive industries with a minimum of federal and state government services required to maintain that work force in operation.

The thing is that the state government has become the driving force in our economy. This is the reason that the scenarios by Professor Bergman are relevant. I don't agree with John that they are irrelevent because she concentrated on state revenue. Each one of these is a hypothetical projection of what the state revenues might be, given three different scenarios or three different ways of managing the oil revenues: spend as you go; putting it into a development bank type operation; or working out the investment---I think the investment was the second and the development bank was the last one---because the reason we have a community like Anchorage is because of government spending.

The government spending has almost assumed a life of its own. When we are talking about stabilizing the economy. we are really, in essence, talking about stabilzing the level of government spending; because if it drops off, our economy drops off. If the private sector, for example, the oil revenue drops off, if there isn't anything else to take its place, then one way of doing it is to increase

government employment. If you are talking about distributing the money to the average Alaskan, you would, in many cases, be distributing to a government bureaucrat and his family. So that the Kuwait model is a relevant one in Alaska, except that the bureaucracy is much larger and represents a much larger segment of the population.

BERGMAN: What about the privates on the base?

ROGERS: The privates on the base. Yes. That's a whole sector of the economy that is generally there, they generate income in Alaska but they are only here for a couple of years on an average, depending on what their turnaround is. But we consider them part of the bureaucracy too, because they are paid by the government. They perform govermental functions of safety and protection.

But what I am saying is we've got to get our talk about investment, management, talk about the use of the fund into a realistic Alaskan economic setting. When we talk about deversification, we are talking desperately about trying to get something else besides government in the picture. Not simply to proliferate a lot of little business around, which is probably what we will end up doing. But it is a tough job to find something, an alternative, to continued government spending, government employment.

Another thing, I notice the Alaska Humanities Forum is one of the sponsors of this. When I saw this, I wondered, what a nice organization like that was doing in a place like this. I decided that we should make some comments on that too.

Professor Gordon talked about amenities. I think this is what the Alaska Humanities Forum is interested in: making Alaska a better place to live. Now this is something that economists can't give you advice on, except we can give you some analogies, cost-benefit type of analogies, help you in that way.

This is another thing we should consider. The Permanent Fund, we have two functions: one is to manage the investment policy of it. In other words, maintain the integrity of the fund, so that, in fact, the fund is a Permanent Fund; and that we do get the maximum income generated which we can then use for current spending. The current spending could be used for a number of purposes. We could use it for the creation of new development, or we could use it for amenities--a whole range of things we might consider. I don't want us to get caught in the development bank syndrome and just stick there. I think there are other things that we should consider as citizens when we talk about the use of the Permanent Fund.

I don't have any questions at this time. I made quite a few notes. As the discussion goes on, I think we can come back to that Clark, I think I'll stop now.

GRUENING: Thank you very much, Dr. Rogers.

Incidentially, thanks for mentioning the Humanities Forum. It is on the agenda the fact that they helped sponsor this. I should say again, we're very grateful to the Alaska Humanities Forum for sharing half the cost of the room and other incidental costs we have in setting this up.

Are there any questions for the economists or this panel? As soon as we get through the panel, we're going to open this up to the audience to inquire of anybody here. Rep. Meekins.

MEEKINS: Dr. Rogers, I have a question that really arose when Dr. Gordon was speaking. I'll direct it to you, and see if you have any thoughts on it.

He was indicating he felt very strongly, it seemed that the individuals in Alaska could make better decisions regarding the spending of what is morally their money than the legislature. We've coined a phrase here talking about the rat hole co-efficient. That's the implication of that phrase that the legislature isn't as wise and can't spend the money as wisely as individuals can or least not as efficiently.

One of the things that, I think, legislators are always confronted with is our system of government is representative in the sense that we are expected to know a little bit more than the general public. They are expected to vote for us, and then we are supposed to get more involved in the individual decisions. Sometimes we find that when we study something, at second thought, it's a little more complicated than it seems to the public. Even though we represent our constituents, we find ourselves voting in opposition to say, a majority view. We don't have a strict case of radical democracy in the sense that the majority view does not always prevail in the legislature. This sometimes is extremely good.

So, if you apply that thinking to decisions about how best to provide for the benefit of the people of the state, you sometimes maybe would have a contradiction between what the majority of the people would vote for, even allocate their own money for, and what might indeed be best for them.

It's a difficult question, but as an example, in some states, the public votes upon appropriations to education. In some of the states lately, they've had a very difficult time getting any appropriations at all. The've gone for weeks and sometimes even months without any appropriation

for their school system. It seems to me to be an example, at least it's quite obvious to me--I'm very supportive of education, I think there's a benefit distributed throughout the entire society, whether or not people have children, when we spend money on education. Using that as an example, I just wondered if you have any thoughts on that.

ROGERS: I don't have any profound thoughts on this. I think this is an extreme example of what might be done with the money. The assumption is that all spending is done by individuals. If that were so, I think this would certainly be a valid model to use. You mention education. Education is a group or a social decision. The individual may not have any children, therefore, that individual would not spend any money in education. However, society as a whole has some responsibility, whether you have children or not, so that there are a number of social decisions. We still have to have taxations.

I think what Professor Gordon is talking about, I think we had better get you into the discussion, is the distribution of windfall income, incomes that are transitory. We need the distinction between permanent income and transitory income.

This would be, for example, the $900 million bonus we

received, which is all gone now. Would it have been better if we had handed it to Alaskans because it's going to go in three or four years anyhow, let them have a spree or invest it wisely, or set it aside in a permanent fund? We did neither. We let it dribble out into our general revenues and it was spent. The effect of that was difficult to trace. They are assigned to--how much the expansion of expenditures reflected need and how much merely reflected the availability of money to the legislature? I'm getting off the point. As I say, I think it was intended as a poll.

GRUENING: Dr. Gordon, would you like to comment?

GORDON: Well, some questions it matters a lot whether the money coming in is transitory or permanent; some questions, it doesn't matter much at all. Obviously, there are some things that we choose to provide collectively. There's some argument as to how many of those things we should choose to provide collectively. There's no question of some things with the exception of very few people. Everybody agrees that some things should be provided collectively, so that when the income of the community goes up, there should be, presumably, more private good and more public goods.

I think it's important, however, to distinguish between something abstract called the economy. The economy doing this and the economy doing that. What's happening to the individuals? Fundamentally, our whole system of government is set up on the idea that the people vote for these things. If the money happens to go to the state first, whether it's permanent or whether it's transitory, one always wants to keep in mind, suppose it had gone to the people first, then you could go to them and say, "Let's have a better school." They could allocate the money that way. If, in fact, it goes to the state first, I think really the people get a little unconscious of what's involved.

In a way, I'm amazed at some of the answers that have come, because I think, if you want to use this number $20,000, if you said, "Would you want to dole out $80,000? Maybe you can't spend a lot of money but you want to get the income on $80,000. We'll take care of the principal. We'll give you the income." Or do you want to diversify the economy? You put that up to them. I find that incredible that people would say "No, we don't want the income; we want to diversify the economy. "

I'd like to ask Dr. Rogers another question. So the economy has expanded from 75,000 to 400,000 people, the economy has--and that's mostly from state spending. The question

is who's better off than they otherwise would be? The economy isn't somebody better off or worse off. It's individuals.

I don't think for a moment, and I don't think Dr. Rogers thinks otherwise, it would really go back to 75,000 people. If you took this money, invested most of it outside of Alaska, invest it as a prudent trustee would invest it, and then pay the income to the population-- I'd be wanting to know, not what happened to what some poeple call the economy, what happened to the individuals, who, morally own that money. Would it have any harmful effect on any other individuals? It's a little hard to see who would be hurt by it.

BERGMAN: I'd like to say one thing. The $80,000 is not coming in an instant. It wouldn't be a check. I think that would be pretty hard to resist. I think realistically, that if the state of Alaska did propose to send every family a check for $80,000, the people of the United States would re-think the ownership of those resources. The fact that it does come over a period and it is not being handed out in cash to the residents of the state, to some degree maps the fact that is in part what is going to happen regardless of the scenario you adopt.

I think when you talk about taking either the capital sum and doling it out as it comes in, or doling out the income in cash--particularly when you talk about the capital sum--doling out the capital sum, which I think is beyond the question anyway.

I think there is a difference in what individuals might do and what they might compact as a body politic to do. The government properly does have a longer vision, a longer horizon than individuals, certainly than many individuals. That is right and proper.

I am not as devoted to consumer sovereignty as many economists are, that is, I am not as devoted to the proposition that every citizen ought to have the right to handle, to make every decision himself, and that the government should not constrain any economic decisions. A lot of people would do things they would be sorry for if this money were handled that way. I don't think that's the question anyway.

I think the major practical question is the filling of public need, which governs how much goes into the Permanent Fund. Once you've got the Permanent Fund, the use of it or the investment of it, when I gave my list of different kinds of Alaskans what I was intending to do was, Professor Gordon was also calling attention to, and that is to try to get it from a gross concept called the economy down to people. I don't happen to think that the provision of amenities within reason

by the public sector is a bad thing. I don't think building a very good university here, building very good sports facilities, reducing some of the problems that are inherent in the geography of Alaska is really going to spread this benefit around to the entire United States. By the way, if it did, that wouldn't be so bad either-- if some of it went that way.

GRUENING: Senator Rodey.

RODEY: I had a question for Dr. Rogers regarding the rate of contribution. The proposal has been made that we put into the Permanent Fund 100% of the royalties plus all monies coming in from the severance taxes and allow the state budget to reflect only a base year figure, population increase, inflation, and perhaps an adjustment factor.

As a veteran legislative observer, this would deal with the question you mentioned previously and that was one of a budget constraint. How do you feel about proposals for this sort of input to the Permanent Fund that would essentially take all of the royalty and a good portion of the severance tax leaving only what is necessary for state expenditures on a predetermined level?

ROGERS: This would be, I don't have the figures-- I don't know what size figures we're talking--and the fact is I've been trying to avoid getting involved in the Permanent Fund controversies entirely. I certainly feel that this would serve the purpose of putting a damper or rather constraining by putting some limits on state spending in the future which would be a good thing.

The income, however, from that fund is still available for use. As I recall, some of the calculations made on that was that it began to become quite sizable, quite a monster in its own right. Even using a relatively low interest rate, you come up with annual income. This, then in a few years, becomes the critical thing. Not so much the principal as what is done with the income--if this is re-invested in the Permanent Fund, it then compounds the problem at a future date. I'm calling it a problem now rather than a solution. If it is then added into the general fund, then again it accelerates the level of state spending.

I can't really give you an answer until I've seen the actual solid figures on that. Certainly, the very crude projections we made using our Man in the Arctic model and using 25 to 50%, 100%, we found that the greater the contribution made to the Permanent Fund had a general dampening effect on the level of the economic attainment in terms of employment income; and this is simply because the assumption was that

the government spending would continue at that rate. It's a dog chasing its tail proposition. It does provide a great slowing down of the runaway process.

GRUENING: Thank you, Dr. Rogers. Next in order is Jamie Love of the Alaska Public Interest Research Group. Go at it Jamie.

LOVE: I don't want to repeat or go over a lot of the things that have been said by some of the other participants here, although there are a lot of important things that have been brought out. I know that most of us can agree that the money in oil wealth and Permanent Fund basically is to improve our qualities of life and standard of living. I know that there's one sort of philosophical difference that's emerging right now and that is on this issue of whether or not people should just be given the money so they can benefit themselves, or whether the government should spend it for them, and whether or not the main focus of the Permanent Fund ought to be some type of vehicle to get money in the people's hands--get the oil revenue in their hands. I know that's been the primary focus of the public debate that I've heard on the Permanent Fund, more than any other issue, is how you're going to disburse the earnings from the Fund. Realistically there's going

to be sort of a lot of ways the oil wealth is going to be managed to help us.

There's some areas, I think everyone's going to agree, that consumer sovereignity, or whatever you want to call it, makes a lot of sense. I don't want the government to do my grocery shopping for me or a lot of other things. But I think there are areas where some type of public actionary or adventurist is the only way that certain projects are going to get accomplished. I think it's going to be, in fact as we go along, probably a mixture of those two.

I would like to make one observation relative to things like the difference between a rathole and a pressing need for a lot of people. I don't always think it's just the project per se. There are examples, there are times when the same project can turn out to be either one.

Most of us are familar with a lot of efforts to develop housing in rural parts of Alaska. It's difficult for people living in rural Alaska to provide housing through conventional, their own resources--people living not in a cash economy. Types of impact that we felt here in urban areas, I'm sure are even more dramatic in rural areas. In that area, if housing is going to be provided for people in rural Alaska, the government's going to have to provide certain types of subsidies for financing to accomplish that. Some people

look at rural housing projects as more in the rat-hole area than in the pressing needs type area--it's because they're poorly managed. There is a tremendous recognition by a lot of people. There's a lot of waste in mismanagment. There's some other reasons why the housing wasn't done properly in some areas. This is one of the problems the state's going to be facing as we go along and we come into a lot of wealth and we try and take a very activist role in terms of improving qualities, people's qualities of life.

We've taken a big quantative jump into a new area of running the government and providing services. We've been very interested, at least, in our organization, at looking at the ways and vehicles the state can best put together a lot of planning mechanisms and management functions to have more quality control or better evaluation system as we try to accomplish, whether it's a loan program or a cash subsidy or a number of different other things.

One thing I want to note briefly before I get into some other comments is when we talk about the Permanent Fund and we talk about investments, I'm sure that everyone in his mind is thinking that we're also talking about capital spending by the government in terms of just cash, just building projects that aren't really an income producing venture like infrastructure development--roads, highways,

that sort of thing--which don't produce revenue by themselves, but may help contribute revenue from another project and level of state services.

I know that it's critically important. I think, that the state, when they think about managing their investments, the social investments, that they make in the state of Alaska to be coordinating the development of their capital programs and studying for services with their investment policy--this has been elaborated in some detail by earlier consultants.

Dr. Daniels and Dr. Tussing touched upon this. I just wanted to bring that out. So when we talk about developing investments, we also have to be closely coordinating these policies with other types of problems we're faced with.

Other than those managment issues, which, of course, we're very interested in, because our own examination of some of the state's projects in different areas including the state's existing loan program and the state's housing programs has not been good. I'm not talking about some of our absolute, right up-to-date current but I'm just saying as a general comment. In the last 10 years, for example, we've seen a lot of problems.

There are other reasons why we're concerned about the development of the Permananent Fund. One area, I'm talking primarily about social investments. Those monies that are invested domestically in Alaska, it's important that there be

a clear concept of equity in the benefits that people realize. Just as a very quick example: the tourism revolving loan provides loans, I think it's up to $4 million, or it's up to 3. It used to be up to $1 million. It used to be, I think 8% for developing tourism facilities. A lot of the loans went, for example, to the Captain Cook Hotel and the Baranof Hotel--they each got a million dollars a piece, as I recall, for developments--8% interest--to develop something, I'm sure would have been developed had they had to go to private credit markets for that money, probably at a higher interest rate. On the other hand, you have some student getting a $2500 loan to go to the University of Alaska for a year or maybe go outside to school. Then you have a fisherman loan and a VA loan to buy a house. Just trying to determine the equity between all Alaskans to determine whether or not the so-called subsidy or the so-called benefit to the person with the student loan or the the home loan was equal compared to the person who got a cheap loan to build an extension to a hotel that could have been financed anyhow.

I think that's an important concept because the wealth is public wealth. When we set up the social loan programs, there's a degree of equity that's involved and the type of

social loans that are made. I think there probably will be some that will and ought to be made.

Another thing is the openness and fairness in the management of the Fund. It is not so much an economic consideration, I guess, after listening to some of the comments. Everyone has talked about what a big burden this is going to be to manage all this money and what a mind boggling kind of problem it is.

To me, what's mind boggling is you're going to give the public confidence that the funds are being managed fairly, that the funds are being managed in a way that respects the wishes of the public, and that it's not just controlled by certain interest groups, special interest groups, whatever you want to call them--certain groups or individuals--and that they have a sense of participation and that they feel that everything is on the table. One reason we were concerned is that the administration, I guess I sort of serve the administration in a capacity on the advisory board, there's a lot of discussion on making a $900 million loan to guarantee financing for the gas pipeline. I sit on the state appointed advisory committee on state investment policies, which I've served on for almost a year now. Our 21 member committee has never had a presentation from the Commissioner of Revenue or anyone else on this mere billion dollar investment that we're thinking about making for the gas pipeline.

GRUENING: You might have to defend yourself. The Commissioner of Revenue, Sterling Gallagher, is in the room. He'll get a chance.

LOVE: I've made my views known already. What struck me as a bad thing to start out with, if we're talking about managing the Permanent Fund. We have an amount of money that is incredible. Almost four times as big as the Lockheed loan that Congress debated quite a bit before it even took action. To my knowledge, there has been no public presentation on the details, the official advisory board for the governor was never consulted. Negotiations went on for almost a year. We still have, as yet, to even have a memorandum mailed to us even though requests for information have been made. I'm not saying that to hop so much on Sterling, although I know it's coming across as criticism.

GRUENING: Sterling, we're going to let you respond to this if you want. You may decline if you want. Go on, Jamie.

LOVE: I'm saying it because I'm not worried. I thought that there was not a large likelihood that that loan would have been made, primarily because I thought that the El Paso line would probably not prevail. There may have been a

couple other reasons why those offers be made.

It sure is important, as we get into this area, that we force the people who manage this fund to disclose in as many levels as possible, the planning that is going on, the terms and types of arrangements they are making. The public should have confidence in the management of this money. Along that line, I think, we're very concerned that the public is convinced. I, personally, am convinced that there is integrity in the way that the money is managed. This again is not much an economic consideration, but it is an important social consideration, and it is an important thing that we've thought about quite a bit. I know others have.

I think in this area, there are two areas where we have to ensure integrity to manage the fund. The first one I want to touch on is the integrity of the programs. In other words, are the programs doing what they're supposed to be doing? If you have a small business program, does the small business program start small businesses that otherwise would not be functioning. Is it really matching its goals? Is the money getting out to who it should get out to? It's supposed to create jobs. Is there a way to measure whether they're actually creating jobs? Because you can really see kind of a rat-hole syndrome developing if you don't have an honest way of going

back and taking a look at what you've already done and seeing if actually, in fact, it accomplished your goals. Do agriculture loans stimulate or encourage agriculture. If so, how much can you quantify? A good way of having this program evaluation is important.

Now we had a presentation from Tony Motley when he was still Commissioner of Commerce on the state loan programs that the state already manages. He could tell us what their default rate was, what their interest rate was, and everything else; but he couldn't tell us a damn thing about whether or not the programs were accomplishing what the legislature wanted them to when they first created them. He said they didn't have any way of doing that. They didn't run program audits. In a way that's not surprising, because some of those programs are very big; some of them are kind of small. But as we get into the stage where we have the Permanent Fund, and we start talking about investment programs, then I think there's a much bigger responsibility on the state to tackle this very tough issue. How do you evaluate these things?

The next issue is the fiscal integrity of the fund. We don't want people stealing from the fund. We don't want people making bribes to get loans and this sort of thing. This is an area that is of concern to a lot of people. I, personally, have spent some time taking a look at some of

the other areas where we've been concerned about the fiscal integrity of some of the things that have happened in some programs. When you start talking about billions of dollars, the temptation level really increases. I think everyone realizes this. This is a tough problem. I don't know what the solution is. This relates to this whole area--the fairness, the openness, and the integrity of the way the fund is managed. These are areas that maybe aren't economic considerations per se, but we're really concerned about them.

I would like to say that it's been helpful to take a look at whether or not we ought to spend all the money right now, or whether we ought to invest all the money. There hasn't been much discussion about if we invest it, the types of investments we ought to do or if there's even any need to have any kind of investments on a local level beyond this issue of whether or not there's just a subsidy involved.

I'd like to discuss a couple of areas where I think it makes sense to have what could be called sort of a subsidized loan. It makes good economic sense, good bottomline economic sense.

There are simply some areas where capital markets don't work. Where they're not perfect. For example, in the area of redlining--housing in certain communities and certain areas within communities, you can't get a mortgage on homes or

you can't get rehabilitation financing on homes. There's been testimony before a committee in Anchorage, for example, in the area of Mountain View or Government Hill there is this kind of a problem. The reason I'm bringing this out is from an economic point of view, the cost of not providing mortgage, rehabilitation financing in a certain community may be that there's increased cost to the housing or that valuable housing stock deteriorates. It may not be a cost that the community has to pay for. It has to pay for higher housing costs, if that housing is lost and has to be constructed at higher cost. So there are external costs to the community that the community realizes in this area.

Just as an example, the normal market test of the sort of disinterested lender and the disinterested receiver of the money, they're not really the same. The bank doesn't have to worry about the social costs of redlining but the state of Alaska has to worry about it. If the state of Alaska becomes the lender, it can make some wise, some real contributions in that area and still make good bottom-line economic sense. I used that as an area. There are other areas where it might make sense--where capital markets aren't perfect. They certainly don't function as well for rural areas in Alaska as they do for urban areas.

In utilities, we've had testimony that good sound financial utilities can't get long term financing because they're not big enough and, therefore, as Dr. Belden Daniels noted, poverty line starts at $200 million in sales a year. A company that's large, that's a big corporate entity, has better access to national capital markets. A smaller enterprise like some of the smaller utilities in Alaska can't get long term financing. That results in the very high utility rates. In that area, that's just another example where the capital markets aren't perfect. The state can put long term capital into local utilities, invest your own utilities, as well as publically owned utilities. The result is going to be a reduction in utility rates. This is an area where it might make sense to make a so-called domestic loan without the state really incurring any higher risk than it might otherwise.

Working on some problems in insurance financing where premiums are now being financed for as high as 80% by outside insurance financing companies in almost a risk free type of occupation area. There are certain types of consumer credit that could be from people who are really frankly getting gouged. I'm not speaking in terms of providing 3% financing. There are some areas of consumer credit where the state can get a return commensurate with what they get on the market except doing it here locally in certain lines of consumer credit.

Aside from this area of imperfect capital markets, there are other reasons why the state might want to make loans domestically besides stimulating the economy or trying to encourage growth. For example, you might want to own certain large resource projects. Russ Meekins gave me a little lecture one time on how if the state had fianaced the gas pipeline, it would be able to control local hire through contract.

GRUENING: Jamie, you might want to know, Russ Meekins just remined me, that the legislature directed Sterling to investigate the possibility of financing the line so in fairness to him, he was following the direction of the legislature. Russ pointed that out. I thought it should be noted. Go ahead.

LOVE: Sure. It might make sense for the state to own certain types of large industry that occur. For the simple reason that (1) it may prove to be a good investment. Secondly, it may allow to implement such things as local hire and other types of social considerations. This is an area the state should be careful in, but certainly not something that should not be written off as not a potential type of thing to consider.

In other areas, they may want to change the ownership of something, for example, a foreign-owned fishing cannery. They may want to allow fishermen to form cooperatives and become the owners of the fish processing plant. The reason for that may be that maybe the public would see some use in that. They may feel that the fishermen are presently being exploited by the present owners. They may feel this may be a vehicle of overcoming that.

They may feel they want to use the money to help people capitalize and start credit unions to strengthen consumer-owned credit institutions which, incidentially, are the only credit intermediary that is feasible to provide financing to very small communities in Alaska. Commercial banks simply will not ever be a feasible economic intermediary in very small towns. Credit unions are probably the only things that can function in that area. There's a lot that can be done to strengthen the effect of credit unions beyond just consumer credit and to things of actual economic development financing particularly on a small community basis.

I'm going to have to cut this short because my notes are going a lot longer than I wanted to. I just wanted to tell you that a lot of the talk has been on the issue whether or not we should spend the money or whether we should give it

back to the public and what should we do with the earnings from the fund. I think that's very important, I think there's a lot of dialogue and discussion that has to take place relative to how we're going to manage the funds and what types of investments we might make. Thank you.

GRUENING: Thank you, Jamie. Do you have a comment?

DOOGAN: Just one question. Jamie, in speaking of social projects that could be financed, are you advocating then that they be financed through the Permanent Fund?

LOVE: Different types of social projects? The types of investments that I talked about--I'm suggesting that they could be financed by the state of Alaska using some other revenues we're getting from the oil industry. Whether through the so-called Permanent Fund or whether through the general fund or whether through another financial intermediary would depend upon the legal structure that the legislature sets up to managment. It's possible to have more than one fund. I'm just talking in general about surplus revenue.

GRUENING: To follow that up you mentioned housing. There is ASHA, there's Alaska Housing Finance Corporation,

there's the veteran loan program. For what reason would the Permanent Fund be doing something that the general fund could do by setting up another loan program or increasing the size? Is there any special reason why the Permanent Fund, as opposed to another general fund loan program, would be used?

LOVE: I think the idea of setting up financial intermediaries in some of these areas, like the Housing Finance Corporation specializing in a certain area, might be the best way to manage these things. It could either sell its paper either the Permanent Fund or the general fund or somebody else on its credit rating. Dr. Daniels has done a good job of addressing, to some degree, if you're going to be involved in some of these areas, some different scenarios per se about financial areas. I, personally, don't think I've been addressing my remarks so much to the Permanent Fund per se as I have all state loan programs because we're talking about making investments, and I think it's important that we sort of re-evaluate our entire philosophy towards investments, loans and that sort of thing at a state level.

GRUENING: Thank you Jamie. Mr. Tim Bradner. Someone remarked that it's your money we're using.

BRADNER: Thank you, Clark. My thoughts about the Permanent Fund, and to an extent the larger question of the whole amount of excess or what some people call surplus revenues in the general fund, is essentially a political problem which we're going to have to be dealing with. Just a couple observations I'd like to throw out here real quick--about the next 5 or 10 years in the dialogue that's going to have to develop in Alaska about how we're going to handle these things.

The Permanent Fund and the surplus wealth, the existence of excess revenues in the general fund and some estimates go to as high as $10 billion by 1985 between the general fund and the Permanent Fund really puts Alaska in a unique position in the United States and even in the democratic West. No state, to my knowledge, or even any Western democracy has had this kind of a problem on this kind of a scale with a small population yet a large, diverse state with pressing social and poverty needs among many of its people.

We do have a situation we can look to in some states where they are coping with excess surplus revenues this current year. For instance, Texas right now has a $2 billion surplus, I believe, in their treasury that they're debating

what to do with. Some other states have a small amount of surplus in the treasury. Nothing quite on the magnitude of the scale we're looking to here in Alaska.

Norway perhaps might be a situation in Europe that we could look at where there are large natural resource revenues and a small population. Nothing quite as extreme. There are extremes in the OPEC countries, but again, you have a different political situation there. Yet our per capita income over the next 10 years is probably going to be of the magnitude of some of the OPEC countries; in terms of the annual income from natural resources per person or per family unit probably range near what at least some of the OPEC countries are getting.

We have to ask some questions about how capable our democratic institutions are going to be handled, to handle these kind of problems. For instance, governments in the United States, state and local governments, are used to the whole idea of working with the scarcity of public dollars. The fact that tax revenues come from a lot of individuals and a lot of small businesses, there's always a scarcity in priorities. The logic by which decisions are made start from the standpoint that there's a shortage of public money, and the priorities have to be sorted out from that standpoint. In Alaska it's always been easy for the legislator to withstand the very severe constituent pressure he gets

for "what about that bridge" or "what about that dam" or "what about this program or that program" by saying "hey, there's just not enough money in the treasury this year. We just can't fund it." However, he's not going to have that excuse next year or years on down the road because there is going to be money in the treasury. There is going to be money in the Permanent Fund.

I am concerned about how permanent the Permanent Fund is going to be in the face of these kind of pressures, particularly if we have a situation in Alaska where we don't have a viable, steadily growing, private economy to generate jobs and income in the state's economy. People would tend to look to the government just as they did in the years 1970-1975 with the $900 million for various kinds of help.

Already I hear people talking about the use of the Permanent Fund in its relation to the general fund. The Permanent Fund makes loans to income producing loans. Okay. Why can't the general fund borrow money from the Permanent Fund and promise to pay it back at 5% interest? I hear that sort of thing going on. I worry about that. No state has been in a situation like this, and I think, it's going to bring about some changes in some very different kind of pressures than we're used to in Alaska.

I think, we look at why people voted for the Permanent

Fund in the first place. I think the kind of dialogue that's going to go on this year where Clark's committee and other people are going to be going out and having meetings around the state to try to re-assess why people did vote for the Permanent Fund and what they were thinking about when they voted for it, and now that it's a fact, what is going to be done with it. To a large extent, people voted for the Permanent Fund because they had a feeling that there was going to be an excess in the treasury and they were concerned about the legislature spending the money. It was kind of a reflection of that traditional American hostility to government that we seem to bring along as a tradition in part of our political heritage.

So you set it aside into a fund that the legislature can't spend, but what you also do is you create another mechanism, and you create managers of that fund, and how accountable to the people are the managers of that fund? The legislators are really accountable to the people. If there's any fault in the system, maybe we should look to that rather than to setting up another layer for managing the fund that might not be responsive to public needs or public desires.

I am concerned about the Permanent Fund and the surplus revenue question from the standpoint of its effects on dividing the state politically in the future. Already we're having problems in differences of direction between urban Alaskans,

who live in Anchorage and Fairbanks and Juneau, and rural Alaskans, who live in small villages and have a different set of concerns and priorities. I think, you'll find that many rural Alaskans are skeptical of the Permanent Fund and the reasons by which it's been created. This whole dialogue we're going through here today is because the Permanent Fund is more of an urban orientated kind of a thing. They look at the requirement for safe investments to be made by the Permanent Fund; yet they know that many rural loans are in the frontier, high-risk area. They're concerned that a lot of those loans will wind up going to large scale development projects to benefit primarily cities and the urban areas and the urban work force.

They also realize that a lot of their benefits come from the state programs, state services in rural areas. They are concerned that if more money is dedicated out of the general fund, more than 25% of royalties into the Permanent Fund, then it will tend to short change the services and the kind of programs they are getting. I worry about that.

We have no place to really look for examples on how to cope with this problem. We do have a couple examples here in Alaska. We have the case of what happened to the $900 million from 1970. Now, there was a situation where

there were surplus revenues, and we can look to how it was handled by the government. There's been a lot of debate and a lot of pro and con about what happened to the $900 million. To a large extent, I think, the case can be made that the money was used for things people wanted. People asked for that money to be spent. If you look at the record, you'll see that a lot of it, probably most of it, went for education, because people asked for it. I think those kind of pressures are going to happen again in the future. That's really all I have to say.

GRUENING: Thank you very much, Tim. If there are no questions at this time, we'll proceed to Dr. Lindauer.

LINDAUER: I'd like to remind everybody that we really have two aspects to this thing. We keep running them together. We have the question on how to spend the income that's going to come off this thing. And we have the question of the investments that are going into it. It seems to me, that we're continually talking about the income, but as a matter of fact, it may well be that how we make the investments are going to have more impact on those people who are in Alaska today. I'm going to come to that.

There's also the question of what our objectives are.

I'm not so sure we've specified them. That is, how much of what we are doing is for us and how much of what we're doing should be for people in the lower 48 or for our grandchildren to make them even more richer than they're otherwise going to be, richer than we are. I don't think we've really decided whether it's for us or for the future.

We've had many, many proposals as to what to do. Almost all of them, as far as I can see, with the exception of the Alaskan, Inc. kind of distribution of income, would appear to have no real benefit for the people who are in Alaska today in terms of improving the general quality of the life of the mass of the people and their standard of living, perhaps even for future Alaskans. Most of them would tend to make Alaskans more numerous rather than better off.

I'm primarily concerning myself now with the investments and how the capital is put together rather than the income and how it is spent. I think it would be a terrible shame if we said that the main impact on the day to day life of the average Alaskan was, he got stuck in a few more traffic jams and was three deep at the Russian River instead of shoulder to shoulder. At the present time, I'd say that we're likely to be three deep. That bothers me because for better or for worse, Alaska owes nothing to the New York City bond brokers. It really does not have an obligation to

provide a job for everybody who wants to come up here to find one. Indeed, the panelists and their comments about labor mobility are all too correct because people will come up here to take advantage of these things. The average Alaskan will, in fact, not be better off. The goals for both income and investment, again separating them, should be to use them both to directly benefit and encourage today's Alaskans to have a better quality of life, more prosperity, and hopefully to do so, I think we can, in such a way as to build a tax base so that we will be able to continue that higher quality of life and standard of living at such a time in the future for our grandchildren when the oil runs out.

What I'd like to do very briefly is throw out my comments on the major proposals that I've heard in the most summary form and tell you why I've come to these conclusions.

Let's take the development bank project and lets talk about spending $1 billion for a big power plant or some huge, massive traditional development bank. No matter what we call it, once we set up a major, highly financed development bank, it's going to function like a development bank of projects. I find it very difficult to believe that a dam that's going to take 20 or 30 years to build is going to have any great impact on the quality of life of people now living in Alaska. It's true that when the

thing comes on line there'll be more electricity, I assume that that will then generate electricity for the additional people who are in here building the things that the public development bank has promoted. The average Alaskan even then will be in no way better off.

In any event, such projects, for better or for worse in today's world, would be built by Washington, if they had any sense or any merit at all. The Corps of Engineers has never been known not to build a public works project if they could, in any way, be justified. So the fact that we would build those that they wouldn't, suggests to me, that we'd have a rat- hole factor there that would be monumental; approaching infinity, I think.

Big projects like that probably ought to go in front of the voters and certainly can be bonded by the legislature and discussed at the legislature and put on a bond issue if they really have merit, and we just can't get Washington to provide them the way they would for all the other states in the Union, if for some reason Washington will start to ignore us in that fashion, then the legislature can take action. I really don't see any need to have a development bank for major, huge subsidy projects.

There's also the possibility of gilt-edge investments,

maximum income. I find it hard to believe that pouring all that money into buying little white pieces of paper with I.O.U.'s from such major first class things, that we would have bought five years ago, as New York City bonds, would really do much for us, or in a sense, do much for us in terms of income being generated. In the future, I suppose that we would have the income and what they did to New York City, I assume, that is they would tend to migrate in and take advantage of the services provided with the lower taxes and/or higher revenues. I'm not so sure that in some years accumulating investments through the bond market in order to build a New York City is exactly what we ought to do.

There's also the suggestion that we ought to make such things as direct loans and guarantees to Alaskans and Alaskan businesses, and that has some merit in it. The trouble is that if we make them directly, there's too much chance that the loans and guarantees will be made on a political basis instead of an economic basis. Everyone who has a good loan will go to the bank; everybody who has a bad loan will go to the Permanent Fund. The net result of that is going to be that we will probably lose a lot of our capital. The Permanent Fund will unnecessarily be saddled with a great deal of public disenchantment. Overall, it's a net loss, I'd like to make

a suggestion which might kill the two birds that we need to have killed. That is to provide benefits for Alaskans as well as benefits for future Alaskans without having that kind of risk involved.

What I would think we should do heavily, at least with some of this money, would be to put it into the financial institutions of Alaska that are here today for the purpose of making the banks, the savings and loans, the credit unions, whatever the financial instututions are of the economy today and those that might be established for the purpose of making low interest loans in certain areas, certain socially desirable areas.

The one that particularly springs to mind is housing. It's very important that everybody realize that financial institutions do not make their money because there's an absolutely high level of interest such as 10% or 9 5/8 or whatever the rate is. They make their money on the spread between whatever it takes and whatever they loan it at. Getting it at 7 and loaning it at 9 gives them the same profits as getting it at 2 and loaning at 4. It's the risk differential and the administrative costs that must be covered. The Permanent Fund could definitely provide very low interest loans to the financial institutions to handle such things as making loans to the village utilities

if that's socially desirable, or any other things that would be so enumerated. Housing, what have you? I would really suggest that this should be done. If we can improve the quality of life for Alaskans by letting them have better housing, that's something that can be done immediately and will affect the whole mass of people. It's also building a tax base. The same thing through lower utility costs. It is a form of subsidy which will get out to all the people whereas a major subsidy that just causes one or two big dams to be built or major capital projects will fundamentally benefit a handful of engineering companies that are headquartered in New York City or wherever the major engineering companies are headquartered.

I submit to you again, that our responsibility is to Alaskans and to improve the quality of their life. It is not to provide jobs and incomes for people who do not live in Alaska. If we can build the tax base for the future through such investments and subsidies, and that's what they are, and simultaneously provide an access to a better quality of life, and the one things we see right now in the economy of Alaska is a massive move toward the upgrading of housing. I would submit that that is an area in which the legislature and everone else needs to take a very serious look.

The only other thing I would say is, please notice

that I'm talking about the investments in the principal in the Permanent Fund. I am not talking about how we ought to spend however the income comes. We should seriously consider such things as Alaska, Inc., or variations of that if that is politically impossible, which would get the benefits back to the people directly and not send them into a few large projects that are oriented towards outside the state and very delayed benefits.

This economy is growing and our grandchildren, no matter what happens, are going to be richer than we are. I'm not so sure we need to starve everybody in order to make them even richer.

GRUENING: Thank you for that optimistic outlook. Barbara.

BERGMAN: Okay, I'd like to say a few things about Dr. Lindauer's remarks. There's a little confusion on whether present day Alaskans are too well off or not well enough off. Here you've got the oil revenues coming in. One sort of rationale, we're segregating them in the Permanent Fund is in some sense we're too well off. That is, the present day Alaskans are lavishly provided for in terms of public service if the money were not put into the Permanent Fund. What that would argue is that some of the

money should go into the Permanent Fund again primarily for the benefit of future generations of Alaskans. Some of it should not go into the Permanent Fund, some of the revenue should be used to lower taxes for example. That's what that would argue.

Now, I think that Dr. Lindauer shouldn't be allowed to get away with this implication that if the money were invested in the gilt-edge type of program, New York City bonds would have been bought with it.

LINDAUER: Five years ago they would have.

BERGMAN: That would not have occurred because they are tax exempt. It would make absolutely no sense for the Permanent Fund to buy them. More seriously, I think, what he's suggesting is that somehow or other the managers of the Permanent Fund would be poor in terms of that kind of investment. Even I'm smart enough not to have bought any New York City bonds. My record in the market is not too great.

LINDAUER: That's not what I suggested.

BERGMAN: I don't think that's a fair implication.

LINDAUER: I didn't mean that implication. Let me tell you

what I meant. I meant that if we send billions of dollars out of this state and get back little white pieces of paper that 30 years hence are going to give us some income when they mature, we're going to have little white pieces of paper here and damn little else. We have people who might rather have a better housing situation. We don't need to have additional spending to have local citizens make investments of their own in housing. There are a lot of people who apparently would like to have better housing. I see no reason why they should be denied that.

BERGMAN: That relates to the issue of how well off the present day Alaskans are. Do they have needs that ought to be met out of the present day oil revenues? What you're saying is yes. I think, that's something that is essentially a political question that has to be determined.

Now, there's sort of a subrosa question here which hasn't come out explicitly, perhaps it has, I think it ought to be out and discussed a little more, that is the problem--do you want to give benefits to the present citizens of Alaska and positively avoid giving benefits to people who will migrate subsequently or people who have migrated recently? There are pros and cons on this. Even if you

restrict the present benefits to people who are citizens of Alaska now---and by the way, I am thinking of renting an apartment and moving my voting residence here before the grandfather's clause takes effect---but seriously, if you do that, you are going to create a two class economy. Some people are going to move here subsequently anyway. There are social problems with that that would have to be faced. If, on the other hand, as has been ~~said and~~ said correctly many times, you provide the benefits to whoever is to come here that will to some degree encourage immigration. That might be bad because it would spread the benefits more thinly, but also because it could be said that those people have no moral right to it in some sense. That as a practical matter you are going to end up having to give benefits to whoever is here, even if some of them have been brought in because of the generosity of these programs. I don't think you will want to, or can afford to, set up a two tier system where some people of priviledged nobility and other people are pariahs.

LINDAUER: I think you have misinterpreted. What you've done is you've gone back and you're confusing the discussion of how to spend the income with the question of how to invest the principal.

BERGMAN: No. Those are two different comments. Perhaps, I should have said I'm now moving from the area of how to invest the principal to the area of how to spend the income.

LINDAUER: I didn't really discuss how to spend the income. I have my own value judgement, without thinking it through, I would use it to have a form of property tax relief to encourage, again, the average citizen, who is in Alaska, to benefit by being able to afford a better class of housing, if that's what that person wants.

I was discussing the question of how to make the investments of the principal of the capital of the Permanent Fund and suggesting that we would be better off if the principal, wherever possible, was invested in Alaska in such a way as to build a tax base and in such a way as to benefit Alaskans. I still believe that we owe nothing to bond brokers in New York and we owe nothing to a handful of engineering companies who would come up here to make major capital projects and bring in itinerate laborers who would come in and out, we would get little, if any, benefit from this. I'd rather see everybody living in a better house, if that's what they want or having decent utilities in their villages, if that's what they want.

BERGMAN: Well, some of that itinerate labor is going to be required to build those better houses.

LINDAUER: That's right.

GRUENING: I would like to ask one question and that is how hungry is the audience? We're getting to the more important part of this symposium and that is letting the very patient audience get into the fray here and ask questions of whomever. We can go another half an hour and then break for lunch and come back if there are still questions to be asked. We can break right now. I'm asking for the Quaker sense. What do you say sir?

MAN (UNIDENTIFIED): I'd like to make a comment and ask a couple questions, but considering the time-now that he's had a cooling off period, I'd like to refer to Mr. Gallagher and let him make a comment in response.

GRUENING: Okay. That's fair enough, but I want to hear how hungry the rest of the group is. Representative Carpenter.

CARPENTER: We may not necessarily be hungry, but there may be other reasons to leave the room.

GRUENING: We don't have a sign out sheet. Anyone can leave. Okay. Sterling, you can make a remark if you want. We'll be back at 1:00 o'clock sharp. We have some people who need to catch planes. We can maybe wrap it earlier this afternoon. Thank you. I urge you all to come back because I think it will be the more interesting portion this afternoon.

LUNCH BREAK

GRUENING: We'll try to wrap this thing up in a time that's appropriate, we won't drag it out. Dr. George Rogers has to return to Juneau tonight and the last plane leaves at 3:00, so if you have any questions of him, specifically, you should ask them first. Before we open it up to general questions, Dr. Lindauer wanted to clarify a statement he made and from that point on you can ask any questions you want of the two economists, the panelists, or the legislature, for that matter.

If you have specific proposals for investments, I think we're also interested mostly in your philosophy for why that is a good thing for the Permanent Fund to do and why the Permanent Fund as opposed to maybe the general fund or the revolving loan funds that are created from the

general fund could not do it as well.

I only have one comment on what's transpired so far and that is it appears to the extent that the Permanent Fund becomes active in the Alaska econmy, intervening in the Alaska economy, we have increasing problems with how to fairly distribute the subsidy, if there is one applied in the loan, and how to manage it in a way that it's accountable to changing desires in needs of the people. It doesn't mean that we shouldn't do it; it just means the problem is a little more difficult as the Permanent Fund becomes active in the economy. You may want to have a comment or a question on that. As long as the panelists are here, you might as well get your questions out first. Dr. Lindauer.

LINDAUER: Somebody asked me a question which led me to think that something I had said had been misunderstood. It had to do with development banks and development bank projects. My concern is not with the establishment of a development bank per se, particularly not with the establishment of a development bank kind of analysis of projects. My concern is with the kind of big project that one finds the World Bank engaging in. Something that would be a $5 billion hydro project that would have overruns to $8 billion. Something that would be a single project or a handful of projects which would be an all or nothing kind of use of the Permanent Fund monies. I am particularly opposed to

putting all the money into a big project such as a major dam. I am certainly not opposed in any way to the establishment of a development bank concept to analyze various and sundry projects.

GRUENING: Thank you for clarifying that. When you come to ask questions, please come to the microphone. The lights now are provided and the cameras are provided by Media Services, which is producing a program that may be used on channel 7. It'll be put together so you may see yourself on T.V. We also plan to do a transcript on this hearing. So when you come to the microphone, please identify yourself. If you wish to do so, tell us your occupation. Yes, sir.

GERSTENFELD: My name is Sol Gerstenfeld. I've been in this neck of the woods about 30 years, so I've done this, that and the other thing. I've done some visiting Outside and kept coming back. Along the lines that Jamie raised, the thing that concerns me the most is not just how much we spend and how much we take in, but what we get for our money. I would like someone to explain to me how come criminal justice is a better investment than consumer protection?

GRUENING: Anyone want to take a stab at that?

HAVELOCK: I don't think that they're mutually exclusive objectives. Historically, over the last few years, there has been more of a trend. If I understand the question, my comment is simply, the trend in the direction of the question is addressing.

GERSTENFELD: Trends don't happen; they're made.

GRUENING: Okay. Trends don't happen, they're made. Now if you have any comment with which to follow-up your questions, I'd invite the audience to do that. As long as no one's making a long speech, there's time to follow your own question. Are you satisfied? Does anyone wish to comment further on that? Okay. Does anyone else have any questions from the audience?

CUC: Two questions. First, just a general information question.

GRUENING: Identify yourself please.

CUC: Okay. Dennis Cuc. Specifically, with the oncoming gas production and new discoveries that will be found in Prudhoe

Bay, how much extra are we going to have in the Permanent Fund? Does the Permanent Fund just anticipate Prudhoe oil and gas or does it anticipate other discoveries at all?

GRUENING: I can answer that. The amendment applies to all oil revenue produced through royalties and leases and bonuses on state land, so that if the Beaufort Sea, for example, were sold next year for a bonus payment, 25% of that bonus payment would go into the Permanent Fund; and if it were sold under the same arrangement where the state gets 12½% of the oil or the value of it, then 25% of that would also go into the Permanent Fund.

But, I think the impetus for the Permanent Fund was the vast wealth that people saw coming out of Prudhoe, although other revenues are subject to contribution. The projections that you see in that little green book that some of you picked up, and there are more out there, if you want them, are based strictly on Prudhoe Bay.

CUC: My second question is for Dr. Lindauer. Do you think the banks are willing to enter into some kind off arrangement with the state whereby the state does provide monies? Do you think the banks, as a private capital

resource, would be interested in this proposition?

LINDAUER: I would think yes. By the very definition of what you just said. They tend to be private, profit-making corporations. They make their money on the difference between what they pay for it and what they charge for it, not on the absolute rate. So that it would be very profitable to a bank to make low-interest loans if it can get the money at an even lower interest loan. Then again, let me tell you, I'm not just talking about banks, I'm talking about all financial institutions including state mortgage agencies and all related, anything that is presently acting as a financial institution could conceivably take money and put it into whatever the legislature thought was a good idea.

CUC: I haven't done any research on this and the only reason I ask the question is because the Commissioner of Revenue seemed to indicate he is a banker, of course, he was a banker. He seemed to believe it wouldn't fly. You haven't talked to him about it to find out the reason? I haven't either at length.

LINDAUER: I did speak very briefly with him during the lunch hour about that, and I think one of the things that was

discussed was the capital requirements of banks. It may well be that there would have to be enough profits involved in the break to generate additional capital so that they could continue to expand. I think that we're really talking about a conceptual thing here. The question of whether the money should flow through the Alaskan financial institutions or should it flow through a bond brokerage house in New York City. Other things equal, I'd just as soon let the Alaskan institutions make the money.

GRUENING: Thank you Doctor. That's a worthy objective, I'm told and I don't have the information before me, that when the $900 million was deposited in local banks, most of it went Outside. Somebody may wish to comment on that.

BERGMAN: Let me say that when money is deposited in banks, the first thing they do is buy government bills with it.

GREUNING: Why is that?

BERGMAN: They want to expand their loans very quickly. Because very prudently they want to take care to see that they're good loans. So when they get a sudden big deposit,

what they will do is put the money to work in a relatively riskless way, which is the government bill market, where the funds are liquid and they get a rate of return. It's open to the Alaskan government to buy its own bills instead of putting large sums in interest free accounts, even temporarily. With large sums so that even putting them in interest free accounts for relatively short periods can lose a lot of money. Now you know, I hear sort of contradictory things. In one ear, I hear that you're so rich it doesn't matter, and with the other ear, I hear that you have a lot of slums that need attention and so on. No matter how rich you are, it's foolish to unnecessarily enrich bankers, even Alaskan bankers.

GRUENING: Any bankers in the crowd?

BERGMAN: I must say with respect to brokerage houses that Dr. Lindauer is warning us against, they now do negotiate down commission rates. So I'm sure, that for an account like the State of Alaska, one would get a rather low rate.

LOVE: I think what we are getting into is sort of technical discussion as to whether or not the Permanent Fund working through the banks buy CDs or whether they buy loans or whether they sell CDs or buy loans. I think what Clark was talking about, at one

point, they take the certificates of deposit down to the banks, hoping they'd make some local loans. Sterling Gallagher, I think, was quoted once as saying they put the money Outside into treasury bills outside the state to make a profit. They could also accomplish what Dr. Lindauer wanted to do by purchasing loans on the secondary money market, thereby ensuring that the loans were properly qualified Alaska investments under certain criteria. I'm not speaking so much to his proposal, but I think we're getting into a technical area, I'm not sure how helpful that is for the general audience in terms of discussing some of this stuff. I think there's probably different ways of accomplishing what Dr. Lindauer was talking about other than putting money in CDs.

LINDAUER: I never advocated putting money in CDs. In fact, quite the contrary. My whole point is that if you channel it through some restricted beneficial way to limit the loans not by CDs but let them draw on money they're willing to loan out at some lower rate of interest. The loans that they otherwise would not make--it could benefit Alaska. The whole thing is to keep the beneifts and orient the loans within Alaska--not just throw them in the national economy.

MEEKINS: There is a precedent to that in terms of link deposits that, I understand, Colorado did that with their state deposits. They give them under the condition that they're used for certain purposes. I think that's one vehicle.

GRUENING: Sir, did you have a comment on that? It's open to the audience. Just come to the microphone.

FISKE: I am Roy Fiske. I'm a retired Lieutenant Colonel and a 15 year Alaskan. I think that what you've just been saying here on restricting where you make your investments can be legislated, and the money we're talking about could be put in the hands of Alaskan institutions with restrictions on it that it be invested in Alaska only and at specific rates. That specific amount of money, while it's in the bank, would not necessarily be handled the same as the other funds of the bank. I would like to later on make some further comments, if I may.

GRUENING: Sure, you may. Thank you very much. Mike, do you have a comment?

DOOGAN: Yes, I'd like to get back to a slightly more general question. This is directed more or less to Dr. Lindauer, but just generally to stated goals of the fund. When you discussed

making loan interest loans to Alaskans using the principal that way, taking the earnings and distributing them to Alaskans in some sort of direct manner, you raised the question of tradeoffs. You have two goals and they can, on this scenario, be accomplished; but you have to decide what your first goal is. If it's to put the most possible money in the pockets of Alaskans, obviously you don't make low interest loans, you try to make as much interest as you can, because you can put more money in. If it's to build houses, then you have to sacrifice the goal somewhat of putting money in the pockets of Alaskans. So the question is when you made that sort of proposal, what was your primary goal?

LINDAUER: When I first spoke, I said that we really had things divided into two separate parts--the question of how to spend whatever income came and the question of how to take the principal and how to build up the principal. I don't think the goals should be maximum. I don't think that was what the voters voted on. The voters voted on putting it into income earning things. You can earn an income at 3 or 4%; you can earn an income at 6 or 7%. Whatever the managers of the fund decide is the socially responsibile thing to do should be what we do. I would, person-

ally, do not think that we should go for the high risk investments that would conceivably yield the highest incomes. I think that we should consider that how we invest that money is going to be as important, in my view even more important, than whether we get an extra one percent on the top by taking some risks for the money. Last time we took some risks I understand there were some big losses. You get more interest when you take a risk as a risk premium. Should we really be risking it? I think there should be something in between the final recipient and the state as a guarantor of the repayment of that money, so there is a guaranteed income. Thats one reason, I like financial institutions, because if the loan goes sour, it's their loan that went sour. They would owe the state whatever they paid to get that money.

BRADNER: I have a more general question. What is the status of the definition of income producing? Are you going to try to do this through your statute? What's your present thinking about it? What are the words of the initiative? I can't quite remember.

HAVELOCK: Some currency depreciates very rapidly.

GRUENING: Down to zero? It means some interest. In other words, you couldn't do it, say, argue indirectly, give it as a grant and say, "well, that's incoming producing because they'll be side benefits." It has to produce some income, but it doesn't say how much. It could be anywhere from 1% to 10%. As a legal matter, I don't think you could argue it could produce no income and be income producing, based on kind of a spent off benefit thing. The interest range is wide.

BERGMAN: I'd like to say just a few words about the trade-offs. Say you take a million dollars and you subsidize loans in Alaska, or you take a million dollars and you invest it in treasury bonds and make a better return on it. You're giving up something in each case. Presumably the beneift is to the person who gets the concessional loan, and that, very frankly, tends to be middle class people. They're the ones who qualify even for concessional loans. What you're doing, in effect, is you are giving a benefit to a middle class person and sacrificing a benefit, as a result, for the beneficiaries of the income, which is the whole population. I don't say you should never do it. There may be very good

reasons to do it. But you have to be clear that whatever track you take, there are going to be costs and there are going to be benefits. You have to see who gets the benefits and who bears the costs. They're generally not the same people.

MC CUTCHEON: I'd like to ask Dr. Rogers a question before he leaves.

GRUENING: And you're Jerry McCutcheon.

MCCUTCHEON: Yes, Dr. Rogers, you raised a question of the philosophy of the Permanent Fund, and you never stated what your opinion was. Why do you believe there should be a Permanent Fund? Divorce it from whether or not political tricks were played in the voting process, or who introduced bills, and aside from all that stuff, strike all of that and get down to why there should be a Permanent Fund.

ROGERS: The purpose of the Permanent Fund--we're faced with an unusual situation, or what seems to be an unusual situation in which we have for a period of time the prospect of drawing upon resources that belong to Alaska in this case, they're state land, that will be depleted over a period of 20 to 30 years. The benefits

of these, if they are not put into a Permanent Fund, would be used for current expenditures, current benefits. One of the underlying things, I think, of the whole idea was that this was a way of creating a nest egg, which would be available, which would share some of the benefits with future generations. The other thing was because Alaska has been through boom and bust cycles in the past, we have this fear of there being a let down right after a particular period of prosperity comes to an end. Most of our past development has been gold, defense, construction, the Alaska earthquake briefly, and then oil development. Each of these have had different cycles. So the idea of creating this fund as a cushion at the end to give us a basis for moving..

MCCUTCHEON: I'd like to ask my next question.

GRUENING: Let him finish. Are you finished, Dr. Rogers?

ROGERS: That's one of the underlying points of creating a Permanent Fund. The other is, of course then we get into the use of the money. I think we've all talked about it this morning. But you asked me what the basic idea was. You had another question.

MC CUTCHEON: As to your anticipated number of years, I would suggest you get the State of Alaska's report of January 1976, having to do with the production of Prudhoe Bay Oil. I've got one question, why do you think this anomaly, this variation, or this large income occured? Why is it occurring?

ROGERS: It's occurring because the oil industry is coming up to Alaska because of the energy shortage. Is that the sort of question you're asking?

MC CUTCHEON: Well, you're getting close. Why has it occurred? Tell us why it has occurred. Why couldn't it be level?

ROGERS: Why couldn't the income be level? Because there's an immediate national need for the resource, the energy resource. It's being developed during this period.

MC CUTCHEON: I understand the need for the resource will be greater in 1985 than it is today. If that is the case, will we not need it worse in the future than we do today.

ROGERS: You see, these are decisions over which we have no control.

MC CUTCHEON: I see, you say we have no control. Who does control those decisions?

ROGERS: If I understand your deep question which is emerging, is why do we develop oil today? Is that the question?

MC CUTCHEON: That could be one of them.

ROGERS: That is a good question. We had an alternative. As a state, we could've withheld those lands. The decision was made to develop them.

MC CUTCHEON: So in relation to the Permanet Fund, where does this fit with the philosophy that apparently we could not control?

ROGERS: The control of the timing of the income generation is what you're getting at, isn't it?

MC CUTCHEON: Correct.

ROGERS: We had a voice in that. It's a political

decision that was made. I don't think that, if put to a vote, the people would have come up with an answer different than the decision made, but that's a speculation. You're correct. The income is being generated now because the decision was made to develop the oil or to put the state lands up for lease.

MC CUTCHEON: Would you think then it might be prudent as far as the state is concerned not to have any further lease sales? In other words, not to enhance the Permanent Fund?

ROGERS: Yes. I think it might very well be prudent to do that.

MC CUTCHEON: Then the Permanent Fund can be considered in two ways. That which is resources you own, and that which is postponed?

ROGERS: That's right. Yes, it's one way of giving the resources that you're giving up now a life after death.

MC CUTCHEON: Thank you.

GRUENING: Thank you, Jerry. Are there any further questions?

MC GINNIS: I'm not clever enough to turn all these into questions, so I'd just like to make a couple of statements. My name is Tim McGinnis. I'm a citizen of the state of Alaska.

My first comment is that I believe that the Permanent Fund arose more in response to a political situation than an economic one. Here in Alaska since 1969, the question has been most often left by the outs wishing to get in the political structure. What has happened to the $900 million? If they had devoted as much research or as much to research as they did to rhetoric, they could have found out what happened to the $900 million. Again, and again, we hear, "What has happened to the $900 million?" Even though everybody knows. I think in response to that, a lot of political people, generally liberals afraid of a conservative challenge, said, "let's make a Permanent Fund." A lot of the questions we're addressing today are the results of that kind of dichotomy between political need, which may or may not have reflected a true economic need.

My second point, from what I've heard today and what I, as an Alaskan, have been coming around to in the last couple of years, is that we really don't want the money. What is it going to bring us? More people. We've heard that from every edge of the room today. What is it going to

bring us?

There is an important qualification on that, which is we don't want the money now; but we do want it later. So that's one of the things that has to be worked around.

Something which hovers in the background of the entire Permanent Fund discussion up to now, is the question of what percentage of those monies subject to the Permanent Fund are actually going to end up being used by the Permanent Fund. Will it be 25; will it be 50; will it be 75; will it be 100? I think that it's absolutely the most important decision to be made right at the outset. There are numerous arguments about which is cart, which is horse; but the principal first effect of the Permanent Fund will be these vis a vis the general fund. There's been a lot of talk in this room today about how we don't need any more government growth. Obviously making 100% Permanent Fund would have quite an effect on slowing government growth. That may or may not be a worthy goal, but to bring all these comments to a head.

There is one kind of quality, we've been talking all day about social quality, we've been talking about economic values and investments. But no one has really touched on the subject of environmental quality. I would like to suggest to you people today that the Permanent Fund could be used to buy back Alaska.

To buy environment quality for this state. We all heard about trade-offs. It's a favorite economic word. We've heard about externalities. I'm not going to tell economists about externalities: they all know about it. The fact remains that our resources are not being developed by the same people who hope to profit by them or by the same people who would hope to keep a reasonable level of environmental quality while those resources are being developed. BP Alaska or the Alyeska Pipeline Service---they have their own, very rightly so, idea of what trade-offs are going to be and what they consider to be a wise trade-off. The Alaskan people are almost in a hypocritical stance because they want the values that come with oil development but they are screaming to high heaven about the environmental trade-offs.

Once in a film a fellow made the comment that Alaskans want wilderness at the back door and civilization at the front door. When someone moves in behind them, they've got a problem. That's one of the best comments I've ever heard on that matter.

To continue with the idea of environmental quality and trade-offs, I'd like to suggest some concrete things which have been brought up by the conversation of our last speaker, one of which is that the state of Alaska could buy leases, oil leases, with the Permanent Fund. It could've bought the

entire Northeast Gulf for half a billion dollars, that's one sixteenth of an $8 billion Permanent Fund. We could've held it off the market. We could've particularly held off the market those tracts that were environmentally sensitive; and, when the time arose when we needed more development in the state, we could then have begun to develop.

The second thing, and this has been brought up before, Russ and I have talked about this before, is we could have decided unilaterally two years ago that we were going to build the Alaska gas line. Would Congress have told us not to build it? If we were going to invest $4 billion building a state-owned pipeline to Alaskan tidewater, would there be an Alcan line now?

I think the most dramatic results of the Permanent Fund could be control over how those resources are developed. That to me is more the essence than the money which might conceivably come from those resources. We could control the environmental stipulations to a much greater degree, not only in terms of the letter of the law, but carrying out that intent if we were ourselves the owners and controllers, not of the conversation that was just here, control the sequence and the timing of development of resources if we do truly own them. A lot of our problem right now is the federal government can't control that; but we could form ourselves an oil company and bid against anyone who wanted to develop our resources before we did if we were lucky enough to cal-

culate what they thought they were worth and put ten more dollars on top of it, we would have control of it.

One of the conflicts here is that if we set up 100% Permanent Fund in order to try to keep state government from growing, we may unfortunately put into higher gear the mechanism of development, which has been the need for state revenues, that is by putting 100% in the Permanent Fund we might make the Beaufort Sea be sold 15 years earlier. That's a conflict, I recognize that. In many cases, we can't control that development or its speed or its tempo. We haven't even really wanted to, we've been so greedy. We want it all right now. We've got a long time to go in this state. A couple thousand years. Oil is going to get more valuable, everybody knows that. We're holding it as a national trust. It's nice that the Carter administration has the moderate views it has about development. But we had better, after Carter, get ready for another Nixon. Somebody who, you know, doesn't care about what's in the Northeast Gulf--somebody who doesn't know anything about, well, this wasn't federal, but somebody who doesn't know anything about Kachemak Bay and why not to put an oil rig there.

My faith in Alaska is the faith that we can control our own destiny, but in order to do that we may have to remodify

our idea of what is income producing or when it becomes income producing or when we would like it to become income producing. To me, that is one of the outstanding possibilities of the Permanent Fund, which so far, has not been touched.

One more comment, which is simply that it's really an $8 billion Permanent Fund or $10 billion or even $6 billion, the impact on the state is going to be as incredible, as if we were creating an entirely new state government. The last time we created a state government, we had a constitutional convention, a couple years of debate. This time we're creating a Permanent Fund with an audience of about 25. I would hope that by the time we actually come to making those decisions about the Permanent Fund, that something of the scale of inquiry of a new constitutional convention will be attempted because it's going to be that important to the state. Those are my comments.

GRUENING: Tim, could you stick around for some questions? That was a very thought provoking statement. I think Mike has one question. We'll open it to the audience themselves. If the audience has questions of the participant without getting into an argument, they can ask them.

DOOGAN: It seems to me, that your statement hasn't really so much given us a solution to the problem of what to do with the

Permanent Fund, but rather to speak of Alaskans as though they were a homogeneous group. The Committee's goal is to try to get some sort of an idea of what Alaskans in general would like to see done with the money. If you postpone that just by saying we'll use the money to buy oil leases, then we'll have to have another committee with a different name trying to figure out when people want the oil leases sold.

MC GINNIS: That seems to be the nature of government; a committee about a committee about a committee.

GRUENING: Tim, I had one question. I agree that the question of the increased contribution to the Permanent Fund whether you're going to raise it above the mandatory 25% set in the constitution is important. I think you implied this in your statement, but I'm checking. Shouldn't we decide basically what the goal of the fund should be or what we think it should be before we decide to increase the contribution. If in fact a lot of these goals can be achieved through the general fund, why put it into the Permanent Fund unless that has a special goal? Shouldn't we determine that first before we increase the contribution?

MC GINNIS: I'm going a little bit backwards from your

deduction, which is I'm saying that it might better be put into the Permanent Fund as a place to put it when we don't know what to do with it, rather than to put it in the general fund when we don't know what to do with it. What I'm saying is that one of our big problems here, we spent all morning talking about how to keep people from coming to Alaska because we've got so much money. To my mind, that's the vital question about the Permanent Fund vs. the general fund.

MEEKINS: Tim, you mentioned, and I think it was a very good point, that one of the effects of putting 100% into the Permanent Fund may be, at some point, thereby reducing the surplus in the development of other areas by leasing oil leases or other mineral leases or any other resources the state owns. I think that's a good point. I'm wondering what you'd think about it in terms of, if I could remember my question now that I've said that. I'll come back to it.

GRUENING: Tim, you had a question, why don't you ask it?

BRADNER: I just had a question, Clark. The way the thing is now written, is it possible for the legislature to annually increase the amount of money into the Permanent Fund or does it have to be done by legislation. For instance, if the Finance

Committee were to find that they bent the budget for one year and there was X amount left over, could they, by resolution, put what was left over of the excess revenue that year into the Permanent Fund? Or does it have to be a set percentage?

GRUENING: Not by resolution or at least that's debatable, but by a bill which could be a budget bill, it could put additional amounts. In the constitional amendment it does say at least 25%, which has interpreted to allow the legislature to make a higher contribution.

MEEKINS: I remember what I was going to say fortunately. I'm wondering if you find that same logic to Alaska, Inc.? Do you think that having an Alaska, Inc. proposal that you distributed money from the Permanent Fund investments to the public would have the same effect of generating an enthusiasm for selling the Beaufort lease sale so that 25% of those monies or 50%, whatever the contribution rate, would then go into the Permanent Fund and their shares would increase in value and that that would generate its own? I'm just trying to follow that logic out as applied to Alaska, Inc.

MC GINNIS: It's a definite possibility. Whether it's

Alaska, Inc, or any of a number of other things we've got in mind. It all goes back to whether we really want the money.

GRUENING: Any further questions? Jerry.

MC CUTCHEON: You raised the question of investing $4 billion in gas line. I keep hearing about Alaska putting money in the gas line. Are you aware that the state of Alaska is--it would cost $16 billion for the gas line. And there'd probably be an additional $3 billion. And what would the cost of gas be and why when at Tidewater?

MC GINNIS: $19 billion.

MC CUTCHEON: inaudible

MC GINNIS: I'm not sure that they have. El Paso--I guess they're not an oil company, they're a gas company, but they sure wanted it.

MC CUTCHEON: inaudible

GRUENING: As I understood the proposal was illustrative only of the type of resource investment that could be gotten into. I

have had enough of royalty gas right now. I hope we don't get into that debate again.

MC GINNIS: One variant on the proposal--we don't have to own 100%; we may not, in order to exercise effective control, even have to own 51%. We might do it with 30. We might be just a greater among many equals. I'm talking about co-venture as well as outright ownership. I don't feel that you're ever going to get a company from outside Alaska, wherever it's from, however many ads or dog races or whatever it is they sponsor to tell the way the Alaskan public is going to care. If the Alaskan public doesn't care, then we might as well bag it.

GRUENING: Thank you. Panelists or anybody can come up.

BRADNER: I have a question I want to address to you and Russ. What are the pros and cons more or less of money going into the Permanent Fund? Do you think it's a good idea to increase it to 50% or 75%? What do you see as disadvantages or advantages of that?

GRUENING: I'm not dodging the question, but one of the things we're trying to find out...I personally think you have to find out what you feel basically are the major goals. I

have some opinions on that. I haven't concluded yet to what the percentage ought to be--increased or remain the same. It's something I want to wait on frankly. That's my answer to it. I think I'd like to hear more from the public as to if they think it should be increased, why they do.

MEEKINS: I think one of the purposes of these types of things is to get some input on that question. We, of course, have spent a lot of time thinking about it. It's sort of funny because at the same time we need to make that decision up front, because a lot of things depend on it, we have very little information upon which to base it. We don't know what the prices of the oil and the tariff and all those things are going to be so we can't really project what our revenues are going to be. At the same time, we don't know what our population increases and our expenditures are going to be, or even our needs. So we don't know what our budget is going to be. Really our judgment on how much extra we're going to have to put one place or another is not very accurate at this point. So it's very difficult to say put 100% of it in. I guess we could always change it, but we're sort of in a dichotomy of wanting to do it up front and not having all the information we need to do it.

HAVELOCK: I just want to say since you don't know what you're

going to use the money for, it's absolutely insane to raise the percentage of money your're going to dedicate to the fund. Supposing you assume the purpose of the fund was to control random government spending of windfall funds, but you don't want a fixed percentage anyway. That is, what you need is some sort of a floating percentage that takes excess cream off the top. I assume since you feel that the legislature doesn't trust itself to do this on an annual basis, you need some sort of a formula system for doing that. I would not care to broach on how you put that formula together, but I'm sure that the economists in the room could do it.

GRUENING: We are looking at that, John. It's a complicated problem, but I happen to agree that a formula approach makes more sense than a fix of 50, 75, 80.

HAVELOCK: I'm also concerned. This is something that George and I talked over at lunch. The importance of preserving the distinction in whatever you do between investment policy and spending policy. As you've got all kinds of potential subsidy operations going on if just having a floating category of anything that makes a profit. The fact that you are, in fact, spending money to support housing, or

rural facilities, or whatever it may be, it becomes disguised. It seems to me, from the accountability perspective, you want to have some sort of standard as to what you would do in investment policy, that is, what do you do with money that you don't have a purpose for using to spend on something that would encourage some social end. Establish yourself some sort of an interest rate on that and appropriate the money that is necessary to fulfill social objectives on money which may be loaned beyond that to special purpose programs.

LOVE: I'd like to ask Dr. Gordon a question to briefly respond to some of the comments that Tim McGinnis, the fellow who was just up here talking. He was giving the description of the state using surplus money to invest in the resource industry to gain more control over a lot of management decisions or development decisions. I'd just like to hear you comment on that.

GORDON: I don't understand exactly what people mean by the word "control." By and large, I think it would be a bad thing to invest oil money back in oil. The very simple proposition about diversification, you don't want to have all your eggs in one basket. If you had a little money to put in the stock market, would you want to put all of it in one industry, the future of

which you could not predict. By taking oil money, which you are already getting, and reinvesting in oil, you are increasing the risk.

He made the statement that the price of oil, everyone knows, is going to rise. There's one thing that is clear---everyone doesn't know what is going to happen to the price of things in general. It may be that oil is a very good investment, maybe it isn't. If you look at the price of oil company stock, it doesn't look all that good. But, I would think that it would be a more desirable thing to invest it widely in a diverse set of things and protect the income and distribute it, as I say, equally. It'll do more for the poor. It'll do more for equality in the state of Alaska than any other proposal I've heard, and I think by a large margin.

BERGMAN: Let me add a footnote to this. I think that Mr. McGinnis is right. I think the environmental problems have been given rather short shrift in the discussion. Then again, I think it's quite reasonable for Alaska to, in some sense, trade-off environmental benefits for either Permanent Fund capital or Permanent Fund income. It's, of course, up to Alaskans to decide what a reasonable rate of trade-off is. But if, as I think I hear, the environment is something that

is of great concern to everybody, then I don't think it's unreasonable to pay great attention to it, to sacrifice some income, possibly there's even some safety to it. I certainly think in terms of future leases, that perhaps environmental impact ought to be given greater stress than they have in the past. For example, insistence be made that people who exploit these resources ought to finance the clean-up or ought to use possibly high cost methods, which to the least damage.

I'm a little confused by the discussion as to whether Alaska's really very poor, or very rich. If we take the view that there is a lot of leeway here, then certainly saving the environment, creating environomental amenities, or not destroying those that exist, should have a very prominent place in the planning.

ROGERS: Clark, I'm going to have to leave.

GRUENING: Okay. Russ wanted to ask Dr. Rogers one question before he left.

MEEKINS: My question is if we are assuming that Alaska, Inc. proposal finally won out and that we were distributing a thousand or two thousand dollars a year to the share holders of Alaska, Inc. proposal, my question is what do you think about

the possibility of the feeding inflation and then that increase in income would just drive up prices and thereby the real income would stay the same.

ROGERS: This is one of the things when you ask an economist that question, you get all sorts of answers. We have first of all, put this into a total context. The distribution of income to Alaska--we have to have the total model of the economy we could relate that to--what would be driven up? It would mean that more money would be spent in Alaska possibly. Whether or not this creates inflation, I can't tell you off-hand because my experience with Alaska has been when more money was spent in Alaska, prices tend to go down because the scale of the market's increased and a lot of offsetting things came into effect. I can't give you an answer off the top of my head. We'd have to relate it to what is going to be going on. But, we would have to consider those things when we're talking about the effect on the economy. I'm going to have to catch a plane so I'll have to make this short.

One point, I just wanted to repeat what John said and what Professor Gordon mentioned. We've got to separate in our thinking the Permanent Fund, the management of the fund

itself, the investments of the money in the fund to create income--separate that from doing good providing loans and providing subsidies. If we do that, it's true we can do it, we can manage it. It puts upon the management of the fund an impossible task of accountability. If it's just a simple matter of preserving the capital, maximizing the income from that, then the annual income would be available for doing all sorts of things. We could throw it out the window; we could build a power plant; we could do a lot of things on an annual basis. That should be left flexible, because what we perceive is our needs are going to change. What Alaskans want will be changing. The whole scene will be changing. But, the managment of the fund, as a financial entity, should be subject to straight forward attempt to get the most prudent management possible as a financial transaction. Don't clutter it up with a lot of other ends, no matter how valuable these might be. That's my final point.

GRUENING: Thank you, Dr. Rogers. I know you had a busy schedule. There'll probably be some disagreement with that closing statement. But you can escape.

ROGERS: I'm sure. I'll escape on that one.

GRUENING: Mr. Paul Fuchs, I think had a statement or question.

FUCHS: I'm a laborer and I'm a part time student out here at the University. What I want to say speaks to the philosophy of the fund. I think that we have to get away from looking at it as some way to maximize profit. We have to see how the fund can be used to help stabilize the Alaskan economy. The tool that's usually used by economists in looking at this, I haven't heard much about it, looking at the multiplier effects of different kinds of industries and what kind of re-circulation we get--money spent in certain ways. I think the Department of Economic Development comes out with those figures. They show some industries, like tourism, to be one point something. In other words, that money turns around and goes straight back out.

What I'm talking about the Permanent Fund being used for is to fund projects, let's say, we look not just at housing, but look more at a total system. Let's look at providing development funds. Going in with a native regional corporation to develop a sawmill in southeast Alaska.

(portion not taped)...where people could be sold these houses, giving the savings out along the line. Where now we have all these sponges called businessmen, which are raising capital along the line. I think we need to look at the needs of Alaskans and not at the needs of these companies.

They don't care about our people, only as much as they can make off us. Not just the small industries either. I think we ought to look at some of the large industries, as has been said, so we can control the rate of development more so we don't end up not only with a high unemployment rate because so many workers have flooded in, but we have such high population influx completely tears our cities apart. Where crime is just you know. Anchorage is not anything like it used to be. That's a reflection of that. That's a social cost that means something to Alaskans.

Another thing, I'd say is that you can't trust the current banking structure to manage these loans and just turn the money over to them, because what they've done is they have not used it in rural Alaska which needs the money more. Sure the bankers in Anchorage are rich. But when you go to the villages, any of them, even the ones that are better off, I think the living conditions that people just wouldn't believe, if they actually saw it. I think we can't leave it to them. If they manage it, to make the most money or if the Permanent Fund is manged to make the most money, the money is not going to be put into projects where it's needed most--like fishing cooperatives and things like that.

The other point I want to make is that, I think some of the forms of economic organization that we have seen here lately, like the development of some cooperative, is an important concept for

the Permanent Fund to look into, especially in the native villages, where it more lends itself to the cooperative culture that is already among the native people and also among non-natives. I think it's an important concept that we start, just people work at a place; they elect their management; and they decide on the work process, rather than having it shoved down their throats. People who are working on the line live with this every day. I think if you could look towards that, nearly the whole social picture of what it means to live in Alaska, I think, perhaps, the Permanent Fund could be used towards this end.

GRUENING: Thank you, Mr. Fuchs. Could you stay for a few questions. Mr. Doogan.

DOOGAN: It's not so much a question. I just would like to again restate my comment that I made after Tim McGinnis finished. We have a tendency to talk about Alaskans as though they were one thing. Let's put it like this. Bankers who live in Alaska, no matter how greedy or conspiratorial they might be, are also Alaskans. The appeal is not an appeal that you can deal with unless you can define Alaskans not to include conspiratorial bankers. Do you see the point? Granted everybody wants to make Alaska a better place

to live for Alaskans. The question is how do we do that?

FUCHS: I guess I'm talking about if you have to set up a non-profit banking service of the Permanent Fund. Why should we guarantee their profits? What are they doing besides shuffling the paper and doing the accounting? And sitting between us and our money?

DOOGAN: So you'd be prepared to trade that off against the benefit to bankers and stockholders of banks in Alaska?

FUCHS: I'd say so, yes.

DOOGAN: The existing financial structure?

FUCHS: At least to have some alternative to that, which there is not at this point.

RHODE: Do you believe that the kind of purposes you talked about, a non-profit cooperative fisheries, canneries, related small scale business---do you think there's $8 billion worth of such ventures? And secondly, how are you to get into those ventures without attracting new people, crime, all the other things?

FUCHS: That's a problem that's a little bit bigger issue in terms of more people coming in. I was just reading in a Manpower report that there's more unemployed workers in Detroit than we have in our total work force. That's the kind of magnitude in a lot of the economic problems down in the United States that are forcing people up here into an area that's expanding. I don't know how to deal with that but I think any kind of immigration controls are unconstitutional. I agree with what the woman said here, I can't remember your name, about having two classes of citizens. I would never believe in anything like that. Yet somehow we have to protect ourselves.

BERGMAN: The only way you can protect yourself from new people coming is by being poor and unattractive.

FUCHS: Okay. Well that's a political question we have to face. In terms of our relationship with the United States, but I think that's beyond the scope of this. Another thing about the $8 billion, there probably would not be that much of a need for that much money. But we could look towards oil development. Even if, in the beginning, going a little slow, even if we are a little more inefficient, we'd have to be really inefficient to not be able to make money. If the oil companies are going to make $98½ billion out of Prudhoe Bay field, if we even recovered half of that by developing these resources ourselves, we'd be far ahead.

One other thing I wanted to mention, I think, just in terms of having control of our resources, that we could look more towards our oil resource, I think it's wrong to turn it over to an oil company, that's going to turn it into gasoline to drive the third Cadillac to the country club for some guy down in Arizona. I think, since we know petrochemicals are such important industries that people need, we should look more towards putting our resources like into agricultural inputs in countries where they have machinery standing idle because they can't get petroleum. Yet they have people starving in our country. I think, if no one else will look at that, then maybe we Alaskans ought to be looking towards that also.

GORDON: I would like to question the figure about the 98 and wonder where it comes from.

FUCHS: It comes from Wainwright Security Industries. It was a report made to the legislature.

GORDON: Let me say this year all the corporations in the United States, all over the world, in oil and everywhere else, and mostly outside of Alaska are going to make about that much after tax profits. That's all.

FUCHS: That's before taxes.

GORDON: Are you talking about long term future or are you talking about any one year?

FUCHS: That's over the 20 years. Life of the field. The other thing is what you're talking about--the figure you're talking about profits also doesn't include all the advertising and the high rates--hundreds of thousands of dollars paid to managers.

GORDON: It is also true that if you take all the high paid managers and reduce them to zero, it would not affect that figure by any significant amount. In fact, it isn't even true the owners of corporations take out anything like that. What they really take out is the dividend. The dividends are only around a third of that--about $35 billion currently. About a third of those dividends in t a, go to work in pension plans. So the notion that there's a huge pot of gold there that you can get a hold of just isn't true.

LOVE: That may be true in all industries. But wouldn't you agree that in, for example the Prudhoe Bay developement that it's more capital intensive than maybe certain other types of industries in terms of pension plans?

GORDON: Well, I'm not talking about returning to capital. Returning to capital includes the interest of course, as well as corporate earnings. I'm just talking about specific corporations. The corporation doesn't make the money they pay out in interest; they make the corporate earnings. However, there's a widespread misapprehension about the nature of corporate earnings and particularly how big they are.

LOVE: There's also, I think, a wide misapprehension, in this case, about the concept of how profitable Prudhoe Bay is. I think that it's unwise to compare the development of Prudhoe Bay to industry in general, or even the oil industry in general. Because it's a fairly special and unusual situation. I'm sure you know it's got more proven reserves in the entire, everything in Canada and about 30% of the nation. So it's a very unusual field. It's an unusually profitable venture that Mr. Fuchs is talking about. I don't think it avails itself to really simple comparison to standard industry practice.

FUCHS: Just even a small cut of how much they're going to make is what all this money is in the Permanent Fund. There's supposedly so much we don't even know what to do with it. That's just a fraction of it. It's a low test. Depending on how other nations act to it.

GORDON: I don't know what you mean. Do you mean that Alaska should attempt to expropriate that money? That hypothetical $98 billion before taxes.

FUCHS: I don't think there's anything wrong with that. It's our resource.

GORDON: I don't know legally whether it's your resource or not. Do you mean morally it's your resource.

FUCHS: Well, let's say if they're going to make $98½ billion, why.....

GORDON: You're not making $98½ billion; that's just nonsense. You don't make $98½ billion if that's gross. The question is the period over which they make it. But if you're going to do that, why don't you expropriate all the corporations. What's so peculiar about those corporations that they should be expropriated rather than all the other corporations?

HAVELOCK: Mr. Chairman, is there any rule of germaneness to this discussion?

GRUENING: Well, I was hoping that it would kind of peter out. See what you started, Paul? I think that we should talk a break. Rep. Carpenter has indicated that I was amiss in the beginning, and I won't do it again. This gentleman in the back wanted to speak. Would you like to do it now or after the break?

DI NARDO: I'd like to make a few points. I'm Dan Ni Nardo. I've made a few notes here. One is management of the fund, what to do with the money. When you do invest it, we're worrying about the profit sharing that might take place by the managers, the social cause, how you measure effectiveness, etc.

My suggestion is an alternative of doing away with the Permanent Fund. It's very much important for this reason; there was a doctrine signed, the Constitution of the United States of America, that laid the ground work for a system called free enterprise. Free enterprise means that every individual in this room, in this state, you answer the question as to whether social needs get the best allocation. This is up to the individual people to decide. They do not need another government agency to decide for them. This has been the cause of the present problem that you're talking about in the state of Alaska.

Free enterprise across the board, and I'll tell you buddy, on a historical basis, on economic basis, free enterprise is the most efficient system ever invented by man to allocate that resource called money to where it should go. (inaudible).....That's why I'm opposed to the Permanent Fund. (inaudible)

LOOGAN: I had a comment before the break. It seems to me that with the last few speakers we've more or less set possible boundaries in this discussion. Maybe when we come back, we can confine ourselves within those boundaries.

GRUENING: Five minutes. Thank you.

BREAK

CLIFF BLACK: My main question seems to state who really is going to administer the fund? It boils down to a very deep philosophical question. If we are going to allow the legislature in Juneau to dictate what happens in Alaska to funds like these which provide an unusual and great opportunity for Alaskans to somehow effect local decision-making, local

regional planning efforts, to me this strikes a very great disservice and injustice to areas of Alaska that have been left out over many, many decades. I was going to get into a number of other points, but I would probably just say that probably to me, it has to be re-addressed more than anything else.

I was going to get into things like how does that again measure the effectiveness of the utilization, the regionalization of utilization of the fund? Well, certainly it would more enhance the possibilities for decision-making, the possibilities for effectiveness measurement, the development of innovative and creative ideas as to how utilize rural areas of Alaska. I happen to be from Deering, Alaska, which is up by the Arctic Circle; and I certainly recognize there are resources in that area, renewable and non-renewable, that have not been tapped, that could be tapped, that certainly will be tapped--either through good, sound planning or through a process forced upon the regional corporations that are there now because of their non-involvement in a windfall fund like this.

What I'm saying is the state of Alaska certainly has an opportunity to guard its environment, to guard its integrity in all areas: streams, its wildlife, fish, to guard also culture that is fast disappearing. These are assets that

cannot be regained, cannot in any manner be brought back. What I'm hoping is that we will look at this fund in a different sense than we look at just another dollar or two in our pocket. What I'm hoping is that we can, in some manner, incorporate all of Alaska into this planning and utilization of these dollars. I think the regionalization of planning efforts certainly bring about a more in-depth review of what is there and has ever been done before. It will not only identify the resources that are there, renewable and non-renewable, but also the resources in human kind.

Too many times, asininely I have to say, we assume so much. Assume that we have no resources of the human kind out there. We assume that they are having yet language problems, problems of identifying with the different cultures, problems of getting to work on time, well you hear that from biased, judgemental, prejudiced and sometimes bigoted individuals. You'll hear that whether or not the rest of Alaska catches up and even surpasses the majority of society. You'll hear that from the natives as well as the non-natives. You'll hear that from the blacks as well as the Hispanics. You'll hear that from everyone when they have a problem of identification and a problem of realization that we are one. You'll hear that all the time.

What I'm saying is that this is an opportunity to do

away with a lot of those problems. This is an opportunity to incorporate planning endeavors and planning opportunities for other groups that are not now in the planning that's going on, who have not been asked to participate; yet have 40 plus million acres that they're going to have to incorporate to your system, their own system, simply because they're citizens of the state, citizens of the country. How are you going to say to them that you don't have to pull out your oil, you don't have to pull out your gas now, when they know they do have to now. Because the society is forcing upon them their own rules of the game, forcing them to become involved in the 20th century capitalist system overnight, which is the system I believe in, by the way, even though I feel that cooperatives certainly will, most likely, work best in rural Alaska for many years, because the communal system inbred into our people to do away with it very quickly for a capitalist system.

I guess what I'm trying to say is that I don't see how we can plan for the fund utilization until we have identified more clearly and more fluently who, in actuality, is going to administer the fund; because if you identify the areas by regions of the state of Alaska, and I view Alaska as six states not one, six areas of Alaska that are somewhat separte from each other. If you do identify those areas for planning purposes, you will identify how the fund will be utilized.

You have no real commonality between Southeastern Alaska and Northwest Alaska. One is fishing and timber industry base area and the other is a subsistence area. The two are not in any manner similar. The only similarity might be in the fact that some communal systems still work in both parts of Alaska. If we then recognize that there are different parts of Alaska that need to be taken into consideration in our planning endeavors and in the utilization of this fund, we then certainly must recognize that the administration and the utilization of the dollars and the actual expenditures and how they are best put to work for Alaskans, how they will best incorporate more equity into our lifestyle and how they will better do away with the inequities that cause prejudices and fears and the misinformation and the wasteland that sometimes we don't even like to think of and the fact that we do many times disallow each other a good lifestyle simply because we are different.

I think that we need to re-evaluate what we're doing with these dollars. We need to re-evaluate in the sense that we need to take into consideration that we can't, as one group of people sitting in Juneau, dictate for all of Alaska a system that will be compatible to all of Alaska. Simply because there has never been a time when anyone has really looked at my part of Alaska, for instance, and never really

been a time when anyone has looked at other parts of Alaska. It's an opportune time. It's an opportune time to make a pact with the national government on D2 lands. We should not actually determine what the D2 lands are going to be until Alaska has had the opportunity to utilize some of its new-gained wealth to evaluate our state, to thoroughly recognize what's under the ground before we determine what it should be called on top. I think that's something we should look at--some of the things that we need to fairly evaluate. A gentleman made the comment that the educated are moving into Alaska. I hope they're not coming from places like New York and places where it has been shown that their system has failed miserably.

BERGMAN: Let's not have any bigotry here.

BLACK: This is not a racial statement whatsoever. I'm hoping that what we have in Alaska is a start of a new planning effort that can incorporate more Alaskans on a regional basis. I hope that you gentlemen don't take this as a personal thing that I don't believe that the legislature should be by itself in handling these dollars. I think that the legislature has great wisdom, but I do believe the people out there can plan and have some policy control over these dollars. I would certainly agree that they should be involved in the final determination.

GRUENING: Thank you, Cliff. Can you stay for questions? Is there a question of Mr. Black? Representative Meekins.

MEEKINS: Cliff, I am wondering what you think abuht where would the greater benefit be, I suppose this is contained in your comments, but I wanted to ask you directly, if you think there would be greater benefit in an Alaska, Inc. type proposal where the income from the fund is directly distributed to people in teh rural areas, for instance, or if you think a development bank concept with planning agencies and regionalized, as you have talked about, would be preferable.

BLACK: I haven't really made up my mind seriously on Alaska, Inc. Whether or not I could go beyond the distribution of funds beyond the retirement level so that Alaskans who have lived here all their lives don't have to leave the state to retire. I think that's a tragedy. They have lived here all their lives, then they retire, then are forced by economics to leave our state, simply because we lose their expertise, we lose their knowledte in vast areas that cannot be gained overnight. Only

those people who have lived here for many, many years understand Alaska. We are losing them very rapidly. I would say that the majority of dollars be put into, not the majority of dollars because I cannot even comprehend that kind of money, but a good amount should be put into the developement of really significant homes for the aged, take care of them and keep them in the state so we can utilize their expertise. Beyond that, I have still to make up my mind. I would certainly have made up my mind further had I been more comfortable with who would be administering the fund in the long haul.

GRUENING: Senator Rodey.

RODEY: Cliff, could I ask you another question in regard to administration? I'm as concerned as you are. Do you favor a method of electing members to the Permanent Fund board or an appointed mechanism such as has been embodied in the governor's bill?

BLACK: Well, elected representation is always good if it is on a regional level. If you put it into a state level, a good portion of Alaska is left out of any major decision-making possibility. I view the Permanent Fund in the sense that it's

an opportunity for a full type of revenue sharing that would incorporate the different costs in Alaska. For instance, if you buy a dozen eggs in Barrow right now, it'll cost you $2.00 or more. The cost of service, the cost of product, the cost of anything that happens in Barrow is tremendously different from the cost in Anchorage.

What I'm saying is simply that if there's a revenue sharing device used for the distribution of these dollars, it incorporates very clearly the different cost of living differentials and it is distributed in that sense, then I could see a regionalization utilization based on election processes and very well could even see it go beyond that to dictate that a particular community would be represented and a person from each community could be represented on the regionalized board. So that way you wouldn't have to have any communities left out in the process.

RODEY: Your main concern is to ensure that some of the areas of Alaska which have a smaller population are represented on whatever Permanent Fund administrative body is finally formed. Is that what you mean?

BLACK: I guess my concern is--I'll go back to comments about the federal system in Alaska, the paternalism system

that has for many, many years placed it's hand on our head and said, "we will do it this way," and have never reached the point where they've done anything that we've wanted them to. They've always gone and done things as they've wanted to do them.

What I'm saying is that in this case I would like to see, since we're all citizens of the same state, since we are all part of the same state, that there be some manner where all Alaskans will determine the direction and utilization of these funds.

GRUENING: Thank you, Mr. Black. Are there questions from the audience? We have panelist here; we want to keep them on their toes. If you have some questions. Representative Chatterton.

CHATTERTON: Thank you, Mr. Chairman. Can you hear me alright? Mr. Chairman, I want to congratulate you on getting this group together, I can assure you it has been stimulating and very thought provoking. I hope you'll keep up the good work because the total picture can only be seen once all the various, however conflicting they might be, parts of the picture come before you. Keep up the good work.

GRUENING: Thank you, Chat. I didn't ask for that plug.

CHATTERTON: I really have two questions for

the panel, that developed this morning, but I can't help feel a little bit facetious. There was a person who testified here a little earlier this afternoon and made a suggestion as to how to use some of the Permanent Fund funds. I felt I should provide you also with a corollary suggestion for their use. Instead of buying all the federal lands that are put up for oil and gas leases or along with that, I suggest that we buy the national interest land and thereby immediately solving the D2 question.

Mr. Chairman, through you I would like to ask the panelists or anyone that would care to comment--we did hear earlier comments about: 1. loaning money; 2. investing money. It was even suggested earlier--there was some comment about investing in a pipeline or a petrochemical plant--state funds. My question to the panel and to the economists--if they have any background on this, would they care to comment--does the potential for a conflict of interests develop when a taxing entity becomes a participant in the profitability of a taxable entity?

My next question is--is there a degree of parallelism, at least in some facets, between what is before you, Mr. Chairman, with this Permanent Fund and what had to be before the U. S. Congress some years ago when they were faced

with seeing that each and every native Alaskan got a fair share out of the Alaska Native Settlement Act? Is there a parallelism? That's my second question. Thank you, Mr. Chairman.

GRUENING: I'll leave that up to the panelists, the economists, anyone who wants to speak up.

GORDON: I am really no expert on the problems of taxable entities. The notion that some of the investment proposals put forth recently here remind me very much of where I now live. I happen to have moved to Canada in the last few months. In Canada, there are truly an astounding number--they talk about free enterprise like everybody-there's just an astounding number of what they call their Crown Corporation, Federal Crown Corporations, and Provincial Corporations.

Now when you say is there a conflict of interests, they attempt, at least, by this device called a Crown Corporation, to make the Crown Corporation totally operate like an individual enterprise, despite the fact that the state or the province or the nation owns all the shares--sometimes not all the shares, most of the shares. I think if you survey the record of those Crown Corporations, that it is dismal. They have a Crown Corporation selling what Westinghouse sells--

atomic reactors. They got involved in a little bribery, but the most significant thing is they managed to sell two of their atomic reactors to Argentina at a loss of $130 million.

The Province of Alberta has something called Alberta Heritage Fund. They're visably in the business of setting up businesses that otherwise wouldn't be there--irrigation facilities, food packing plants, huge petrochemical operations. The other thing they're doing is providing more services than otherwise would be the case and lower taxes. They're the lowest tax province in Canada by some piece. The result is that an enormous number of people are leaving the rest of the country and going there. The wages are lower there than they are where I happen to live in British Columbia, but people are moving there--that's where the jobs are. Rents are going up. Land is getting scarce. I see very little merit, what apart from the conflict of interest problem.

GRUENING: Is there any comment on the second half of the question, which was--was there any parallel between the Native Land Claims and what we might be trying to do with the Permanent Fund? Mr. Love.

LOVE: Well, it is my understanding that in British Columbia, under the New Democratic Party, there's a lot of acquisitions in terms of the Crown Corporations. As a result, partially because of their policy for rapid acquisitions, there's a problem with the insurance industry that the New Democratic Party was defeated and replaced by the conservative government of Mr. Bennett. It's also my understanding that Mr. Bennett's conservative govenrment has not devested themselves of any of the acquisitions made by the NDP and that most of them, in fact, are now on the whole profitable. Is that in accurate summation? Just as a parallel to the experience the Federal Crown Corporation as looking to British Columbia where you teach.

GORDON: No, not entirely. You see, to describe the present government as conservative is, I think, quite incorrect. We have two kinds of parties in British Columbia. One is socialist and the other is more socialist. It is not true that those have become profitable. It's not true--they've all been losers. In fact, if you investigate in the theories of finance they teach in business schools, it is extremely difficult to lose money consistently by investing. The NDP did not succeed in doing so. But more serious, some of their acquisitions, a distressing number of their acquisitions, have lost money.

They perhaps could have been defended on the grounds that they had some social purpose. There's a great dispute about what the social purpose was and whether it helped anybody significantly.

I'd say in Canada, there's all kinds of conservative government of another province in far east. New Brunswick. They bought all kinds of things, setting up another conservative government. They got into an endless stream of business--nearly all of which went bankrupt. The one advantage, incidentally, of the Crown Corporation is it isn't like many of the corporations into which the British government bails people out. When they set up a corporation, it is like a private corporation. When it goes bankrupt, it's bankrupt. So it doesn't continue forever. It's just draining off the public purse. That is a legal device which, I think, is of some usefulness.

I think there's a great parallel; it's a little hard to classify political opinion. It seems to be so simple that a liberal, radical person interested in the poor and egalitaranism should be for one thing. And that is give the money to everybody, if they could, and they can't. Okay. Invest it as good income as possible, and give that good income to the people. That would do more for the world

of Alaskans. It would be an immediately equalizing phenomenon. I cannot think of one thing that has been proposed here that is going to do nearly as much for the poor in Alaska as that kind of proposal.

LOVE: Which you stated on several occasions.

GRUENING: I think we've got the different philosophy pretty well outlined here. Is there any comment on the second half of that questions? Or another question from the audience?

HAVELOCK: I think the answer to Mr. Chatterton's second question is yes.

GRUENING: Okay. That's the kind of answer I like. Mr. Dave Hickok, did you have a comment?

HICKOK: I agree with John. I think the answer is very definitely yes.

GRUENING: I believe this gentlemen in the red shirt wanted to ask a question. Could you identify yourself please.

WICKS: No specifically a question or even an answer. My

name is Alan Wicks. I'm a recently retired teacher, in the Anchorage School District for the past 20 years. I came to Alaska initially in 1940, working for the Territorial Department of Health. At that time, I supported our Chairman's grandfather, Governor Gruening of the Territory of Alaska, in his efforts to roll back an unseemly rate increase by Alaska Steamship Company and have been more or less a Gruening supporter ever since.

One thing that is lacking in all of this commentary and discussion as to profits investment management--there's one thing lacking, because it seems as if everybody is making an effort to play God for everybody else. While we like our benefits and we like our dividends, and I like them as well as anybody else and have been lucky, and like the Wall Street Journal has said "nothing succeeds like dumb luck." A little bit of that can go a long way if you're on the lucky end. I want to put a diagram on that board. As a teacher, I just can't resist the opportunity. Then I'm going to come back and make a couple of comments about it and then a question at the end.

GRUENING: Okay. It's getting a little late. We want to keep everyone interested.

WICKS: I didn't need the eraser. I didn't want to wipe off the rest of that. There again, somebody made allusions and maybe I'm, well no, I'm not, just reiterating what a couple other people said. We've arrived at a place in international affairs. I'll flash back to pre-World War II and depression times. We've arrived now with technology and science and my background is basically biological science--we've arrived now at a place where humanity with it's science and technology doesn't really know where it's going. But I submit to you, and this is an independent, personal formulation. I won't give the blame to anybody else; but unless and until humanity arrives at a umbrella concept, and that's what that is, of first basic, foremost environmental, ecologic concern before the fund, before the investment of the fund, before the applications from the return from the fund. What I'm saying is that civiliziaton and humanity, at this juncture is up against it. If we don't learn or haven't learned what the aborigines, the native peoples, learned long ago, was to live and operate in concert with nature, with earth. Not as it's master, not as God who says, "I'll scrape it, I'll build it, I'll erect the edifices in my own way and to my own needs and beliefs and likes." Now I'm going to leave that idea, but I think it's the one that needs the most emphasis, first and before just about anything else.

I'd like to turn to the panel, and while I respect and admire Dr. Lindauer's views, he is a relatively new and accurate able observer of the Alaskan scene. I'd like to ask him how he discriminates on one hand between the need for application for funds to this or that industry or development, to get to a specific point, or the abhorrence of the use of the funds because they would be an economic magnet to people elsewhere to come to Alaska, but on the other hand, my, and I'm tickled to death I've got it, my 5¼% FHA, if it is made available to them, it's not going to just be a drove, a horde, who are attracted to the magnet of 4% or 5% or 7% Alaskan-style FHA. We're not going to be able to differentiate between those things in any way.

LINDAUER: That's really an excellent question. One could easily say that you could do the same, for example, with Alaska, Inc. as using eligibility for loans for business. It could, in fact, be those people who are here now and could have such time variety for qualification or w0 years, and you pick the number in order to qualify. It wouldn't really qualify that they'd be eligible. What we'd assume the utility serving a native village would

be instantly qualified. We'd assume a long-term Alaskan would be instantly qualified. The question is where do you draw the line. That wouldn't seem to be that difficult.

BERGMAN: Let me ask a question about Alaska, Inc. Suppose you have two kids born the same day, and one of them is the child of a long term resident and the other is the child of someone who is not a long-term resident. Are you going to give one of them the Alaska, Inc. payment and not the other?

GRUENING: The governor isn't here to defend himself. The more you get into the Alaska, Inc., the more difficult it is to exactly define who an Alaskan is or who is the beneficiary. It doesn't mean it's impossible. But obviously if it's going to be a meaningful program, you've got to draw the line somewhere.

BERGMAN: I understand that you might be able to draw it with adults, but I think if what you're trying to do is enfranchise only those who are here now and their descendants, you've got a tough row to hoe. I don't think you can do that.

GRUENING: Alaska, Inc. does have a residency. The child isn't really eligible until it's been here a certain number of years.

LINDAUER: What would, for example, require 18 year residency, at least, so an 18 year old can enter into contract. So whatever is the legal age for entering contracts, that means every child will be eligible if they've lived here long enough. As would be anybody who arrived.

HAVELOCK: It's not going to stand up constitutionally though.

GRUENING: I know that's being studied. I'm sure there's some way you can find a way, but we're not here to discuss that. Somebody who hasn't made a comment yet. Mr. Hickok, would you like to follow up?

HICKOK: I'd like to say a couple things that tie in on this subject. My name is Dave Hickok. I'm the director of the Arctic Environmental Information and Data Center at the University of Alaska, currently the president of the Alaska Division in the American Association for the Advancement of Science. I think there's two or three items that seem to me have not been covered.

One of the things the economists appears to have said is that the need on the curves is a function of economics

alone. I'd like to say that I don't think it is. I'd like to give a few examples of what's happened to history in Alaska. One of the needs trends that has determined what has happened in Bush Alaska has been, for example, many years ago, in the Arctic latitudes here, we did a lot of research on ionospheric scatter and so on. We were able then to develop satellite communication systems for these latitudes which was not a possibility under existing technology of lower latitudes. Now what has happened here is because communication was available to Bush Alaska, technologically, and because there was a political decision made by very, very few people for the sale of the Alaska communications system about 1970, the whole need trend for communication and development for this kind of thing in rural Alaska changed. Not by virtue of economics, but by virtue of technology and science and by virtue of political decision.

There also have been a number of other of these kinds of things. In the health field, two doctors made the breakthrough in tuberculosis following World War II here in Alaska. The highest incident rate in the world in the early 1950's of birth rate and death rate in rural Alaska---beat the Kalahari Desert in Africa and everywhere else--were brought down by science and technology. The application of money, in that sense, of the political decision to stamp out disease.

These things make aspirations. These things make needs that are not just driven by the common market place. I would suggest, in addition to the economics of capital investment and so on, there are at least three or four other items that are driving the need co-efficient and that is law and politics, which I put in despite Mr. Havelock's qualms, hand in glove, science and technology and perhaps a population expansion. These things are making change in Alaska. The need curve is escalating at a tremendous rate despite what happens in economics.

The aspirations of the Bush communities, where there are hundreds of them, have no water, no sewer, no schools. These aspirations are real. They are going to drive a demand for public expenditure funds to satisfy these problems. I would certainly agree with John Havelock that the Statehood Act called for the expenditure of tax revenues and so forth to support a burgeoning new state. I would also suggest to you that the Alaska Native Land Claims Act also had the same effect. The one thing that Alaska has not recognized, or several things it hasn't recognized, but one thing it hasn't recognized is that rural Alaska should not pay the price for the public services that everyone else in Alaska enjoys in the urban settings. Through their compensation dollars that came under the Native Land Claims Act, they are entitled to the

same public services as anyone else. I guess that's about enough.

GRUENING: Thank you, Dave. Would you mind remaining for a minute in case the economists or the legal field would like to responds.

BERGMAN: I'm the one that introduced the word and when you started talking, I instantly regretted it. Then I recall that I had put quotes around it. I actually agree with you that there is no such thing as absolute need. You can't take a certain desire and say this particular desire is a need and this particular desire is not a need. What I'm trying to point out here, though, is that if the population were to grow, just to maintain a certain level of services would require a growing trend of revenues, which is an entirely different point.

HICKOK: I think you're right. But regardless of that, the need curve, the demand curve, perhaps, of social aspiration, human aspiration, is escalating at a tremendous rate, regardless of the economics of the state. Because of broader expansion in health, in education, in other factors.

BERGMAN: Well, I think what you're saying is what some other

people have said--that perhaps it would be more reasonable to use the oil revenues for this kind of purpose. Use them all for this kind of purpose--setting up schools, setting up water supplies, setting up electrification plants, instead of either sending it to these much maligned New York brokers to be kept for future generations or perhaps for giving concessional loans to people of Anchorage. That, I think, is a matter of simply social policy. You've got to fight it out. That's not a matter of economics. That's a matter of what you can get the people of the state to spend their income on. I feel that the Supreme Court had said schooling had to be provided throughout the state in a more or less equal way. There's a famous California case on that.

HICKOK: Well, we had one here in Alaska too.

BERGMAN: So I don't quite understand the fact that it hasn't been done already.

MEEKINS: Doctor, are you saying that expectations or needs, whatever you want to call it, are not related to the economics?

HICKOK: I think they're related, but I think there are a number of external forces that make new aspirations.

Prior to the research on ionospheric scatter and so on, that made possible high altitude communication systems, there were no aspirations for it because nobody knew it could be done. There are a lot of these kinds of sayings. Before you could put a sanitation system in Arctic permafrost, you have to know how to do it. Then by virtue of it being able to be accomplished, there's aspiration for it.

MEEKINS: I think that's the common denominator between the two. Because when you have money, it's, therefore, possible to build things, it's, therefore, possible that weren't before. It's the possibilities that seem to feed the needs.

HICKOK: No, the possibility may fuel the need, but not necessarily money. In the case, for example, of the communication situation here in Alaska that wasn't a function of money.

MEEKINS: I'm not limiting it to money.

HICKOK: It's research of science and technology and a political decision to sell the Alaskan communication system away from the military and to put it into modern science.

MEEKINS: Just to clarify--I'm not limiting it to money.

I'm saying that things being possible is the common denominator between technology and economics in your scenario, because even if the technology made it possible to have telecommunications, if we didn't have the money, even if we had the political will, we wouldn't have it.

HICKOK: Then, I would to back to Tussing's scenario. I think what Tussing is saying is that the private sector, the private demand for these things is running, and we have a large sector of private money, by virtue of Native Land Claims and the growth of the Alaskan economy.

GRUENING: Thank you, Mr. Hickok. Okay, in the waning hours, are there any more questions? Sure, you're welcome to ask again, if there's anybody who hasn't had a chance to ask...

FISKE: I'm Lieutenant Colonel Fiske--Retired. I'd like to say first that I strongly support Dr. Lindauer's position on adequate investment of Permanent Fund in Alaska and for the lowerest, reasonable interest rates, and where present Alaskans can enjoy the benefits of employment, social amenities, health services, recreation, etc., etc., and etc.

I'm interested in providing something to occupy the leisure time of the many small communities, particularly during long

winter hours. Something that involves all ages, both sexes, from youth to octogenarian. Most of our rural communities have churches, bars, but many have little else to occupy the people when they're not busy at making a living or subsisting. It seems to me that an excellent way to use some of the earnings and possibly some of the Permanent Fund would be to develop a program to provide indoor recreation facilities--I'm referring to curling, skating, and I'd like to draw a comparison with what the Canadian government has done. Many, many of their small communites have been funded to build curling, skating facilities, which also provide a place for the community to assemble for all kinds of things. I believe that if the Permanent Fund and the native regional corporations get together, many of these small communities could be provided with something that would knit the communities together. Their needs, then, would be brought forth as a community requirement. I think, it would do much to knit the communities together throughout the state of Alaska. I would suggest that all of the other comments today have been primarily on what to do with the fund. I submit that this is just one idea that might be considered in providing for Alaskans who can enjoy it through all ages. Thank you.

GRUENING: Thank you. In bringing this to a close, I want to ask the audience once again if there's any questions they'd like to ask the panel?

HAVELOCK: I'd like to make a comment on that last statement. I think that if the Permanent Fund committee does adopt some sort of internal investment policy as part of the Permanent Fund, you should be careful at the same time to keep a count of the public costs that are going to be associated with that private investment. Perhaps, Dr. Gordon could comment on what kind of ratios those are. It's clear you're going to be giving money for loans for small business, that you are going to kick off at the same time a lot of pressure for public amenities to go with that. If you haven't taken proper account of that, you're going to create substantial social unrest.

GORDON: I can't really answer that. I would be very surprised, however, if you could make some generalization about that. If you subsidize investment on the private sector, it might entail a considerable amount of public spending outside of that. In other cases, perhaps a very much smaller amount. I think you'd have to investigate each on a case by case basis.

GRUENING: Mr. McCutcheon, you were going to ask the last question.

MCCUTCHEON: It will probably turn out to be a rhetorical question. There are several things here I'd like to state. Professor Gordon, you challenged Paul Fuchs's estimation of the greater return on investment of Prudhoe Bay. I don't necessarily share Mr. Fuchs's view of what should be done. I thought that you might possibly give us some idea of your estimation of the greater return on Prudhoe Bay, and maybe you could start with by getting to the size of the reservoir, the amount of recovery under current production practices, the amount left in the ground, the amount of additional recovery through secondary treatment, what will be the value of oil, price of oil on the West Coast, what will be the value of oil delivered at the West Coast, what is the value of the investment that's going to be happening? What are the profits contributable to tax relief, tax loopholes?

GRUENING: May I just interject here? These are very interesting questions. I think they, at least have some relevance to the Permanent Fund...

GORDON: I'd like to answer that. In the first place, nobody can rate that question. Anybody who thinks they can tell you the price of oil ten years hence, as has been suggested around here, is engaged in witchcraft. Let me explain one other thing. What I wanted to do was find out how this Prudhoe Bay figure came

out $98 billion, and I happen to know that's the sum total of all American corporations from ma and pa ones up to Exxon--all over the whole world in any one year, after taxes.

RODEY: On behalf of the Senate Permanent Fund Committee and the chairman, Senator Hohman, I'd like to thank the House for putting this symposium on. This is the first in a series of meetings that the Senate and the House will be participating in. The House effort is more visable here in Anchorage because Chairman Gruening has done a very good job of getting the committee's work planned and accomplished. The Senate Committee's work is being done primarily in Juneau at this point; and we are trying to work in conjunction with the House to provide as much possible information on the Permanent Fund as we can before our January deadline of drawing up legislation. If there are questions or concerns, I know either the House or the Senate would be happy to address them.

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Anchorage

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

GRUENING: I guess we're all plugged in, and we can start. I really appreciate seeing some familiar faces and some unfamiliar ones here on this blustery morning for the hearing on goals for the Permanent Fund. I'm Clark Gruening, the chairman of the House Special Committee on the Permanent Fund. Starting from the right is the A.A. to the committee, Mike Doogan, whose newspaper background--you might have seen some of his work; coming down the line is your Representative Sally Smith; and LouAnn is the secretary to the committee; Representative Russ Meekins, a member of the committee; and Charles Parr, who is not a member of the committee but certainly will have a lot to say on how legislation affecting the Permanent Fund is devised.

This is going to be fairly informal today. We don't have a list or order. I think just raise your hand if you want to testify. We'll just pick one; you come on up. We want to have plenty of time for questions and answers. If it works out, we may allow a question from the audience of a witness as well.

We certainly want to hear what you have to say about the fund. What has struck us in dealing with it is that there are already established in state government a number of loan funds. Sometimes we hear--I've heard everything--I see that former

Representative Tim Wallis is coming in--we've heard everything for investment of the fund from artifacts to wheat. In examining it, we notice that they're already in existence state loan funds, which, at least statutorally, can deal with the kind of investment that people have stated they'd like the Permanent Fund to get into. So one task of this committee will be to examine where those loan funds have accomplished their goals and where they haven't. In other words, if you have a program you think the fund ought to take up, we ought to see whether there's an existing loan program and see what it's done to further the need of investment.

I'm just as interested, and I think the committee is too, in what you feel the Permanent Fund ought not to do as well as what it ought to do to the extent that you devise a very complicated system for the Permanent Fund, it'll be harder to achieve the goals.

With no further ado, unless any of the people here of the committee or the panel want to make a statement, we'll just start. Who would like to be first can raise his or her hand. Tim Wallis.

WALLIS: Mr. Chairman, members of the committee, for the record my name is Tim Wallis, president of Doyon, Limited. I would like to take this opportunity to thank you and the committee for traveling to Fairbanks to receive public input on the Permanent Fund.

In the early stages of the creation of the Permanent Fund, at which time I was a member of the Legislature, I opposed the creation of the Permanent Fund. After further consideration, I changed my position and voted for the Permanent Fund legislation that was vetoed, and voted also for the constitutional amendment for the creation of the Permanent Fund. As a result, comments or criticisms that I make now or in the future, I hope will be taken in the manner that I am trying to assist in establishing a workable Permanent Fund. Doyon, Limited has spent considerable time and effort to examine the proposals for the Permanent Fund. Because of other pressing issues, in particular the D2 issue, I am not fully prepared to comment on all aspects of the legislation. With the committee's permission, I intend to submit further testimony at a later date to become part of the committee's formal record. Also, I would intend on talking to you and other committee members on an individual basis as a Permanent Fund concept winds its way through the legislative process.

There are a couple of points I would like to make for the committee's consideration at this time. First, I recommend that the legislation be structured so that the maximum amount of leverage can be obtained from the prudent use of the fund. Certainly the same leverage tools commonly used by the private sector money managers should be available to

the managers of the Permanent Fund. There are at least four ways that increased leverage that can be accomplished in this legislation:

First, the fund should be permitted to purchase equity securities. This would permit private venturers to raise more funds from the private money market than might otherwise be possible.

Secondly, the fund should be authorized to subordinate its loan position in favor of private borrowers in large scale private development projects. Subordination is a time-tested tool which can be invaluable for Alaskan development projects when exercised with care by fund managers.

Third, the fund should be permitted to participate in syndicated loan arrangements. Once again, this is particularly important in the case of large scale projects.

And four, fund managers should be permitted to make loan guarantees. Loan guarantees by the fund would increase the debt capacity of Alaskan borrowers immeasurable. A debt guaranteed by the fund could be used to attract private money at favorable interest rates at no direct cost to the state. Such favorable interest rates might even make marginal projects feasible, or reduce the risk premium for high-risk projects.

It seems to me that a primary objective of the fund should be the attraction of private capital to Alaska by using these

tools and perhaps others, the fund could become a dynamic force in imporving our state far beyond proportion to the fund's size. I encourage you strongly to give the managers of the fund the widest possible discretion in using tools to increase the leverage of the fund to attract private capital. It appears that great discretion will have to be placed in the managers in any event, since they will have custodianship for a billion dollar plus fund. It only makes good sense to go one step further and give them the same kind of investment tools that responsible money managers have in the private sector.

My second point will be brief. I believe the portion of the bill calling for a possible investment of 30% of the fund in "community development projects of municipalities and public corporations" may need to be spelled out in more detail in the statute. If that sizable portion of the fund is going to be available for this type of investment, the definition of community development projects should be broadly construed.

For example, in many large scale private development projects many quasi-public facilities such as roads and health care centers must be constructed. I believe that some fund monies should be available to private firms constructing these quasi-public facilities subject to conveyance. This section would permit private companies which must construct

quasi-public facilities access to the fund. Certainly many safeguards could be built into the administrative organizations which would require that these quasi-public facilities so financed would be available for public use at some specific time. I recommend the broadening of the language of the legislation to include public-type investments by private companies. The current language limiting investments to municipalities or public corporations is too narrow and unduly restrictive. As I indicated at the beginning of my remarks, Doyon, Limited will have a more detailed proposal at a later time.

I am certain that within the next few months a constructive and imaginative bill can be drafted to meet the manifold needs of Alaska's economy. Thank you, Mr. Chairman.

GRUENING: Thank you, Tim. Can you stay a minute for a few questions, if there are any? I appreciate that comment and I think we would like to hear more from you and expecially anything you can give us in terms of experience that Doyon has had.

I think, as one of the largest native corporations, that probably it has gone through the ropes of trying to develop viable economic enterprises within its regions. To that extent, it may be parallel to the Alaska experience. Are there any questions from the committee? Mr. Meekins.

MEEKINS: Tim, I don't know if I understood it correctly; but when you're talking about such things as roads and other types of projects, do you have in mind the roads being the kind of project that would make a return to the state, which is a limitation on the fund--you have to make a return. Historically, we just appropriate money directly to roads and they're built, and they don't return anything, because they're not toll roads, so there's no return on the investment. Is there some financial mechanism that could do that?

WALLIS: Indirectly. I'm trying to think of an example--I guess would be--in any large scale mining operation, the possiblity of perhaps a new community will be established. Part of that community, of course, as any community would be access. So you would need to build a road to and from as well as...

MEEKINS: I suppose the fund could buy bonds from a municipality or any incorporated entity that might build roads and other infrastructure type things. But, I think one of the things we've run into is that in the state of Alaska, especially when you deal with the rural areas, and

I'm sure you're more familiar with this than the members of the committee, but in thinking about this we've found that a lot of the problems are that we don't have the infrastructure. We don't have the roads. If you're going to make an investment in some area, you can use the fund monies to provide a loan for something in the rural areas; but you can't use the fund monies to build a road, or at least it's not very easy to do so. So we need some other type of maybe additional investment from the general fund or something else to provide transportation in some of these areas, if you are talking about developing certain areas of the economomy.

One of the things you might want to comment on later would be one of the things we've thought about in this area in regards to renewable resources, like fishing, agriculture, or anything like that, is that the Renewable Resources Development Fund can directly appropriate. That fund, which, as you may recall, takes the same revenue but only 5% of it instead of the 25% and puts it in a special fund which is separate from the Permanent Fund, which can only be used for the development of renewable resources. So that type of a fund could be used in concert with the Permanent Fund--one to build the infrastructure and one to loan money for a development project--at least that's possible. I'm not sure that it's a good idea, but it is a possibility that you might want to

consider in your further testimony written comments.

WALLIS: Thank you.

GRUENING: Are there any further questions? Incidentially, I'd like to invite Representative Carpenter up here if he'd like to sit with us and ask questions.

Tim, I'm curious. Someone mentioned in Anchorage about the parallel, the possible parallel of the Alaska Native Settlement Act with the Permanent Fund. As I understand that act, Congress wanted to mandate some dividends be paid out of some of that money, feeling that some of the present generation of Alaska natives would not benefit from the bill, unless some immediate money was shared and shared equally.

Applying that to the Permanent Fund, is there a possibility that when you establish a loan program, only certain people qualify for loans? As I understand some of the, say, rural Alaska's opposition to Permanent Fund was that they felt, as is the case with some of our loan programs, the urban areas would get most of the loans. That problem still exists to some degree. Is there any feeling do you think, for establishing a way that the Permanent Fund through payment of either dividends through Alaska, Inc. or say, through an annuity pension program could give out at least the earnings

of the Permanent Fund to every Alaskan so that there is some equity involved in terms of that state money? Does that have any appeal to you personally of does that make any sense?

WALLIS: Whenever I get free money, it appeals to me.

The Alaska Native Land Claims Act, I think perhaps, is a totally and completely different street of legislation. I think the Permanent Fund and its establishment and what the voters were looking for basically was the basis, the catalyst, which would give Alaska financial independence. If the fund was able to do that, and flexible enough to do that, the dividend aspect I don't think at this point, and I may change my mind at any time in the future, I would say you may want to look at other areas which affect people such as property taxes, income tax, and this sort of thing which would delete, reduce, or whatever. That'll lend the dividend to an Alaska, Inc. concept. Again, I reserve the right to change my mind.

GRUENING: I do the same. I find out I learn as I go along.

WALLIS: If I may, Mr. Chairman, just for a moment add this, I would recommend, perhaps, however it is to be done, the attorney general has a view and some other people have another---would be to

increase the 25% amount into the Permanent Fund up to at least 50%.

Also, the important thing in the creation of the administration of the Permanent Fund, I think, perhaps should be looked at carefully. You could find that in administering the Permanent Fund, it could become very political in the sense that you have a board, trying to get away from the political aspect of it, you have a board and a commission or your loan review committee, then you'd have the then it gets that political overtone, where somebody is more influenced to get the loan and the guy next door couldn't get the loan, and as a result his project went down the tube. Establishment in working, in creating the whole organization, I think, needs looking into.

GRUENING: I agree. That's one of the more difficult problems--how you insulate it and at the same time, not make it so insulated from policy that you, let's say, have a fund with this amount of money doing investing in, someone suggested pickled sticklebacks, something that is doing nobody any good. There has to be some review function. To do that and separate it from, let's say, political favoritism is difficult. Did you have a question, Mr. Doogan?

DOOGAN: I do. Mr. Wallis, has Doyon found that there is a lack of financing either in the private or the existing public money markets for projects that would be economically viable if that financing was available?

WALLIS: To an extent that depends on what amount of money you're talking about. A large amount of money that we're talking about in the Permanent Fund--we haven't gone after that much money. A small amount of money that we have had before puts you in a position to get favorable rates.

GRUENING: Thank you. Any further questions? Thank you very much, Tim. Hope to be talking to you again. Mayor. Incidentally, if you could state for the record your name.

CARLSON: Chairman Gruening, distinguished panel, I'm John Carlson, mayor of the Fairbanks North Star Borough. I wish to personally thank you for the opportunity to allow the citizens of interior Alaska to speak up on how they feel about this Permanent Fund.

I think the proper utilization of the Alaska's Permanent Fund can become the single most important decision that Alaska political leadership will ever make. In most national political

decisions in that arena we have hardly very little effect on some of the decisions that are made in Washington, D.C. We certainly hear the important decision on a Permanent Fund and that we can have a say in and certainly guide to properly apply benefits to all of Alaska.

The use of the Permanent Fund and other royalty funds are to build Alaska's economic future. My own preference is we use the oil and gas royalty income and Permanent Fund leverage to establish a sound economic and cultural base for Alaska.

Specifically for the Interior, our future is tied to expansion of our transportation system. In discussing the potential here of oil and petrochemical development and any other development, it always comes out the problems that we have for transportation, that's the greatest liability for development of a sound and stable economy in interior Alaska. Our airport and our highways should be expanded and certainly the development would follow. A person cannot get out and the parks and the recreation facilities in interior Alaska without some mode of transportation, whether it be by air or by road. If non-renewable resources are used, or developed I should say, this would not encourage the development of the Interior, where the renewable resource development, such as

agriculture, would certainly develop and enhance the interior Alaska.

The worst would be to build expensive office buildings as a monument to political efforts of bureaucracy and the other use as a drain of our resources rather contribute to our economical or cultural stability.

I realize that Permanent Fund must be used in such a manner as to be permanent. However, low interest loans to aid in establishing better transportation system is a common factor and addition prime loans, tourism loans should be built upon. Once established, these industries would aid in getting interior Alaska out of the government dole, reliability upon government because we would develop a stable, an expanding economic situation or base here in interior Alaska. I want to thank you again for the opportunity to speak a few words to you and commend you on your all-out effort travelling throughout the state and getting the information from the citizens. Thank you.

GRUENING: Could you stay for a few questions? Any questions from the committee? I have one. You mentioned office buildings being an example of one of the worst investments. Would that follow through the Permanent Fund getting into, let's say, a guarantee for cities to build office buildings?

CARLSON: No. I think what I am referring to here is just the building of an office building for office building's purposes and just to be building it and no real need for it. Certainly, I realize that government needs office facilities, but not to make something with a lot of sugar-coating on it just because we have the--in other words, gold door-knobs just because we have the funds available. There are areas, for example, here when we look at a permanent building, certainly funding could be made available through the Permanent Fund or securing of the bonds would be necessary to build it would be a way to go. So I'm not excluding it, I'm just saying that we shouldn't be building office buildings for the building sake--just to have a hall here that would not be utilized.

GRUENING: Has Fairbanks used the Municipal Bond Bank with any success?

CARLSON: We have not had need of it. No, we've gone on our own bond. I think the Municipal Bond Bank is geared more in the past towards smaller communities who did not have the bonding capability that the larger cities have.

GRUENING: Do you see any need for that activity to be expanded to include Fairbanks? I'm trying to understand if

the city doesn't have need, then you're talking more about infrasturcture, transportation, and so forth.

CARLSON: I think, it's my understanding of the bond bank the availability of it is if a community doesn't have the base to go on the bond market and get a good price could utilize this, then the state would then take and market the entire package, like Anchorage or Fairbanks, where we do have the base for a bond market and that we have not utilized this as a source. When I talk of transportation development, the airport and the rail facilities and the highways, it is, like I noted, we met with several people in the development of petrochemical opportunities here in interior Alaska. One of them even indicated should they select interior Alaska as a site, they would need a double rail to Anchorage for their commodities. This, of course, is a large scale operation. There is a continued need, to look at the transportation facilities and the means for funding them. Now we have to go to bond issues and there probably is an opportunity here for a pay as you go operation.

GRUENING: How would the, since the Permanent Fund, as you noted, has to earn its income and should be permanent, how would the Permanent Fund derive income, earnings from, say building a rail---would the petrochemical company pay for that?

Reimburse the Permanent Fund or how would that work?

CARLSON: The revenues, of course, on rail-maybe Alaska should buy the railroad with the Permanent Fund. It would have to be looked at as a source of revenue through the rail. It would have to be probably something worked out in that area, when you say that the petrochemical people or the oil people look at some way of funding the, or returning the funds, it would have to be on some type of scale for the use of it, if this is the way that we would have to go, if it wasn't available to go through other sources to the revenues that would be derived to the railroad would be a means of reimbursing the state.

GRUENING: Are there any other questions? Representative Parr.

PARR: John, we all saw your thing in the paper about the Fairbanks airport losing money. We all know that it usually does, because, obviously, the gallonage fees are all paid in Anchorage not in Fairbanks. If the fund were to invest money in the airport, have you got any ideas of the mechanism where we can make sure that the fund would get the, it would be a, you know, the money would not be a loss--would be a making operation.

CARLSON: I think one of the things that was discussed in the paper the other night was the idea of a capability to expand the airport. It is my, in discussions that we've had with the oil companies or the gas companies that are doing this, until it becomes economically feasible or the demand for it, they would not put it in. Now if the state were to put this in, there would have to be probably a gallonage fee used to reimburse the cost of it. I think naturally the oil distributors are looking at their return on something like this before they would invest it and they'd be having to go into the money market. If the state could develop this, then there'd be a charge upon the flow of the gallonage through it. It would be a means of reimbursement.

GRUENING: Any further questions?

DOOGAN: Mayor Carlson, I just want to make sure that I understand--would it be accurate then to say that insofar as you can see a need for the use of Permanent Fund money that it would be on a relatively large scale for a large scale project?

CARLSON: Not entirely. One thing I didn't get into is, let's take agriculture in interior Alaska. The studies that we've had made over the years indicate that agriculture has a good potential and the climate is such that it would be well if not

better than we normally think of the Matanuska Valley. But the cost of clearing land is prohibitive to a lot of this development. Perhaps, something could be worked out on a smaller scale, where the funds could be made available for the land to be cleared over a period of years, so whoever is farming this is to reimburse it. So this would be probably considered a small scale development versus something in a larger area. I know that there probably will be more discussion on this agriculture aspect from other people.

GRUENING: Mayor, I just have one question on the agriculture. We do have an agriculture revolving loan fund, which is an aid--quite a few million dollars worth of loans. Do you know whether this fund presently is sufficient or whether it's one that we should expand? Are there problems with the loan fund itself, which make it incapable of doing what you'd like the Permanent Fund to do?

CARLSON: I haven't honestly looked into that to answer that question. The only contact I've had is with the people interested in developing; for example, about three weeks ago we had a contingent of people from Japan over here that were very interested in buying rape, which the university is experimenting with it, develops oil. It's a plant that will

grow where barley grows. It's a, for example, the oil that is used by MacDonalds for their frying. It's not cottonseed oil; it's rape oil.

GRUENING: It's called rape?

CARLSON: Yes. It is being looked into seriously as a plant or a product that can be and should be developed in interior Alaska. In fact, since 19, I think, 52, Canada has been the largest grower of this product, the producer of this. It certainly would be advantageous in interior Alaska. We're looking at 3,000 acres to make it financially feasible. So it would be then an opportunity to develop agriculture as a stable economy in the Interior.

GURENING: I think we'd have to change the name of the product.

CARLSON: I had nothing to do with naming it.

GRUENING: Could you stay for one more question? Representative Russ Meekins has a question.

MEEKINS: Mayor, following up on that line, we have two Permanent Funds in the state. The one we're dealing with

today is so large that it sort of overshadows the other one---hopefully, it'll be large. There's not much discussion going on on a public level on the Renewable Resources Development Fund, which also establishes a Permanent Fund. That fund starts accumulating money in 1978, beginning in January of this year. It will have, of course, all this is subject to change, but it will have 20, 40, to 60 million dollars a year coming into that fund. I don't know what the renewable resource potential in the area is, but I know it's somewhere in the Interior that they're considering increasing agriculture and that fund would be a prime source of funding for that kind of development. In that sense, in fact, it would be more appropriate for that fund than the Permanent Fund. One advantage of that fund is that it doesn't have a requirement that it be income producing. So that there is something that needs to be indirectly appropriated, money can be directly appropriated in that case from that fund. Just for your deliberations, you might want to start considering proposals in regards to the disbursement of money from that fund also.

CARLSON: Alright, thank you. I appreciate that.

GRUENING: Thank you very much, Mayor. Yes sir.

SEIFERT: My name is Rich Seifert. I would also like to take this opportunity to welcome you to Fairbanks and thank you for allowing us to have this opportunity to speak. One of the things I really enjoy about living in Alaska is the accessibility of the legislature to public input. I certainly appreciate this opportunity.

My employment, by the way, is with the Institute of Water Resources at the University of Alaska. I'm going to dwell on a specific topic having to do with what is kind of a professional fetish with me---it's energy and renewable resources. I have prepared an overview of what I think is a good suggestion, and I hope you will consider for use of the Permanent Fund.

Its purpose is in view of the inevitable depletion of our fossil fuel resources, even with Alaska's comparative wealth, it seems very prudent to begin to assess alternative renewable resources of energy. We have an inevitablity facing us, so the transition to a renewable resource economy, the whole nation does---it's obvious to everyone now that sooner or later fossil fuels are going to run out. So we have to begin to assess our future. My proposal is future oriented. Everything I intend to state has a future orientation about it.

The proposal in specifics is to use the Permanent Fund and

other available earnings, and I am very familiar, by the way, with the Renewable Resources Development Fund---I certainly wouldn't hesitate to make this suggestion strongly toward that fund, because it has to do with research. Use for these monies, as I would propose, would be to research those projects which relate to renewable natural energy resources relevant for use in any and all regions of Alaska. The prospective types of energy resources which would qualify for that program include:

Hydroelectric power, including low head, low-gradient water power applications

Solar heating and solar agricultural applications

Wood burning research for heating

Wood lot managment research

Wind power applications

Certain geothermal applications---not all geothermal is legally regarded as renewable, something many people don't know, but some geothermal sources are

Tidal applications

Earth heat and geothermal gradient systems

Bioconversion and waste conversion systems

Ocean currents

Any other naturally available energy source which can be shown to benefit Alaska and which can be demonstrated to be renewable.

In my proposal, I do a legislative review of the renew-

able resources development after 1974 and also all the pending and on-the-books legislation concerning the Permanent Fund use; I don't need to go into that. You're probably more familiar with that than I am.

I think the public mandate is worth considering in this whole process. I was fortunate to participate in the Public Forums that occurred throughout the state. I participated in the one in Fairbanks. Interestingly, Fairbanks had the highest of all areas, which the public attested to its recommendation that the Permanent Fund be used to loan to development of renewable resource industries. In Anchorage and Southcentral, 39% of the people who were polled favored loans for development of renewable resource industries. 32% in Southeast did likewise. A quote from the Public Forum proceedings was that "The enormous response to that choice as the top priority use of oil and gas revenues set the tone for the regional workshops and most of the meetings from Skagway to Metlakatla."

I was also primarily involved in the town meeting on energy which occurred here in March. Some of the ideas we polled on that were uses of renewable resources of energy. In particular I asked the question on the questionnaire, "Do you think that solar energy is practical in Fairbanks, Alaska?" Surprisingly, of the people who were present, 62% of the people said yes, and

only 16% said no, while 22% were not sure. We also asked for priorities for research in energy development, which were relevant to Alaska.

We asked that they be prioritized according to six questions, six topics, by the way, and the prioritization occurred in terms of research support, first was solar; second was geothermal; third was coal; fourth was hydroelectric; fifth and sixth were synthetic fuels and oil and gas. Now, I was called on the carpet there because I didn't mention nuclear. I didn't mention nuclear becaue I don't think nuclear bears much on the future of Alaska for the next 50 year, because of the scale of application. Please be aware that I wasn't slighting nuclear, but I didn't feel that it entered into the Alaskan picture in a relevant way. I think most energy authorities would agree with me on that.

So I think the mandate is clear that people are very interested in the use of Permanent Fund monies and the large amount of capital the state is going to invest in Renewable Resources Development Fund for renewable resources. I think the public consciousness is there. People are not comfortable with spending that money, I don't think. They like the idea of using that money for a renewable economy. It's not always not very easy to articulate that in public, but I think the Public Forum responses are significant in that respect.

Now in order to accomplish that goal, it becomes a political question, of course. I would suggest that not a large amount of bureaucracy would be needed to set up an ongoing research program. I would suggest that the obvious place is the University of Alaska. It's Alaska specific; there's a crying need for money to do Alaska specific research now because many of the problems which result in questions of relevancy in university research today are because research has to be nationally applicable to get federal funds. If the problems aren't of a national crying nature, it's very difficult to document the need from Alaska's point of view because Alaska has an, inevitably is the case, has Alaska specific problems. Consequently, we fall flat on our faces when we propose research that's energy oriented in an Alaska specific sense to a federal agency, and they'll say, "well, how's it going to work in Pittsburgh?" Obviously, it isn't going to work as well in Pittsburgh, and it doesn't have a whole lot of relevance to a lot of the lower 48 problems. So we just don't have the opportunity.

There are also more specifics on how I would suggest this be done, however, that remains to be worked out in a polictical way; but I would suggest again that the University of Alaska's ongoing research establishment is perfectly adequate, capable of administering this in a fair sort of way. I would also suggest that somehow, and I'm not astute or sohphisticated enough in the politics

to know how it might be insulated to a proper degree, and I put proper in quotes from the political process. I would like some degree of autonomy here because again, as was suggested from two previous speakers, there is a problem of power and whatever the university's position is not always favorable in the public eye now, so we have a lot of political problems.

The level of support for an ongoing Renewable Energy Research Unit depends on several elements:

Of course, it depends on the amount of money available from the resources, the Renewable Resource Development Fund, and the Permanent Fund earnings. How much the legislature should appropriate for this kind of research program.

The level of support necessary to provide support for that research program, including what is felt to be adequate, in fact, which, again, is a political question. However, I'd be more than willing to try to document what I think is adequate.

The political importance and priority of developing alternative energy resources for Alaska. This is a question I don't think a lot of people have addressed. Alaska's been preoccupied with land issues and a lot of state-level problems. We haven't really had an energy crisis here. I think the

fact that these other problems have overshadowed the issue that a lot of attention hasn't been drawn to energy problems. I think it's inevitable that they will. I think it's very important that that kind of a consciousness be raised in Alaska, that we are always better off doing something which is not irreversible. Right now, every time we start up our car, we are doing something which is irreversible. I'm not saying we stop driving cars, but to get into a system which is renewable is where we need to go.

Okay, I was getting into the philosophical basis of why I feel this is an important thing to do. But our opportunities are enormous here. I have a quote in my prepared notes from Walt Kelly's Pogo comic strip which has supplied what, I think, is one of the relevant quotes for Alaskans, and he says, "We are confronted with insurmountable opportunities."

I think that is a very appropriate way to address the Permanent Fund. I think there are many problems in Alaska that are, indeed, insurmountable for various reasons. But I think the establishment of a Renewable Energy Research and Development Program is simply a matter of having the will and foresight to commit our Permanent Fund resources to this plan. It can be a great service to Alaskans and the nation to provide badly needed development experience for renewable resources, both to ourselves, to Canada, and to the rest of the nation. Thank you.

GRUENING: Thank you very much, Rich. There may be some questions. I appreciated your letter, incidentially, earlier. I hope you got back my reply.

SEIBERT: Yes, I did.

MEEKINS: You touched on a subject, I think, is so close to my way of thinking. I can tell you that the Renewable Resource Fund, although it didn't list that possibility, I think it's certainly within the definition of renewable resource. I was one of the people who drafted that legislation that finally passed.

SEIFERT: I was concerned about that, because a lot of the aspects that are, in fact, using the public documentation that I did, never was it specifically stated in any of the Public Forums that renewable resources would include renewable energy resources.

MEEKINS: Well, that's one of the problems, of course. Some people define even mining as a renewable resource. It depends on who you are, I guess, how you define it. In my mind, that was what we envisioned when we passed that portion of it. I have a couple of questions.

First, what are we doing now? What level of research in energy development is Alaska participating in currently?

SIEFERT: Most of it is still at the proposal stage. I would say there is an ongoing wind energy program. I'd like to consult. Lee, would you mind giving me a hand? This is my associate, Lee Leonard, who also has his name on our preparation. He also works for the University of Alaska Geophysical Institute.

LEONARD: From the University of Alaska standpoint, there are several research programs which are ongoing and offgoing. For about five years, we've been involved with some level of geothermal research, geothermal energy research in Alaska. But the amount of effort, which has been given to these projects is spotty; and the reason is, as Rich pointed out, that one of the problems doing relevant, applied research for Alaska is that the sources of funding are mostly on federal level. In order to get those funds, you've got to show that the work I'm doing up here applies to Alaska; but it's also, in some way, applied to national need. This is not always easy for us to document. We have had a great deal of trouble getting research funds to do energy research which is specific to Alaska. As we know, as with several other things, energy research---the environement of Alaska is so different compared to much of the Lower 48 that we require specificness which we cannot appeal to the funding agencies to show that we are worthy of so many dollars. We do, though, have---we are in the process now of maybe making a breakthrough---more money

has become available on the national level through ERDA, the Energy Research and Development Administration, in other areas. So it looks like some money is going to start to come through.

Another reason we've been frustrated is that in many states when you apply for research which is specific to a state's need on a federal level, one of the common techniques of getting research money at a university level and other levels is to say, "Well we're asking the federal government for X amount of dollars and a state agency, which is interested, is willing to put up so many dollars in a matching fund." Our state agencies, because of financial exigencies, have not been able to meet these requirements, which would have enhanced our proposals at a federal level. So we've been frustrated again.

We do have a solar project which is starting now. The State Energy Office is involved with some research in geothermal energy and some in wind energy. We do have an ongoing wind program at the geophysical institute, which is also suffering some of these frustrations of kind of on again off again. We have never---nowhere in the state, to my knowledge, is there an active program, which has been established and which is ongoing at a significant level of activity.

One thing I might mention is that recently I've heard comments in the media that there is a complaint that the University of Alaska is more research oriented than academic oriented and so forth. I think it's a testament in a way to the ambitions and aggressiveness of many of the university researchers, which has built up. It has been the work of these people which has built up a very big research facility at the university. They have done it almost with a majority of getting money from the federal area. They have not had the opportunity to get money from the state to do state-specific research. So I would say that the potential is there, that the people are there. There's a lot of good talent there. There's a lot of people who are interested in doing work which is state specific if they had a mechanism to keep their job and do it.

I think it's inevitable that this kind of---if monies become available from the Permanent Fund or from the Renewable Resources Fund to do these kind of things, we're going to see a growth in research; but we're also going to see alot more relevant research.

GRUENING: Thank you. Sally.

SMITH: Just one question. Lee, you and Rich and I have

kind of talked some of this over; but would you explain for the committee the relationship between the university research program and the State Energy Office?

LEONARD: The State Energy Office, when it was formed, there were ongoing energy research projects at the University of Alaska. At that time, which was 1974, I believe, the university entered into a joint kind of an effort to sponsor a seminar, a meeting, on energy in the state of Alaska with respect to geothermal energy and wind power. It was held in Anchorage. Since that time, this joint effort went on and we had this meeting and it was very well attended. People came from all over the state, from little fishing villages, from bush villages, not people that had vested interests but a lot of homesteaders and fishermen and carpenters and everything else that were just interested in getting off the high priced petroleum band wagon, so to speak, in rural areas mainly; because this, of course, is where energy research really pays off, when you get out in the bush where they're paying 25, 30 cents a kilowatt hour for electricity or a buck and a half a gallon for fuel oil. The preceedings of this were published and since then, the university has not had what you would call good relationship with the energy office, for a variety of reasons, some of which may be personal and some of which may be institutional.

But a problem with the university, with the university doing research, is that it must maintain its autonomy from political entities as much as possible. So the University of Alaska's research has always been conducted in the, so to speak, the world environment of research. That is, we go to funding agencies on the federal level and in some cases international level---in the case of the Geophysical Institute and Institute of Marine Science and so forth---to obtain funds. There were some problems with, when we were trying to deal with the state through the State Energy Office, there were some problems of a political nature, which suggested that the university might best channel its energy research through a state agency, such as the Alaska Energy Office.

Well, as you can see, I'm trying to make this as painless as possible. It was a very awkward situation. The energy office was, from the standpoint of the university, too political to really function as a proper funding agency or an agency through which the university could channel its research. As I said, as an academic institution and as an educational institution, there has to be a degree of autonomy. An individual investigator could go out into the world, whether it be the private sector, whether it be a federal agency and say, "I've got an idea which might pay off, if we can

do some work on it." Therefore, he either gets his funds or he doesn't. But it is very difficult to work through a bureaucracy which has political overtones in this situation.

GRUENING: Are you suggesting that they were tampering with the results?

LEONARD: No, no. I'm suggesting that a university normally to give a specific example---the feeling of the energy office was that if the university wanted to do energy research, let's say geothermal energy, let's say the university is interested in doing a research project which involves a technique for small scale electricity development at a hot spring---the idea was that normally this is the way it's done. The university or the investigator, who comes up with the idea---I don't like to keep using the word "university" because it really is individual people with ideas that go out and sell these ideas---an investigator gets an idea to do something. He applies to do research on this idea to somebody. He may go to an oil company. He may go to the state, a given sate agency. He may go to the federal government, a given federal agency.

Well, what the energy office was interested in doing was being a channel by which energy research done at the university level in Alaska, that all proposals for this kind of work be channelled through the State Energy Office. The State Energy Office in turn would rewrite proposals or would apply for the money. When the energy office got the money, it would become the recipient of the grant. Then the energy office would sort of pass out the money to the university. Well, this is out of bounds in the normal way academic research is carried out in the United States. It became a little awkward for us to operate like that.

GRUENING: Do you have a question, Charlie?

PARR: I would like to make an over-generalization and see what your response is---that the state of art is that we know that hydroelectric power is feasible. We know that in Alaska solar power is probably not feasible. We know that wind power is feasible only in certain areas on a very small scale. We don't really know what the possibilities are for geothermal.

That's probably an over-generalization, deliberately so. But I'd like to know, in other words, the point I'm trying to make is do we really need to do research on all energy sources at this point? Or isn't the state of the art such that in some of them we already know the answers?

LEONARD: Well, one thing, which is another generalization, but might help explain this---there's been a lot of talk so far today about investment of Alaska's money in renewable resources and investment of money in the Permanent Fund in renewable things. Every big corporation in America, every multi-national corporation in the world, every government entity does research in one way or another to find out new ways of doing their things. That's how the United Sates became a great industrial nation, because of the Yankee ingenuity, so to speak.

In order for the Permanent Fund to wisely invest its money in Alaska, we have got to continue to come up with new ideas, new ways of doing things. What is possible to invest money in renewable resources, such as a lumber industry in the lower 48, which has been done maybe for a hundred years, may not be the way to do it in Alaska to make it economically feasible.

In other words, there are a lot of specific things in Alaska with regard to industrialization of the state, questions which have never been answered. So when people have, when you have a large, usually what happens is a guy comes up with an idea; and he gets an idea that you might be able to make money this way. He generates the idea and gets it going and then he finds somebody with the money.

In Alaska, we've kind of got this situation turned around right now. Right now, we're looking at a whole lot of money, and we're talking about investing it in renewable resources. But how? Are we going to use the same techniques which have been used for a hundred years or two hundred years in the Lower 48, or are we going to have to come up with new ideas? I think is the question. I would say, in answer to your question, we know hydroelectric power is feasible. But we have a lot of flat running rivers in Alaska. We don't know about low gradient hydroelectric power. A lot of this research hasn't been done. There hasn't been anything concentrated on it.

As far as solar energy is concerned, I have a folder over here, which has a concept of a solar hot water and shower facility to be used in a rural area. Now this is to provide showers and washing machines, coin-operated. A guy can make a little business out of this in a village to people who could not afford electric hot water at 24 or 30 cents a kilowatt hour and they don't have it now, and they won't have it in the future, as long as the price stays that way. This little system, which we've developed here, which we're proposing now to ERDA to do as a demonstration project, would only operate for about eight months out of the year. But if you're living in Venetie, that may mean alot to you---or some other village, which has a great deal of solar resources for a large part of the year.

Geothermal energy, we know, is feasible. The big concentration on the federal level and millions and millions of dollars of research has gone into researching big power plants, geothermal power plants, which are big; because the Lower 48 is faced with the fact of transferring their normal energy fuels, their normal energy resources to a new type. They already have the industry. They already have the business. All they've got to do is find a new fuel to use. In Alaska, we don't have that. We've got to find new imaginative ways to use alternate energy resources to spark industries. So that's one of the things. So, no, we haven't done enough research in geothermal energy as it applies to Alaska.

Similarly, with wind power. Wind power is an old technology; it's been working for many, many years. Alaska has a great deal of wind resources. When we consider our rural population, village populations, which, even if there is a big dam put on the Susitna River, you're not going to run a transmission line to Bethel and Galena and McGrath and Ruby and all those other places all over the state. You're just not going to do it. Sure, we can use the standard technology, which exists today, to give power to places like Fairbanks and Anchorage, where our big populations centers are. But what are we going to do about the rural areas?

If we develop, are we going to develop two huge meg-

alopolises, one in the center of the state and one down in Southcentral? Or are we going to diversify and develop small industrial, small businesses and so forth throughout the state, and include the native population, which for right now, exists in kind of a quasi-limbo outside of the normal economic structure? So I don't think it's enough to say that we know very much at all about how the potential of renewable energy resources and alternate energy resources apply to the state of Alaska right now.

GRUENING: Thank you. Do you want to follow that up?

PARR: One final question, if I might; and that is this: wouldn't it be desirable to do some of that research on the capability of transmitting power farther without losing so much of it? You said awhile ago we can't do this. We can't for example, build a Susitna project, get power out to McGrath and these various places. Right? Or similar things, okay. We all know there's a power loss as it goes---the farther it goes. This has been the thing. Wouldn't Alaska, in the long run, be better off with an overall grid for the whole state, if that became technologically possible somehow, rather than a number of small, independent, unconnected power sources scattered in a hundred different locations?

LEONARD: Well, I think that you may be right; I don't know. Let me preface my remark by saying that, there is a difference in philosophy in the technical community at large in the world today.

One philosophy says faced with diminishing resources, we're going to have to go back to the age of individualism. We're going to have to start looking at unitizing our energy resources on local levels and so forth. A large power company--- I recently was talking to somebody from Union Oil who was in my office talking about this same concept. This is a consideration in industry, big industry, as well as just in the academic community. That's one idea.

The other idea is well, maybe what we really have to do is find better ways to transmit energy, as you suggested. It's very likely that the state of Alaska should fund research which investigates cryogenic transmission lines and various numbers of transmission lines. Probably you wouldn't do that at the University of Alaska. You might fund MIT to do something like that because they've got more horsepower, but I would say yes that that's something that could be done. At the same time, you want to do the other kind of research as well and in that research, hopefully the better ideas will come out of it.

OGAN: Because the constitutional amendment stipulates

that Permanent Fund investments will be income producing, I wanted to ask one of these gentlemen how research and development is income producing?

SEIFERT: We are referring to the Renewable Resources Fund.

GRUENING: Either they're referring to the Renewable Resources Fund or the dedication of the Permanent Fund interest. I corresponded with Rich on that.

SEIFERT: I would like to reiterate what was said. It is very difficult, this is a question that researchers always have to respond to---how are you going to justify your existence? All I can say is one of the greatest testimonies to the value of research is the fact that every, as Lee stated earlier, every major corporation, every major government, every major entity in the world does research. Obviously, it's paying off. In the annual research budget in the United States, there is over $36 billion invested in research.

The benefits of research are not easily made obvious, because they're hard to document. If we were to develop and demonstrate the feasibility of solar hot water heating in Alaska---which, by the way, is a feasibility, I know it is, I wouldn't stand here and

say it if I didn't believe it and hadn't done the calculations, it is a feasibility, and it's an economic feasibility today, because our electric is so expensive. Even if you only use it half the year, it's an economic feasibility. If we could demonstrate that to people, show them that it's an economic viability, decrease our use of fossil fuels sources, decrease the expenditures of the public---that's our documentation. You don't do it unless you get the chance to do it. But once you can give people the opportunity to see what the possibilities are, that's what research is all about, expanding the human potential, the obvious technical potential. That's the only reimbursement energy research can ever provide.

MEEKINS: I think most of the members of the committee I've talked to would certainly recognize that there are benefits from research. I don't think that's exactly the question. The problem we have is a constitutional one with the Permanent Fund in that even though there may be social benefits, if we can't quantify them, we probably can't justify legally investing money in areas that don't return money back to the fund with interest, so they can't be social benefits or benefits that are disbursed other than the.....

SEIFERT: I wouldn't be certainly up here and guarantee

a fixed rate of return in that sense. I look favorably toward the Renewable Resources Development Fund. It's a less risky political way to go about this, but nonetheless, I think, I have faith in it. I have faith in the idea. I think it will document some value.

GRUENING: Okay. As I said, I'd like for somebody here who can't make it back after lunch. I would like to reconvene right at 1:15 sharp. If there's somebody who would like to testify now because they can't make it back later, we can do that. Mr. Weeden.

WEEDEN: Mr. Chairman, my name is Bob Weeden. The Permanent Fund problem is a complicated one and neither we as citizens nor you as legislators are really used to dealing with the problem that carries such a tremendous implication way beyond the time when you are no longer legislators or I am no longer alive, etc. The problem of grappling with a long term future is a tough one.

We have a couple of general purposes, I think, with the fund. One of them is that to some degree we don't trust ourselves to be rich right now. We don't know that we will really make good decisions about a lot of money when we have been used to not having a lot of money. So we are adopting a strategy of trying to smooth out and length out that curve of income from exhaustible resources. We're saying let's live leaner and longer rather than fatter and

shorter, if indeed that's the choice we have.

Another general purpose though is that we feel that the oil wealth ought to be translated into human welfare, and I think the interesting thing there is the money that we all talk about is only the medium, it's not the message, it's not the end product, which leads me to conclude that what we are about is establishing a mechanism, an additional mechanism beyond the governor, beyond the legislature itself for making social decisions of a very major magnitude.

One of the stray thoughts that has occurred to me that I would like to leave with you is that the fund and the use of the fund has to be firmly guided by policies that are developed by all citizens of Alaska acting through a diversity of representatives, who are, in fact, accountable for their decisions on behalf of the public. I would not like to see both the policy-establishing group of the Permanent Fund and the managerial group dominated by bankers. I feel that although bankers can make good social decisions, that their chance of doing so is no greater than a trucker's or a forester's or anyone else's. I would use an analogy that when I would really like to have mechanics around to keep car running, but I rarely ask them where I should drive it. I think that's the essesence of the difference there.

The income from the investments may, in the fairly near

future, turn out to be kind of an embarrassment itself because it may get to be fairly large. The constraints on that income are not as great as you have pointed out on the capital itself. I would suggest that we look very strongly at putting income, a large share of the income from capital funds investments, Permanent Fund investments back into the Permanent Fund unless we prove in the interim that we devise really firm public social goals and that we can spend that income money wisely in pursuit of those social goals.

I feel that the fund should not be used to underwrite projects that could not stand on their own in the market place, I say that knowing that there must be a qualifying thing. When representatives of the people have decided that there is a social goal that mutually can be agreed on that is so important and that cannot be taken of by the market place decisions that there must be some kind of a front end loaning of money, there must be some kind of subsidy, if you want to call it that, that's fine. I don't object to that at all. But I feel that should be the exception to the rule rather than the rule itself.

There has been some mention in testimony today about the scale of projects, and somehow people are focusing on the idea that the Permanent Fund can do big things in a big way that other funds cannot do and private money may not be able to do. I

would maintain that if you look at the product in terms of human welfare and society, the scale of the project is of very little consequence. There can be bad as well as good big projects and there can be good as well as bad little projects. The need of those projects, at whatever scale, for Permanent Fund support is what needs to be demonstrated. The fact also needs to be demonstrated that those projects, big or small, are really in pursuit of social goals that we agree on are satisfactory. That's one of the prime things we should focus on again. Money is only the medium. It certainly isn't the message itself.

I personally feel that we should not use the fund in ways that have as one of their major results a large increase in the population in Alaska. I say that because I know a lot of people who do not feel that we need millions of people up here. There are a lot of people who feel that some of our amenity resources are in scarce enough supply right now, the competition is keen enough for them right now that we would not really need to consciously go ahead and add more people to the state of Alaksa as a goal in and of itself. I think it's fairly clear that certain proposals for use of Permanent Fund monies would have, as one of their major effects, the increase in numbers of people coming here. If you propose to eliminate income taxes, for example, you create a haven for

people who don't want to pay income taxes. That in itself would be a major incentive for people to come here, establish a residence, if there is a residency requirement tied to it, etc. Those are the sorts of things and I toss this out knowing that a good many people will not agree with this goal and that doesn't bother me a bit. All I'm saying is that we should decide mutually whether or not increasing our population is, in itself, a desirable goal. Whatever way that decision goes, that will be one of the policies that will influence the expenditure use of Permanent Fund monies.

That's really all I had to say at this time, Mr. Chairman. As I say, I'm easily embarrassed in this whole field of income investment. I don't deal in the figures that we're talking about here, personally. I will, however, try to acquaint myself with what seems to be the most important parts of the nuts and bolts of this thing as I become more acquainted with it.

GRUENING: I hope you do that. Thank you for the very thoughtful statement. I was intrigued by your comment on the use of the income. At the same time you mentioned the fact that you think the investment decisions sometimes, at least the policy of them and whether or not to make them in a particular area, could be better handled or as equally well handled by let's say laymen.

In that regard, would you think that the use of the interest,

in terms of paying it out, could be equally handled by the individual who received it? In other words, if everyone got an equal share of the income, aren't those individuals equally competent to spend it on what they see fit, as opposed to, say requiring that we re-inject it in the fund for whoever the fund managers are to decide what to do with it? See my point?

WEEDEN: Yes. I do, and what you are saying is that one of the channels into which we might like to put our oil wealth is immediately into the private sector for the individual to make her or his own decision. That's fine. Do you always then ask to what extent? Is 30% the right figure? Or is all of the income? Or, you know, what is the right figure?

That really is basically a decision of how much to favor the present generation as opposed to the future generations; that's only partly true, because presumably the private individual could put that money into a trust for children and so on.

But it's also partly a decision to increase activity in the private market place, which is already, by the way, being increased through the other channels through which oil wealth passes.

All we're talking about is the state, public revenues. We're not talking about the private wealth that is generated through exploiting the oil resource. Certainly a lot of the people who might get part of this Permanent Fund income monies as their very own are also getting a share of the oil wealth in other means by having jobs at high rates of pay, etc., making good business investments.

So, I really can't say that I have a preference there. What you do run up against though is the same thing I mentioned before---if it looks as though your decision to put Permanent Fund income monies back into the hands of private individuals is going to stimulate people to come to Alaska, so that they can gain a share, then you ought to recognize it and decide whether that's what you want to do. Is that a sufficient disbenefit, let's say, to override the benefits you see from doing it?

GRUENING: You mentioned subsidy that should be an exception to the rule. What entity do you think ought to be best to decide on who gets the subsidy? The legislature, the governor, I'm just giving you these examples---they're not the choice you could pick---if you're not going to use the market test in terms of, let's say the Constitution---what entity do you feel is the best one to decide who gets the subsidy?

WEEDEN: I think, in terms of who gets it, I presume you don't mean the individual applicant?

GRUENING: Which Alaskans, general, as a class? If you look at loan funds, there are certain classes of Alaskans that get more loans than others. If they are subsidized loans, they get a greater benefit than others that, say, pay loans at the market rate. So the political question, you, the political system allocates benefits. Part of that system, what entity, my question is...

WEEDEN: My feeling is that to provide a subsidy is an important decision that must stem from some social goal that you have and we are talking then about those decisions must be generated, in my view, by those who are accountable to the public for developing and articulating social goals, the legislature and the governor. Now, if you ask as between those which, well there are pros and cons on either side; but I would say that the legislature, being obviously more diverse by 60 times, is the one that should be setting the overall policies including the policies for how to disburse this broad subsidy benefits, if there are subsidy benefits to be disbursed. The governor and his administration help to carry that out, and the Permanent Fund policy group has

other levels of policy that they have to make decisions about. I think it's a tiered structure, but I simply see the legislature at the top.

GRUENING: Any other questions? Russ.

MEEKINS: Mr. Weeden, we've had some testimony from some of our consultants. It's a funny thing. They are very concerned about us sort of diluting the power or the benefit that we can distribute from investments or anything from the fund by the influx that people that that investment might create.

What they've told us, and I think it makes sense to a cetain extent, is that amenities are also part of the real wage. People come up here for higher wages; they also come up here for more amenities. The person who was giving us this, he followed this logic out and came to a different conclusion---he came to the conclusion that we should distribute, if possible, we should distribute the principal of the fund, which, of course, we can't do constitutionally. But lacking that, at least all of the interest from the investments of the fund which should be maximized for yield, should be distributed to the public because he felt that anything else you did with it, any social benefit, any economic benefit at all would be completely diluted by the in-

flux of people to obtain that benefit and that the real wage counting amenities would always equalize.

WEEDEN: In other words, if we spent the income in these ways we would, let's say, diminish Alaska's stock of amenity resources. Therefore, people would have to use that income to travel somewhere else in hopes of finding them. Maybe that would be the case. I don't know. No, Russ, this is one of those areas where I am not convinced that I know where I would vote on this question of using income, but I think you obviously understand the overall goal that I'm looking towards. I don't know how to get there.

MEEKINS: It's sort of Catch 22 we're confronted with because I'm tempted to suggest that we use it for creating a better quality of life for poeple, economically and other ways. At the same time, I can see, we've had one example given to us, I think it was a very good example, that in New York state changing their welfare laws some time back, and as a direct result of that, two million people immigrated to New York, mostly Puerto Ricans, but other people also. Consequently, they then went into a deficit situation in their welfare; and they didn't have as much money to distribute to the large amount of people, so it just sort of under-

cut the benefits they were trying to give out because a larger number of people were claiming them.

Alaska, with its small population, is very vulnerable in that sense, it seems to me. One of our people testified, I'm not sure it was correct, that the number of unemployed in the city of Detroit is larger than our work force here. In a situation like that, if we attempted to create jobs or if we attempted even to make life better for people without jobs, we may find ourselves undermined in the very principles or very things we're trying to get at.

WEEDEN: I might point out that all of us are really puzzled and the Pogo comment of "insurmountable opportunities" is really neat, I think; but what we can understand, too, is that we can manipulate the amount of flow of revenue into the Permanent Fund in various ways. We can manipulate it by changing the tax structure, for example, changing our royalty share. You might say that well, if we don't know what to do with our money, why we just let the oil companies pocket all the profits and they'll certainly take it out of the state and solve our problem.

Another possibility is to approach the leasing of state lands for oil and gas, in other words, gear the development of the basic resources over time to that amount of income that you think you

can handle. I guess Norway has kind of approached that strategy that way. They say, "look, we just simply won't lease a piece of land until we think we want the money." That's another way of either starving or enriching the Permanent Fund over time. So there's lots of things we can do with our left hand if we can't do it with our right.

GRUENING: Any further questions? Thank you very much, Bob. We'd like to come back promptly at 1:15 and anybody who wants to testify, we'll be ready. Thank you.

BREAK FOR LUNCH

GRUENING: I think we can start to call this thing back to order, and call up anybody who wants to be first in the afternoon portion of this. Sorry about returning a little bit late. Go ahead. We had a slow waitress. A good lunch, but a slow waitress.

INOUYE: Thank you. I am sorry I have just a single copy to distribute to you.

My name is Ron Inouye. I'm a resident of Fairbanks and am employed at the University. My comments to you are strictly my own.

I appreciate the opportunity to share with you a few of my concerns regarding the Permanent Fund. Although the thoughts I express may not directly fit what may currently be the focus of your committee's discussions, I do hope that a few of my ideas may creep into some of the committee's minds and find a hospitable niche, to be retrieved at the appropriate time.

My plea is pretty much a standard one, that of increasing help to state agencies for the preservation of historic and cultural artifacts and manuscripts. I believe we are all aware of the usual arguments for such material, culture and manuscript preservation pleas resulting from vanishing life styles, big time economics decimating human values, and all of those kind of arguments. However, I would like to pursue the issue a bit differently.

If the purpose of the Permanent Fund is essentially economic and your concerns are accruing interest and getting "a good return on our dollar" I would like for you to consider the following:

Tourism is an example. It's becoming a larger and larger part of our state's economy. Why do tourists come here? I bet it's not to see how many new homes have been built in Anchorage or Anuktuvuk or to shop in any of one of the new malls that are popping up all over the state like puffballs after a lucrative rain. Many of these tourists come up to see the undeveloped areas and to look at the historic sites and artifacts of the past. The

tourists love the local museums and historic buildings. They stay in hotels and spend money on transportation and meals, they visit those museums and historic places. Without those records of the past, the tourists wouldn't be here.

What economic contribution comes from the current educational and research communities of our state which use as their raw material the resources of the past that are now discreetly preserved and made available for present use? Take a look not only at those on private and state payrolls servicing museums, archives and libraries, but also those who make use of those collections. Those depositories of information are located all over the state from Ketchikan to Barrow. The users of these depositories include the lawyer, corporation executive, environmental impact statement complier---all of whom are linked in their work to information from the past. They indirectly make their livings too from the past.

Needless to say, I believe there is a long-term return on the dollar for every penny spent by our state government in historic preservation and the acquisition and care of historic manuscripts and material collections. These are the kinds of things I believe the state should be promoting through its Permanent Fund development.

While I believe that Permanent Fund money should be partially devoted to such things, I believe too that good managment

principles should be applied.

Several years ago the Kate Pullen Memorabilia Collection was lost to and by the state. That historic Skagway collection was offered to the state as an intact collection and would have been an asset to all of us. Unfortunately, the state was unable to get its act together and the Pullen Collection was sold off piecemeal to the highest bidder in Seattle. I was in Seattle during that sale and saw many Alaskans there trying to retrieve bits and pieces so that they could be returned to the local museums within the state.

Regardless of our personal feelings about the value of the Pullen Collection or those that that represents, the situation points out that our state has inadequate policies to deal with such situations.

When first teaching in Ketchikan, I was very interested in having my students learn more about Northwest coast art styles, particularly that done in the Southeastern part of the state. In checking for good examples from the late 1800's and early part of this century, I found that my students would have to go to Portland or Leningrad or Denver to see them. Is there not a way that some of those items could be returned to our state?

I feel guilty and powerless to do anything when I hear about another art dealer from Seattle, or Anchorage for that

matter, buying another collection for disposition when really the state has a legitimate right to look out for the public's interest in such situations. This pattern continues because we have yet to find a creative way to ensure that cultural materials and manuscripts of significance stay in Alaska, open to public use. Had we conceived of these materials initially as resources of increasing value and developed good management policies for their acquisition and use, we would not now be wringing our hands and bemoaning the loss of so many valuable aspects of our state's history. Thank you.

GRUENING: Thank you, Ron. Representative Meekins.

MEEKINS: Ron, thank you for those comments. I found them very persuasive, quite compelling, especially from a viewpoint of my duties as a Finance Committee member. Chairman Gruening is also serving on the House Finance Committee. My question is in regards to the specific purpose of this hearing which is a testimony in regards to Permanent Fund investments. One of the limitations on the Permanent Fund, which we explored and talked about quite a bit in the morning session, was that it must, by Constitution, be income producing. There is some debate about exactly what that means. We, I think, do have some agreement that the income producing must be a

direct income. In other words, dollars must flow back into the Permanent Fund. It can't be social benefits put into money terms. So I am wondering if you have any, if you thought of it in that respect, and if you have any ideas to how we could accomplish your purposes with the limitations of the fund.

INOUYE: Well, I think there are probably a number of ways to approach that. One would be to, in fact, find a way to squeeze around the intent of the law. The other is to maybe just change it, because we found that we're dealing in a very marginal area now, where there is very little support, because you can't quantify the benefits of such things. Similarly, you can't quantify the benefit of research. I think Rich Seifert pointed that out fairly well today.

There is really no other source for these kinds of things to remain in our state for all people to use. I think if maybe we broaden our definition of what income producing would be, to take a look at the fact had we bought that Pullen Collection, its value on the market now would be so many dollars more. If you arbitrarily wanted to sell it and spend that increased amount of money, you could.

MEEKINS: Maybe that's an idea right there. The appreciating

value of the artifacts or whatever we bought might, I don't know, I'm just thinking, but that the...I'd just like to say two things.

One is that I was in the legislature when we failed to purchase the Pullen Collection, and I was on the Finance Committee and voted for it, but unfortunately, it didn't prevail.

Secondly, I think that you have to remember that the words income producing are not in the law by legislation. That was in a constitutional amendment voted by the public. In order to change it, we'd have to have another constitutional amendment to change the language. As a political matter, that's very unlikely to happen, I would say, since the legislation other methods in order to accomplish that besides changing the law itself.

INOUYE: Right. I recognize that and I think in my earlier comments, I sort of addressed that by saying, "I hope you keep these things in your minds, and then when the appropriate time comes, that you as legislators will see a way to possibly help us." Because I am getting more and more concerned about those large collections in Alaska that are

just barely surviving. Certainly, we're aware of one major one in Southeast, probably two or three, that could very easily leave the state unless we have some strategy to have money available in a fairly fluid form to get those things purchased at the time they're available. If we have to wait for the legislature to appropriate the money with all the appropriate politics, our chances are gone. I think Kluckwan is a very good example of that. I think the history of that case is not unique and that it has been going on for many years. Some place in the middle of all of this, I think there is a string of logic that somehow we can attach to something. All I wanted to do was raise the issue with you.

GRUENING: Thank you. I always think there's more than one way to skin a cat. The Permanent Fund may not be the most appropriate institution to do it, but you could either do it through the use of the Permanent Fund income directly purchase these materials or set up a special grant fund in the General Fund to do that or again maybe the Renewable Resources Development Fund---which doesn't have to make loans, it can make grants---could do it. I think maybe you could write under the tourism loan, maybe have a grant system and have some entity administer, be able to administer quickly enough, so it can, at an appropriate time, step in and prevent the loss of these priceless items. You might give some thought to how that might be administered in terms of---if

you're not going to have it directly run by, let's say, Commerce or a special department, how you might have it structured and who would serve on it.

INOUYE: I wanted to make clear too that there are many manuscript collections that I think would equally fit into that area. For instance, there are many things in the University Archives that are really invaluable; but I have a feeling there are a lot of other things that should probably have been deposited there, that unfortunately we don't have now.

MEEKINS: Ron, one other thing. I serve on the subcommittee that is looking into the Renewable Resource Development Fund. If it's alright with you, I'll send a copy of your comments to this committee to the chairman of that subcommittee, Terry Gardiner.

INOUYE: I'd be pleased if you would do that. Thank you.

GRUNING: Thank you very much, Ron. Yes please.

MATSON: My name is George Matson, the Executive Director of the Fairbanks Environmental Center. I don't have any prepared testimony, but I would like to make an appeal to you

that the money from the Permanent Fund be invested in environmental research, environmental baseline studies, fish and game, fish and wildlife and habitat. These are renewable resources, and I know the question you're going to ask, how do they produce income? Well, I think, you can look at this in a number of ways. If you look in your booklet here, it refers to the origin of the Permanent Fund, and it says that the fund evolved as a means of preserving the Alaska lifestyle. I think fish and wildlife and the habitat are very much a part of this. So I think some of the statements and some of the reasons why the Permanent Fund evolved are very much in support of why a broad definition of income should be applied to how the Permanent Fund is spent.

I think, also, we're all familiar with the environmental impact state requirements and things like that. You can directly relate the quality of the baseline study to the potential for resource development. If the baseline data isn't there, the resource development is jeopardized. The resource developments produce the royalties and the leases and everything else from which the Permanent Fund feeds off of. So there's a relationship there.

Also, I think, you can relate the protection of the fish and wildlife and habitat to social costs. One thing I would like to point out to you, maybe you're not too familiar with it, I just came back from Barrow. I spent a few days up there, involved with the Inupiat in terms of the bowhead whale situation.

They're faced with a decision by the International Whaling Commission to, well, in fact, the decision has already been made, not to allow any bowhead whaling starting the spring of this year---next year.

It doesn't appear that the justified position on the International Whaling Commission's part, and in response to it, the people, the Eskimos in the North Slope area, have put together what I consider to be a very excellent proposal to look into the population dynamics and habitat of the bowhead whale, in fact the whole habitat, which you might define as the Arctic Ocean. They're very sincere about this. They want to protect the whale; they want to protect their culture, the two are related, but this proposal they have, which is sophisticated, uses an inventory as well as combines the knowledge of the whalers is a pretty extensive effort.

They're concerned enough that they have taken their dividends from the North Slope Borough---30 some hundred dollars and applied it towards the start of the study. However, the study is going to be about $13 million and they don't have the money to do this. I think it would be very appropriate if the Permanent Fund were to put some money into this five year study that's being proposed. You can, here again, you have to, if you take the rigid interpretation of

what is income producing, you might not be able to justify it. But if you look at the alternatives and apply a little flexibility, you'll see the social costs, if the study doesn't go foward.

Without hunting of the whale in the Artic Slope, there's going to be all kinds of social costs in terms of welfare and transporting food up there and everything else. It's not desirable, I don't think, from the state's viewpoint or the people that live there. Like I mentioned, I don't have a prepared statement. I just wanted to point out that I think this is a legitimate need, and right now, I just came back from a very intense exposure to a very legitimate situation.

GRUENING: Thank you very much, George. I attended the Inuit Circumpolar Conference, and I remember when that was discussed, the people were very concerned about it.

I think the question facing this committee with your suggestion and that that was just made on artifacts is one of dealing with all the proposals with the appropriate tool.

One point we tried to raise in the brochure, and I don't know whether we made it clear, is that there are two funds that the legislature deals with. One is the General Fund, which in terms of revenue projections, is going to be probably larger than the Permanent Fund to the extent that we've derived money from

our oil wealth, the larger portion of it, as the constitutional amendment now stands, will go into the General Fund. There are no restrictions on the General Fund as to how it can be used. We could spend it to study peanut farming in Alaska or we could use it for, say, baseline data for the bowhead whale situation. That's one thing we have to address--- which is the most appropriate tool for it. I'm saying that your proposal, your suggestion that we look into it is a good one, I know, I think, I hope the governor, at least, who has been up there for that and has expressed some concern, will have a suggestion as to where the money should come from.

MATSON: He expressed concern but he didn't express any solutions or absolve the state from being a part of the solution. I think the state could be, they could exert some leadership here and say the state is just as concerned and is going to chip in to this $13 million or whatever it's going to be to do this study.

In terms of income producing, you might point out that what they want to do is develop a sophisticated monitoring system to measure a number of different types of signals from whales, acoustical signals and everything else. This type of monitoring system has all kinds of applications in other OCS areas. So attached to this, you could have a license.

The license would generate income because it would be bought, you know the concept or maybe even the whole package, the hardware and the software could be bought by someone else to monitor some other species or maybe even by the Defense Department to monitor submarines for all that matter. But basically, the mix of sensors they want to put into this, I think, has a lot of potential in other areas, and so, like I say, if you use a little imagination, you can find out how it would proudce income. Just having a license would be one way. Patent, I should say.

MEEKINS: Just to define terms here---we have, of course, as we've mentioned, there are several funds. We have the Renewable Resource Fund, which your suggestion would probably fit under that definition---it does not need to be income producing.

Then we have the General Fund, which is used for budget purposes, but there is, at this point, projected to be a surplus of revenue over and above what we spend on the operating expense for government in the General Fund, so there'll be a surplus in the General Fund.

There'll also be a surplus revenue in the Permanent Fund. The Permanent Fund is the only one that's limited to income-producing investments.

In fact, the revenue from the Permanent Fund is not limited.

If we make 5% or 10% return on a billion dollars in the Permanent Fund, that's quite a substantial amount of money in itself. That money is not limited and not subject to the same constraint. So you have of the four vehicles there, you've got three of them that are not limited.

MATSON: One reason I wanted to point this out is that time is of the essence here. This whole system would have to be operating sometime next spring. Now if money comes from the General Fund, the legislature would have to be in session first. I'm under the impression, it may be wrong, that you have the ability right now to commit money from the Permanent Fund.

GRUENING: No. That is one impression I want to clear up. The Commissioner of Revenue---there's about $7 million that has collected in the Permanent Fund now. That's a total amount because the pipeline hasn't been in operation very long---the Commissioner of Revenue is authorized to put that into essentially a savings account. He wouldn't be authorized to do anything else with it. We'd have to change the law to authorize him to do other things with it.

Because of the constitutional requirement, I doubt whether we could change the law to allow grants or investments to be

made that didn't produce direct income. Now this doesn't mean we couldn't use the income from the Permanent Fund to do what you're doing, or these other loan funds. Actually, your problem problably is only addressable by the Permanent Fund in terms of the time frame you're talking---I mean the General Fund---in terms of the time frame you're talking about, because the General Fund has right now, it's got a cash turnover of close to a billion dollars. That's the only fund that has the kind of money you're talking about. I don't know how much you're suggesting the state kick in, but...

MATSON: Well, the Department of, they're approaching the Department of the Interior. They're using their own money as much as they can. I think it's a significant commitment to take all the dividends from last year from the North Slope Borough and apply it towards this study.

MEEKINS: Of course, if time is your problem, the Renewable Resource Fund has no money in it yet. It doesn't even start collecting till 1978. The Permanent Fund has just a few million dollars and there's no income of any great amount being produced by it yet. That income is going to be reinvested anyway under the current law. So nothing could happen till the legislature meets. Your most likely vehicle, in fact I think, your only one

if you want it within---by next spring is the legislature. Out of the General Fund, just a regular appropriation.

MATSON: Well, I think there's another point I'm alluding to, I haven't brought out is very much in accord with what Bob Weeden mentioned. I'd hate to see the Permanent Fund be defined according to what's acceptable to bankers. I think the tone of how this whole thing started was it's for the basis of the people; it's not for the basis of feeding more money to the bigger and better for fewer and fewer. I think, unlike our rate structures and some of the other things, it should be structured so it benefits the smaller person more so than the bigger person, the bigger corporation. I appreciate what you're saying but taking a rigid interpretation to me comes across as it's going to favor those who are higher up in the power structure to tap into this.

GRUENING: We're trying to avoid that. I'd hate to see it, like Mr. Weeden, benefit the bankers. They need it least.

CARPENTER: I was just going to elaborate a little, George. We have to keep a clear focus, I think, on the prinicipal and then the income from that prinicipal. One of the basic thoughts here is that if we adhere as we are mandated to a strict fi-

nancial interpretation of the income producing for the investment of the principal of the Permanent Fund, then the types of projects you involve to speak of, the research that's necessary and so forth will ensure us of monies down the road income for which these restrictions are not placed. I think, though, that if we try to depart in the investment of the fund from a strict and literal interpretation of income producing will be, in fact, defeating your interests and Bob's in the future. We don't want to dissipate, cannot dissipate the fund.

MATSON: I'm not sure the best way to address these needs that I mention, but I want to be sure that in the mix of all the tools you have to work with it does get its fair share.

GRUEING: You don't fall between the cracks.

MEEKINS: I might just say something too. I think that the points you make are very good ones, and the committee, I feel, is in agreement with your attitude essentially. We see it---what we're trying to find out and what I don't think we do have any great consensus on in the committee or in the legislature is how to go about getting benefits to Alaskans and Alaska society. We certainly don't want to benefit just the economic part of the state, just the bankers and other people who are involved in

financial dealings. The question is, is it better to do that by investing that money in very high yield activities or investments and then using the income from that for social benefits or whether we should use the prinicipal and directly invest the principal in things that might be socially beneficial? That's the only question.

MATSON: There is a potential for high yield on these things, I think the availability of fish and game in Alaska has a very dispersed high yield to a lot of people. To Rich Seifert, it was asked how you quantify this. I think it's not easy to quantify, but it's clear how you quantify these things. It's difficult because the benefits are dispersed. Its not the same as if some corporation has their income coming in and selling products all over and they can work at their bottom line. The benefits don't channel into one area---channels to the whole public and what you have to do is do some economic research and breakdown of who benefits by this and who loses by that and through the EIS process, I've seen other areas where there are quantified things like recreational benefits. In fact the Corps of Engineers has become pretty good at saying, "Well, so many user days is worth this much to the economy." I think you can do the same thing here. It's just not as obvious because the benefits are dispersed.

GRUENING: Thank you. Any further questions? Thank you very much. Do you think it's quiet enough to open the door now? Sandra, love to hear from you.

STRINGER: My name is Sandra Stringer, and I'm here speaking for myself.

First of all, I would like to thank you for coming to Fairbanks to ask for opinions. I think that this is certainly a step in the right direction in terms of getting public input and also spreading knowledge on what the Permanent Fund is and what it can and cannot do. I think it's evident from some of the people who spoke earlier today and certainly from myself, from my own lack of knowledge as to what are the real specifics in terms of what the Permanent Fund was designed for. I found myself, a little earlier, in listening to George and agreeing with a portion of what he said and listening to Rich and to Bob Weeden. I also found that I agreed, a little bit to my surprise, with Representative Carpenter. I think that I really do agree that money is a means of transaction. Therefore, we must be extremely careful that the principal is invested in such a way that we are going to continue to get money from it, that the interest from the principal is going to continue to come to the state.

However, it seems to me that there must be a way, there should be a way in which to invest this money so that the money could

perhaps be invested in the state itself, in various enterprises within the state hopefully or at least a portion of the money, and that there would be spin-off, good spin-off on that, and that the interest drawn from this investment can be used to subsidize such things as research and as projects, various projects which have been mentioned, which have no source of funding right now and which could bring great benefit to the entire state, even though that benefit could not necessarily be quantified in the monetary fashion.

I wish I were able to suggest some way of doing this; I really can't. I'm quite ignorant in terms of investment, in general, and certainly don't have any specific suggestions to offer you as to how to invest the Permanent Fund. However, I do feel, as Bob Weeden also stated earlier, it would be a very good idea to be sure that there is some general citizen input along with your money managers, along with your bankers and your investment brokers that there are some ordinary citizens whose opinion is asked, not, of course, for the technical end of things, but just to get an idea. Some people who have lived in Alaska for awhile and who plan to live in Alaska and who want to see the state prosper and grow however prosper and grow is definied by the individual. That's really about all I have to say. Thank you for coming. I hope you come again.

GRUENING: Thank you, Sandra. Any questions? I am glad that you got up and didn't feel intimidated by the seemingly technical nature of it because none of us know any more about investment banking than you do. That's not what we're interested in. We're really interested in how people think the Permanent Fund could help Alaska. I'm glad that you came up here and gave us your philosophy. That's really where we're at, at this point. We hope to come back to Fairbanks too when we have a proposal and hear some more.

STRINGER: Thank you. I think that certainly the people in this room are reflective of a vocal portion of the community. I think they'll have a lot of good ideas.

However, I know that there are many others in the community who might have come today if they felt they had something to offer. Many people that I've talked to felt that because of their lack of technical expertise, they really didn't have anything to offer to the committee and were reluctant to take up your time and their own coming down and offering some sort of general comment. Please be assured that there are a lot of people in the community who are concerned and who will continue to try to become informed. I think that the Alaska Forum last spring, for instance, there was a discussion of the Permanent Fund at that; and a lot of people started thinking at that time about the subject.

Most people don't have the technical background, as we've already gone over, to offer firm suggestions; but I think they shouldn't be discounted as being, say, disinterested. They are interested; it's just that they don't have the background.

MEEKINS: Sandra, do you think that there is a need for more information about the Permanent Fund to be distributed in some way or another to the public?

STRINGER: I think it's not so much---certainly there is an amount of information available. I think it's not so much lack of information, as most people in our society, which is already so highly specialized in so many areas, most people who know nothing about oil, for instance are somewhat reluctant to talk about oil policy. Most people who don't know much about mechanics are reluctant to offer their suggestions about mechanical things. I think it's generally just, not so much lack of information as a lack of, I don't know what, an assurance on the part of the people on what they're speaking about.

I think you should continue to attempt to get word out to people that there is a Permanent Fund because, often in the

rush of every day life, people tend to forget---"oh, yes, I remember reading something about that or hearing something about that a month ago or two years ago or whatever." Since it's something that will continue to affect us, and far more so than right now, in a few years, that a continual stream of information must be put out and also you must always assume that when you put out that particular piece of information, that no one knows anything and start from point one recapitulating, if necessary, because people do tend to forget, even those who are interested.

PARR: Sandra, you mentioned that you would like to see at least some of the money invested in the state. If the state could get, and I'll take figures out of the thin air here, if the state could get, let's say, 7% in New York in some kind of investment and could only get 6% in the state of Alaska by investing it in the state or 5% or something, does that seem like a good trade-off to you? In other words, not those specific figures, but would you think it would be desireable to accept perhaps a lower rate of return by investing in Alaska? Do you think the benefits would outweigh the loss of interest dollars?

STRINGER: I think probably that it would depend a great deal on the projects that you know what the two projects were that were being invested in, and the exact amount of loss being

experienced and also whether you're talking about investing 100% of the money this way or maybe 50% or 10%, it would vary a lot. But it seems to me that under certain given circumstances, the loss of financial return to the prinicpal, if it were not too great and the project were sufficiently worthwhile---of course this is all a very subjective evaluation---that it would indeed be a trade-off that could be acceptable. Because after all, the money should be benefitting Alaska.

PARR: Thank you.

GRUENING: Sally.

SMITH: Sandra, if I may just add for the benefit of anybody else who lacks self-confidence to come and speak as you have, I know of one person sitting on this panel that's in the dark in a lot of it and that's me. This is where we need to get some of the people out to learn about it. Perhaps, some of the fault with all of us is when we send information out, it's already too technical for anyone to understand. There again, I can fall under that category on more than one subject. When I pick up background information, I have to sit there with a dictionary. We need to really, all of us, kind of re-evaluate how to present information to the public,

so that it's short and concise and does bring about their interests and let's them feel that they have something to say too. I'm really glad you said that.

STRINGER: Well, thank you, Sally. I think that a lot of times people are so caught up in the general business of living, sending the kids to school, getting to work on time, bringing in the pay check, and maybe taking off an evening for fishing, that they don't have time to read the legal page or they've seen an advertisement on television about something, but it's real hard to follow up. A brochure of the nature which we picked up today is most informative but sitting here, trying to scan it while the meeting was going on, I found that I should have probably gone home and gotten a dictionary and come back too. But you can only make a certain amount of effort in that direction, I'm sure.

DOOGAN: Unfortunately, this is a rather technical question.

STRINGER: You probably shouldn't ask it of me then.

DOOGAN: Those sorts of things have to be answered. Really the purpose of my comment is to say that the committee has been cooperating with the Public Forum and one of their four main sets of questions is going to be Permanent Fund questions. I believe they're scheduled into Fairbanks sometime later this month.

GRUENING: September?

DOOGAN: I think so. I don't have the schedule with me.

GRUENING: It's after October. I think the first one is in October.

DOOGAN: Yeah. What I am talking about? It would be later in October. I'm sorry. But the purpose of that comment is simply to say that we hope to derive some information for the committee's benefit as well as for the general benefit of the public through the Public Forum. So we would hope that everyone here would participate.

STRINGER: Well, it was well advertised last time. Hopefully, it'll be equally as well advertised this time.

GRUENING: Thank you, Sandra. Allen Bloom.

BLOOM: Thank you, Mr. Chairman. My name is Allen Bloom. I'm here also just as an interested spectator more than anything else. Originally, I hadn't planned on testifying but I was going to use this as an opportunity to familiarize myself as well with the technical mechanism of the Permanent Fund. I'd like to point out I'm not an economist, but I

do have two recommendations for long term utilization of the principal for the Permanent Fund.

The first is that after we've solved, to a great extent, the investment problems that are facing the state of Alaska, and we've funnelled whatever principal into the programs that may be funnelled in, 25 years from now or 50 years from now, it may be advantageous to take the principal of the Permanent Fund and make a quantum jump on the part of the state of Alaska investing the Permanent Fund monies in the emerging nations around the world, the lesser developed countries of the third and fourth world so that we can tie them to a certain extent to our own economic well-being and potentially act as brokers for more stable economic systems in other parts of the world. This goes on beyond just a simple step of perhaps investing in growth bonds and proposals of other states. I'm talking in this case of going to the poor countries such as Chile or Malaysia or such areas as that with the idea that we act as the broker both as a multi-national corporation, called Alaska, and we do it along the lines of the principal of the Japanese superstate in dealing with Korea, Taiwan, the Soviet Union. I think we have that potential in terms of the long-term net effect the accumulation of principal capital in the Permanent Fund.

I don't have any mechanisms for how to set this in motion. I don't have any real strong recommendations on how to manage it

and how you allow the taxpayers in this state to make the decision to make that kind of an investment. But I think it should be explored at this stage, so that when we've solved our own problems and, so to speak, fed our own poor, then we can extend out to that particular level as a stabilizing economic interest, possibly a competitor to the International Monetary Fund, I don't know.

My second point, and it's sort of a composite of what Mr. Matson, Mr. Seifert, and Mr. Inouye were talking about in terms of the research component. Perhaps one of the ways that the principal from the Permanent Fund can be used in a research component is to create a maximum learning center on the north through the University of Alaska system. The attendant return to the Permanent Fund could be in the form of jobs, just the whole potential of employment through the creative and intellectual exercise in the state of Alaska, broadening of the cultural experience and an acceleration of the cultural experience by using some of that principal to actually create a new category of professional employment for the people of the state of Alaska. This is a potential mechanism, and again, I don't have the details worked out.

M last point is---and this concerns just the structure of fund management---we hear a lot here of the difficulties of the constitutional amendment that was passed in creating the

Permanent Fund and then the management device itself. One of the things that I fear is that we may end up creating a constitutional mechanism that is as rigidified and as autocratic as the Federal Reserve System. I would hope that in creating the managment tools for the Permanent Fund that we do not create an autocratic empire for another Arthur Burns. We may have to make a concession in form to the general politics of the people of the State of Alaska. We may have to rely very much on the urban or Fairbanks against Anchorage, when it comes down to that, to managing the fund in such a manner that everybody really has a chance to play in it. Thank you.

GRUENING: Thank you, Allen. Any questions from the committee?

The thing that strikes me, you know you hear two suggestions that were very innovative. I've never heard them before for potential use of the fund. But since it's something that might take place down the road quite a ways, it would seem to me that whatever the fund did between that and the time your proposals, let's say, looked good, it would have to be left flexible for the fund to be able to change directions.

BLOOM: I see that as being absolutely essential. What we cast in concrete could turn out to be a real Catch 22 for the taxpayers, for the consumer in the State of Alaska. We're going to

have to develop a mechanism, I think, to encourage people not to come to Alaska; but at the same time, we've got to develop that same mechanism to give the people that are here a decent lifestyle and employment.

One of the things I'm referring to in this structure is the AFL-CIO national position that was developed last year. Do we develop the concept that business and investment will be the whole purpose of the use of the Permanent Fund or do we use what organized labor calls the most important priority, which is jobs, period? I think that has to be addressed in the context of how we use the money in the Permanent Fund.

DOOGAN: The obvious difficulty with that scenario is that jobs is sort of a neuter word. Since we cannot close our borders if we create jobs, we create jobs equally for people that are here and people who may come up to take the jobs. If you were to attempt to develop a mechanism to sort that out, we would be very interested, at least I would, because it's a question that does not seem to be soluble.

BLOOM: The wisdom of Job I don't have. Again the problem is tossed sort of in your laps for consideration. We've got 20 to 25 years to begin addressing this. I think it should be addressed now.

GRUENING: I think it's the patience of Job; the wisdom of Solomon.

BLOOM: Something like that.

PARR: I'd like to say I'm glad that Allen brought that up because everybody who's been around Fairbanks for any length of time knows that one of the problems has always been we've had a seasonal economy. In the past, we've only had really one major, year-round payroll, and that was the military bases. In the last decade, perhaps, the University of Alaska started to offer us a second one. But that's been it. We definitely could use some sources of year-round jobs in this area---no question about it.

The second point that Allen mentioned, perhaps Mike, how do we keep from being flooded by people from the Lower 48 if we do this. I don't have any good answers but I would hope that we may have learned something from our fiasco with Alaska hire on the pipeline that would permit us to do something, at least, to give a preference to Alaska residents.

BLOOM: Perhaps, we use the interest to pay people not to come to Alaska.

PARR: With bodyguards every hundred yards.

SMITH: Send the Alaska, Inc. money Outside.

GRUENING: The dividend money to stay out.

MEEKINS: Allen, I think you pointed up a problem that continually seems to flare up in front of us and that is that if we do assume that our labor supply in Alaska is essentially the United States labor force, that if we increase jobs up here or the real wage up there that it's just going to increase immigration into Alaska to fill those jobs. The attendant social costs, so that if we create a lot of jobs, we're talking about more people coming up and the real wage is, therefore---the equilibrium wage, therefore---remains the same after that influx; but the only difference is that the demand for government services is vastly increased, so that we'd spend more of our surpluses on normal revenue-sharing and building roads and those types of things.

That seems to be sort of a vicious cycle that we get into. Along that line, I've sort of been, by the discussion we had this morning, I'm sort of toying with an idea and that you sort of touched on when you talked about research. Research does really seem to be within the limits of the Permanent Fund. But we're trying to invest the Permanent Fund we get some sort of social benefit out of it. We may, in-

deed, find a way---somebody may find a way for us to do this without all these attendant problems; but one of the things is that real wages are based upn productivity---that if you increase jobs, if you just increase the number of jobs or if you increase the supply by producing things that are not supplied now, and therefore increase jobs, you're really not increasing the wage. You're not increasing the wage until you increase productivity. You can have a differential wage if productivity in Alaska is increased.

BLOOM: This is what leads me to the concept of investing through the lesser developed countries, but also just by extension, we could also extend into the Pacific Rim, and we can also conceivably grab onto the concept that Mayor Hobson has been talking about, which is circumpolar investment as well. That means if we are funnelling the money into the human employable markets, that are market specific perhaps, then we're in a position to run that money out, manage it well, and not encourage an influx of people at the same time that we're putting people to work in a productive manner.

I'd like to see the idea, say 50 years or 100 years into the future, that the State of Alaska becomes a significant economic force as a stabilizing and pacifying force among other nations, other geographic centers of power around the

the world. This is not an Alaska separatist argument; it's just that I think we can start exercising the economy of the United States, in general North America and other parts of the world. Thank you.

GRUENING: Step right up.

HAKKILA: Thank you. I'm Jack Hakkila. I am an economist. I had the good fortune of spending a great deal of my early adult life studying the field of economics. Most recently, I've had the good fortune of spending the last eight years most of it in business development here in the interior of Alaska. I'd like to, first of all, commend the panel for the conduct of the meeting. The proceedings here, unlike hearings I went to two and a half weeks ago, we are speaking equally.

For a non-economist, I think, the last statement we heard was an excellent beginning. I think we should be looking forward to 50 years. I have run some of my own calculations on some of these figures, and I have seen figures of up to a trillion and a half dollars that could be returned just from oil revenues in 50 years time. Alaska could, indeed, be a stabilizing influence in the worldly, economic community.

I have a short, prepared statement here that I'd like to read.

The Alaska Permanent Fund, through its creation, has two immediate, important connotations. It is permanent and it is for Alaskans. I'd like to footnote a non-economic comment here---I don't know how we're going to limit Alaskans with what we define as Alaskans as people who are here as a state of the 50 states. It reminds me some of Representative, former Representative Bradner's comments I overheard on the radio interview one night before the pipeline, him stating that we should keep the people in Seattle at the airport unless they had a job in Alaska. The interviewer asked Representative Bradner what job he had when he came to Alaska, and his reply was that he was looking for a job. I think that the United States of America was built on Ellis Island, the Statue of Liberty---this was the home that welcomed the tired, the hungry, the poor. I think for Alaskans to suddenly realize that we're coming into great wealth and to limit this wealth to that particular group that happens to be here at the time , is going to be a very difficult thing.

It is important, as a Permanent Fund for development purposes, it is important that long term goals for development of the state be established concurrently. If we're talking about accumulating wealth over a period of 50 years, we must, ourselves, set long-term goals. I had the good fortune of working with some of the native communities over the last year in trying to implement, develop long term goals and objectives for them. I would

hate for us to be guilty of stepping into a long-term venture such as the Permanent Fund without establishing our own long term goals. I think this is one of the things that should definitely come out of these hearings and out of the legislation establishing it. Having as its objective the assistance to Alaskan business development, it is important that the goals be achieved through the administration of the fund by Alaskans.

I read in the papers here about Outside consultant roles being handled by Outside economists, and again, we're doing the same kind of talk that we had using the oil lease money in 1969, the great opportunities for Outside investment. Meanwhile, Alaskan businessmen starve, go broke, and die. I'd hate for us to not remember the lessons of the investment of the funds in 1969.

The basic factors of economic production for several hundred years have been recognized as land, labor, and capital. Land is an all-inclusive term in macroeconomic usage for natural resources. We're all aware that Alaska is abundantly endowed with this one economic factor of production. Similarly, in recent years, human capital has become the all-inclusive term for labor and the other human factors in economic production. In much of our discussion here today, we've recognized this term implicitly through our ventures as such things as research, development, human ingenuity

through invention. Human capitalist today, in textbook term which is all-inclusive for the old traditional term of labor.

While the Permanent Fund considers the disposition of that third fundamental item for economic production, capital, it must be remembered that effectively capital can only be used with the other two resources. We are abundantly endowed with natural resources.

Nowhere can capital be more effectively combined with natural resources and human capital than in Alaska itself. The construction of a single pipeline, which will carry 20% of our nation's energy in oil is testimony to that fact.

Now let us examine where lower 48 investment banking firms. insurance companies, and banks were during the eight years from 1969 to '77, from oil lease sale to oil flow.

I speak from personal experience.

On December 31, 1973, after spending three and half years with New York Life Insurance Company, one of the largest of the American insurance companies, and having submitted for consideration investment proposals on shopping centers, apartment projects, and other projects such as a medical clinic here in Fairbanks, at no cost to the company (I was doing this as a service for my company and my clients), I was told that New York Life would rather invest its money in projects associated with another pipeline to Texas. Alaska is too speculative. When the vice president making this statement was asked which is more speculative, investing

where the oil is running out or where the largest resources on the continent are being tapped, a blank stare was the reply. The mortgage department covened its annual meeting and Alaska was not on the agenda.

Having learned from three and one half years of experience with the leading insurance investor in Alaska that investment in interior Alaska included the 1967 power plant at the University of Alaska and no more, that New York Life simply was not the vehicle and neither were any of the other insurance companies. At that time, New York Life was the leading insurance company in interior Alaska. In 1974, I entered a partnership to find investment funds for Alaskans.

At the Bank of America, one of America's leading banks, a vice president admitted in August 1974 that the company had twenty billion dollars in loans it would like to consider in its own backyard. They did not have time to consider investments in Alaska. Once again, sound economics could not justify business decisions.

In 1975, I worked with the firms of Merrill, Lynch, Pierce, Fenner & Smith in their California Street office in San Francisco. I worked closely with the investment banking division there in San Francisco and with the bond offices in New York. In May of 1975, the head of this firm's office doing business in Alaska told me that if anyone comes from

New York to underwrite energy related issues out of the North Pacific region, they would first come to the Seattle area and underwrite issues related to nuclear power plant contruction there.

Personal experience in securing investors for the greatest investment experience in history through lower 48 institutions has not been good. Alaskans should not be asked to commit their development funds to these institutions for their decisions, but the decisions should be retained right here in Alaska.

As far as what could be done immediately at the present, turning back to our world of reality today, Alaskans are being asked to transmit the most fundamental resources to lower 48 markets without processing. An immediate opportunity exists right now for investment in petrochemicals. Five million dollars would provide a pilot petrochemical plant. Within a matter of months or a year, we could all be carrying around little samples of petrochemicals. We could be marketing them to other countries. People could take some pride in developing the petrochemical industry domestically here, just as we did a few years ago carrying these little vials of oil from Prudhoe Bay before the oil pipeline went on stream.

Of course, this is a gigantic industry. I've been told by one of the, well, by Ed Hayes of the Nortwest Pipeline Corporation that we could foresee a one billion dollar plant per year in the Tanana Valley for the first ten years of the functioning of the Alcan pipeline. This is the economics of it. It remains for us to do it

here in Alaska.

At that point, I'd like to take exception to some of the statements in your study right here. Arlon Tussing is quoted as saying that usually it makes more sense to invest the major portion of the fund outside the state. One of the major threats of Dr. Tussing's testimony was that there is no function for Permanent Fund investments in major industrial or commercial enterprise in Alaska, unless special reasons to subsidize them. Our petrochemical industry doesn't need a subsidy; it's a very profitable industry. And we do have in Alaska the last great domestic resources in these petrochemical basic factors, ethylene. I'm sure many of you are aware of this. The discussion has been rather prominent in the last several months.

The development fund could provide the basic financing for a myriad of projects which leveraged---we heard some testimony on this this morning---would multiply its value Those projects planned for the oil pipeline and never built such as airplane hangars, hotels, and apartments might be built through adequate mortgage financing. This financing has not been available to Alaskans because past experience has been too short to justify lending based on traditional banking evaluation.

Over and over a couple years ago, we met the answer when

we brought the best Alaskans to bankers in the lower 48. We met the question they don't have three years business experience. Yet we were asked to build the largest project in history here. We have the largest airlift going off the airport here in Fairbanks during the pipeline construction and we couldn't get hangars financed. We couldn't get helicopters financed for Alaskans because they did not have the business experience, although they had the flying and the Alaskan experience that it took for these projects. So traditional banking evaluations are not necessarily sufficient.

Now let's turn for a moment to creative financing. I'd like to enter some of my own thinking here. Where can the greatest return be secured for society through the operation of the private enterprise system?

It was mentioned above that the basic factors of economic production are natural resources, human capital and capital. Alaska will now have both natural resources and, through the creation of the Permanent Fund, capital. How then might the Permanent Fund be used to create human capital?

I am proposing here the formation of an exchange for patentable ideas.

Our system of economic enterprise operates through a system of organized markets. Stock and bond markets and commodity markets operate by bringing investor and speculator together in an organized fashion to bid on tangible and intangible products, such as

coffee, sugar, or wheat---tangible items and intangible such as stock certificates, representing the value of their particular company.

The only provision made today to capitalize on that most fundamental of economic resources, inventive ingenuity, and we heard reference to that this morning, can be made through the incorporation of its value in the price of stock in existing companies. Research and development is generally thought of as being a function of the universities or private companies. Yet ingenuity, ideas come also to the people who are outside the mainstream of organized production. Necessarily so, to be a creative person, he must be outside or have time to think and come up with the ideas. Fortunately, we in Alaska here, especially in the Interior are endowed with a number of these types of individuals; because we have the time here to think and do these things. A Wall Street Journal article about a year and a half ago documented a television program called "The Inventors in Australia"---this, by the way, was a most popular program in Australia. Each week a family of four inventors would be brought on with their inventions, and the best one was selected. More often than not, the best inventions came from the outback, from the outlying regions; because these people had the time to think.

The inventor today is afforded patented protection for a period of 17 years by the U.S. Government but his patents have no exchange value on an organized exchange unless their value is incorporated into the value of stock of a company, which is traded through the stock exchanges. In the case of a patent whose value lies further down the road than 17 years, no incentive lies in its disclosure.

I'd just like to comment here---I think with more testimony in all of these hearings this summer on D-2 hearings here---we hear considerable amount of testimony on preserving traditional values. While I think that it's deplorable the bowhead whale, for example, will not be allowed to be hunted out here, there are many people in society who like to go to the stars. The picture "Star Wars" and its reception in Anchorage, I think is adequate testimony to this. People love to think about 50 years down the road, 100 years down the road, when we're travelling not just to the planets but interstellar travel. If an inventor were to have such an invention today, he has no incentive for its disclosure. It's very difficult to uphold the patent protection of 17 years on an invention to have something that's utilized 50 years down the road to want to disclose it. In many cases, he may be laughed at.

I mentioned earlier, the most creative of our inventors are in Alaska. The Alaska Permanent Fund could establish a provision to form an exchange for patentable ideas. Going back to the type

of thing that we were talking about earlier in commodity exchanges, the stock and bond exchanges, a system of speculative houses could be established that would bring investor and speculator together and purchase the ideas of the inventor, whereby he then would have immediately funds at his disposal to go out and get another idea on the market. That's the idea of organization of dependable ideas.

In conclusion, creation of the Alaskan Permanent Fund for development connotes the long term goal of the economic development of the State of Alaska, most importantly, the people of the state. This goal can be achieved best by using the capital of that fund and combining it with the abundant natural resources and the creativity of the human resources of the residents of the State of Alaska. Thank you.

GRUENING: Thank you very much. Could you stay for a few questions?

HAKKILA: Sure.

CARPENTER: Thank you. I missed your name.

HAKKILA: Jack Hakkila.

CARPENTER: Sure. Do you have a present affiliation?

HAKKILA: Presently I'm consulting. I just concluded---I came in the day before yesterday from Galena. I've been working with the Tanana Chiefs and the University of Alaska. We established an agricultural experiment station there this summer and one in Ruby. I'm also consulting on some other ventures in Alaska and internationally.

GRUENING: Charlie.

PARR: Mr. Hakkila, you mentioned something early in your testimony about, if I understood you correctly, about perhaps using Permanent Fund investment to get petrochemical off the ground. My understanding is that right now, in any kind of energy market, that it is seller's market. We have a worldwide shortage of energy. Those people who have energy are in the drivers's seat. It's not a buyer's market, but a seller's market. If that is true, it there any reason that state money, whether it's Permanent Fund or any other kind, should be used? If it is a seller's market, shouldn't the private companies be jumping at the chance to put their own money into it?

HAKKILA: My point is that we should be jumping at the chance to put our own money into it.

PARR: In other words, the state would be the one who would

be selling this and not the private company? It would be running the petrochemical complex, for example, and selling the product.

HAKKILA: No. I am speaking of state support for private enterprise, domestically created private enterprise here in Alaska. Let our own people create the industry.

PARR: You are saying, in other words, instead of letting Dow Chemical or somebody come in here and set up one, that the state could furnish the money so that local Alaskans then could establish this, instead of having a company from Maryland or Texas or somewhere.

HAKKILA: That's right. Let us take the lead, and let them participate to whatever extent they would like. For example, about three weeks ago, I was told by a representative of El Paso Gas that if we were to go into this type of an arrangement, they would be more than happy to provide us with all of the expertise in petrochemicals. On the other hand, at such time as we wanted to, they would enter into an agreement to finance some or be a participant in it. They would show us the way and help us create our own industry here.

PARR: In other words, the main thrust of what you are saying, and this is what I missed, I guess, is that the principle ownership would be Alaskan ownership and not out to the state ownership.

HAKKILA: That's right. It could be through the Permanent Fund, and then, when I mentioned, you know these figures generate and they are tremendous figures, because nowhere in the United States, have we had these types of resources before. These investments will also generate income or could generate income for the Permanent Fund. Nobody is going to get these projects off the ground like Alaskans, because we'll have our own interests in running it.

PARR: You are not suggesting in any way a subsidy of the petrochemical.....

HAKKILA: No, sir. This is where I take exception to Arlon Tussing's statement.

MEEKINS: I guess what you are getting at there is that those projects are financable, but not to the people in Alaska. The banks, because of their requirements, you're talking about three years of experience and different other kinds of requirements that the banking industry has.

HAKKILA: That's right.

MEEKINS: That those projects are financable, they don't need to be subsidized or anything, not finance them for the people that you think...

HAKKILA: That's right. An Outside financial institution will not finance projects for Alaskans who have no experience. But the experience can be brought in. For example, a venture with El Paso Gas---they have an El Paso Petrochemical Division, and they will provide us with the assistance right here in building a domestic petrochemical industry.

MEEKINS: I find that to be an extremely interesting comment or a point because, as you noted, one of our consultants, Arlon Tussing, said in his memo to the committee that in his view there really isn't a capital gap in the sense that he said that he felt that all sound, in most cases, sound projects could find financing. But what you're doing is making a distinction between fiancing for whom.

HAKKILA: What I am saying is that Alaskans can do these projects. It's the same thing I was saying three years ago.

We couldn't get our projects financed up here because we did not have the experience. Then I'm saying we can start small---just like this agriculture experiment station we started in Galena and Ruby this summer.

The state can develop projects. You start out with a small plant. A five million dollar plant could produce a lot of petrochemicals and give us experience.

MEEKINS: How would a development bank protect itself? Certainly they could say that the project itself was a sound one. I know there was a reason for the requirement of business experience, and that's to be sure that the people know how to run that type of business. How would the development bank protect itself, if it were trying to develop things in Alaska that otherwise would be done by multi-national corporations?

HAKKILA: My point is that they may not be done by multi-national corporations. They just may simply not come here. They may go to Saudi Arabia or some other place. This has been our experience, because we have not taken the lead in petrochemicals to this point. I think there has been some testimony that several of the large multi-nationals came to Juneau, wanting to work with the state, and found no encouragement. I think if we had the lead here that that problem would be solved. I think you could be assured

that with the cooperation of other companies that have expertise that the projects could be built.

CARPENTER: I guess I am puzzled by something. If we don't go outside with any of the investment, for whatever reasons, whether it's because we weren't treated properly, historically by outside banking institutions or because we want to simply use the money inside Alaska, for whatever reasons, if we were going to invest it all in Alaska, can---do you think that our very small economy in Alaska can absorb that kind of money? I picture a guy somewhere in the management structure of the Permanent Fund with a desk full of two feet of applications and analyses trying to pick winners and form ventures and projects fast enough to keep absorbing the money. Do you think really we can...?

HAKKILA: You think it would be a problem to dispose of the money?

GRUENING: Prudently.

CARPENTER: Not dispose of it prudently.

HAKKILA: Prudently. I don't think so. This is what I am saying. There exists a need right now to finance, or pos-

sibility financing a world scale petrochemical plant of a one billion dollar investment per year for the first ten years of the gas line in the Tanana Valley. I don't think you'll have that kind of money in the Permanent Fund.

GRUENING: Probably not. Mike.

DOOGAN: Excuse me. A couple of questions. At one point, you said that Alaska businessmen starved, went broke, and died---do you mean by that that there have been failures of Alaskan businesses that have been caused strictly by a lack of being able to get capital?

HAKKILA: Yes, sir. And I could document the cases that I have worked with and individuals. I don't care to do so publicly, But I'd be glad to discuss this with you.

DOOGAN: That's fine. I just wanted to make sure that I understood that. Would your---the second question is would your characterization of the outside banking community extend to the Alaska banking community as well?

HAKKILA: No. Not necessarily. The Alaskan banking community traditionally has had a very small amount of capital for its dis-

posal. Perhaps, they could be a part of the solution in this case. The Outside banking community has suffered from a lack of education on economic opportunities in Alaska. They just cannot comprehend or have not traditionally been able to comprehend the economomics as it exists within the State of Alaska.

MEEKINS: One more question. Are your comments, your disagreements with Arlon's remarks only limited to large scale projects or does it apply to small projects also?

HAKKILA: No. No. Small projects also. There's a great need for the small things. I'm speaking of hotels, airport hangars, apartment projects. We were not able to get the projects financed. Fairbanks is living testimony. When the pipeline came, we did not have adequate projects. Prior to the pipeline, even after Senator Gravel pushed it through the Senate, in July of 1973, we were not able to get financing for capable individuals.

MEEKINS: Was that the same reason, I'm assuming that the projects fit the format that the banks wanted in the sense that the projects themselves looked like they were sound, and that they might produce a handsome profit, but there were

some other structural deficiency, like they weren't---people didn't have quite the right background or something like that. Was that the problem?

HAKKILA: Alright, it's practically a problem, as I mentioned earlier, of the individuals themselves, not having had sufficient background to do project work on the scale being asked of them for the pipeline. What was the other question?

MEEKINS: Well, that's sort of what I'm getting at. I'm trying to think of, comparing your remarks with what I remember from what Arlon's remarks were and trying to see whether or not they're---you see he makes a good case for the fact that if we invest money in small businesses, that we're just displacing capital that would otherwise go there because we would limit ourselves to the same types of investments the banks would.

HAKKILA: We don't have the capital available within the state for those types of ventures in the economy that we have here today. We just don't have it.

MEEKINS: You see, your comments sort of jive pretty well with my intuitive feeling and what a lot of businessmen tell

me that that's, they claim, of course, they're turned down by banks and they claim that it's not true---there's capital available for good investments.

HAKKILA: It is not true. You could study the amount of public capital, capitalization in Alaska's banks. In comparison with the funds that you will have available through the Permanent Fund, the capitalization of Alaskan banks is very small.

GRUENING: I just want to remark that I'm glad you analyzed the report and had a comment on Arlon's report, because the consultants' testimony or their views are not necessarily those of the committee. We do hire consultants to toss ideas out there, but in the end, it's the people on the committee who have to decide.

I have one question. You mentioned that the tremendous capital needs that, say, petrochemical would have like a billion dollars annually. At the same time, you mentioned the fact that there are needs for smaller scale investments, hangars and so forth. Given the fact that, as you pointed out, the Permanent Fund probably isn't large enough to even take care of the petrochemical capital needs. Where would you place emphasis? It occurs to me that you can't do both

HAKKILA: I would place emphasis on leveraging the money by taking and using that as guaranteed money and getting Outside participation in the ventures. I'm sure that participation would be willing participation, if Alaskans took the lead and went after it.

DOOGAN: I would assume that one of the reasons behind banks' refusal to make a loan in Alaska to somebody who didn't have two years business experience was that they would consider it an unacceptable level of risk. Now that may just reflect their lack of knowledge of Alaska, but would you---what would your opinion be to a statement that it would be relatively riskier, in terms of risking the money, to make investments in Alaska as opposed to Outside investments?

HAKKILA: Well, I'm referring specifically to the pipeline community set in '73 and '74 and some of this personal experience. It just isn't, was not, good banking. They did not understand what we had here. They were looking at 20 year loans that paid themselves off in five years, but they couldn't understand what was going to happen here. I would venture to guess that if time goes by, we'll have greater participation from Outside investors here certainly. But we can take the lead is the only point I'm trying to make here. To be in control of our own destiny.

GRUENING: Any further questions. I'd like to take a short break here. Representative Carpenter reminded me in Anchorage that I'm sometimes neglectful of that. About a short five minute break. Then we'll come right back.

BREAK

GRUENING: I think we can start now. We have return reservations at 5:30. I'd rather stay here in Fairbanks tonight but we have a hearing tomorrow in Anchorage. Either that or we've got to catch a later plane.

PARR: They have a 7 o'clock in the morning flight.

GRUENING: Thank you, Charlie. We're running this kind of like a Quaker meeting. If anyone has anything to say, they can get up and walk to the podium. Yes, sir.

HOPKINS: My name is Donn Hopkins and I reside at 5.3 mile Chena Pump Road, just out of town.

Mr. Chairman and members, I do believe that the policy of distributing natural resource income directly to Alaskans, as proposed in the Alaska, Inc. concept, is far superior to the current policy of allowing the state government agencies

to spend that income. However, there is a third alternative for the use of non-renewable natural resource income, which I favor over the Alaska, Inc. concept. That third alternative is to use such income as a loan insurance fund to encourage Alaskan ownership of new buildings and other land improvements in Alaska.

I have a specific proposal to make in this regard:

1. The Permanent Fund (and preferably the entire non-renewable natural resource state land income) would be invested in U. S. Government securities, with the income therefrom being added to the fund to help compensate for the reduced real value of the fund over time due to inflation.
2. These securities would be used to guarantee 100% of the value of loans made to Alaskans for constructing and equipping new industrial and commercial enterprises and residential facilities in Alaska.
3. The loans would be made through normal banking procedures and could pay for up to 95% of the value of the project used as collateral.
4. A fee would be charged the borrowers, sufficient to cover the losses due to loan defaults plus any loss in real value of the Permanent Fund due to inflation, beyond that covered by the U. S. securities income.

5. Annually or biannually the uncommitted balance in the fund would be divided equally amount all persons who vote in the general election to use as guarantees for loans.
6. Such amounts could be saved for a five-year period, but if not used within that period, would be returned to the uncommitted balance for reallocation.
7. The loan guarantee amounts allotted to each voter would be non-transferable, except upon the death of the owner and then only if they had been used.
8. As loans are repaid, the guarantee amounts would be reduced proportionately and the reductions returned to the uncommitted balance.

The general policy and specific proposal, which I favor, has two major advantages over the Alaska, Inc. concept:

1. It does not establish what in effect is a guaranteed annual income precedence. It does not pay people just to live in and endure Alaska.
2. It does help all Alaskans, forever, not just while the natural resource income lasts, to invest in the progress of our state, and through such investments, improve their own lives and the state as a whole.

This policy and proposal discourages dependency and encourages creative thought and constructive action by all

Alaskans forever. It encourages Alaskans to join together in the promotion of projects to improve their state, their communites, and their lives. Thank you.

GRUENING: Thank you. That was an intriguing proposal. Any questions? I have one.

First of all, do you have investment banking experience?

HOPKINS: No.

GRUENING: What is your occupation, if I may ask?

HOPKINS: I have some log cabins that I rent out. Before that, I used to work in goverment planning offices, including I was director of Planning and Research for the State of Alaska in their State Department of Economic Development and Planning. I worked as planning director here in the borough, and I've done planning consulting for the City of Fairbanks. I have an educational background in planning.

GRUENING: Could you explain what you mean by loan guarantees and how they would work?

HOPKINS: Well, in the event that the collateral was used by

the borrower was insufficient to cover any loss that might result from its default, then the state would have to pick up the difference, and that's what would be guaranteed with that difference. So that any person who wanted to loan money in Alaska would be guaranteed that he would get that money back no matter what happened. That would encourage Outside money to come into Alaska. We would be able to get a great deal of capital up here that we do need. Ever since I've come to this state, it's been a problem to get Outside investors to bring their money up here where they don't know what's happening, instead of loaning it out down in California or New York, where they do know what is happening. By guaranteeing their loans 100%, they would be better off than they are at home. Therefore, we would be able to get all of the money up here, I think that we'd be able to guarantee. We'd be able to guarantee quite a lot. I don't know what the leverage would be on something like that. But if you could get five times the amount of money that was in the Permanent Fund, that's a lot better than just loaning out the Permanent Fund. You could probably do better than that.

GRUENING: To the extent that these loans were't paid back, you'd have to sell the securities or hand them over to the people that make loans...

HOPKINS: Well, in theory, you would have the securities there to sell. But if you operated this program on sound banking principles and didn't make a lot of irresponsible loans and if you did charge a fee to cover the default, just as the Federal Housing Administration to cover defaults on their house loan insurance program---it's the same idea as FHA, the only difference being that it's extended to commercial and industrial loans as well as housing loans---but this fee should cover all of the losses, so that the Permanent Fund would remain intact. But it's there to give a feeling of security to people who would loan money up here.

GRUENING: Who gets charged the fee?

HOPKINS: The borrower---just as the borrower is charged the fee on an FHA insured loan.

GRUENING: Who makes the decision as to whether the loan that this individual Alaskan or group of them wants---is it a good one?

HOPKINS: It would have to be done, I think, as far as just what I would say, just normal good banking procedures. I would hope that it could be worked out with the existing banking industry in Alaska for them to handle, to do all the paperwork, all the investigations of these loans.

GRUENING: If the Permanent Fund, in essence, guarantees all the loans, what incentive does the bank have to make sure it's a good loan? If the deep pocket, the one who has to ultimately pay it back if the borrower doesn't, is the Permanent Fund, why wouldn't they loan it to a guy who has---wants to grow watermelons on Mount McKinley?

HOPKINS: Well, I suggested that the loan be good up to 95% of the value. If the bank wanted to pick up a little extra on these loans and loan beyond whatever was appropriate for the state to guarantee, they would have that to lose.

GRUENING: So the borrower would have to put in some equity.

HOPKINS: Either the borrower would have to put in some equity or the bank would have to take a second mortage. I suppose if you found one bank that was doing a bad job, that had a lot of defaults, you would have to cut that bank out and not use them any more. Or you may want to set up a special arm of government that was separate from the banking industry, but I don't favor that. I would think that the banking industry would be responsible.

GRUENING: Okay. Do you have a written statement?

HOPKINS: Do I what?

GRUENING: Do you have a written statement?

HOPKINS: Yes. I do. I'd be glad to give you a copy of it.

GRUENING: Incidentially, the last gentleman, Jack Hakkila, I think, did you give us a copy of that? Or could you?

HAKKILA: I don't have a copy, but I'd be glad to run one off for you.

GRUENING: Thank you very much. Are there questions of the witness? Russ.

MEEKINS: You, as I understand it, you limited this proposal to people who voted in the general election---

HOPKINS: Yes.

MEEKINS: Why did you do that? Which election are you talking about?

HOPKINS: The biannual elections.

MEEKINS: The one coming up then?

HOPKINS: Every two years.

MEEKINS: It would change as the elections change.

HOPKINS: Right. But the, I don't know, the amounts might be allocated annually rather than biannually. Either way it would work.

MEEKINS: Why did you happen to choose that as a....?

HOPKINS: As a vehicle?

MEEKINS: Yeah.

HOPKINS: It's just an easy way to identify an Alaskan. This business of having people have to come in and justify their residency here seems to me like it's going to be very difficult to do. To provide evidence---because I've seen so much of these people coming in from Outside to work on the pipeline getting these residency cards, even foreigners, who don't even have a work visa in the country, work up there.

MEEKINS: On the other hand, we have the problem in Kodiak,

people in other areas of the state, people that have fished for or have claimed to have fished anyway, for 15, 20, 30 years up here, whole families, were not eligible to receive, to get limited entry permits. So we find that whatever, however we try to define who is eligible for something, there is always a tremendous problem.

HOPKINS: I think, once a person established residence up here and becomes a voter, he can maintain that residence even if he doesn't stay up here all the time. One thing that's important about this program is that all of the money would be invested in Alaska. You wouldn't take any of it Outside. It would be invested in permanent facilities. It wouldn't be spent for ongoing operations. So it would actually increase the total captial investment in Alaska. It would be done without decreasing the Permanent Fund.

GRUENING: But the primary investment, the investment in, say, government securities would be Outside.

HOPKINS: That is just so you get a little interest on it. The U. S. securities because they go down, we all go down. Some of these so-called blue chip securities aren't so blue sometimes.

GRUENING: Charlie.

PARR: Maybe I misunderstood something, Donn. If I understood you rightly, you would in initial investment would all be---the complete thing would be U. S. Government securities. That would not be simply this 25%?

HOPKINS: Well, I don't think any of the non-renewable natural resource income should be spent on ongoing programs. I think that should all come out of tax---or other current revenues. However...

PARR: All the money would go into this.

HOPKONS: However, since you are addressing yourself to the Permanent Fund, I'm saying that all of the Permanent Fund should be used as support for this loan program.

PARR: Well I thought, I understood what you were saying was that we should take that Permanent Fund and put into it all of the money that comes from the non-renewable resource areas.

HOPKINS: Yes. I'm in favor of that too.

PARR: Then, the second point, but...so what we'd really

be using in the state would be the income from the Permanent Fund. The income from these government securities. Is that right?

HOPKINS: In a way, but not directly. We'd be using the income from the securities to offset the loss of the value of the money due to inflation. We want to maintain the same purchasing power of the fund. We don't want to lose the purchasing power of the fund over time, which we would do if we only maintained the dollar value.

PARR: Then the, instead of using the income as a loan fund, what you'd be doing is simply the securities themselves would be pledged as collateral.

HOPKINS: That's correct.

PARR: Where would the money come as actual cash?

HOPKINS: The actual cash would come from private investors from anywhere in the world. Whoever wanted to come up here and be sure that they would get their money back, because we guarantee their loan by 100%. There'd be no chance of loss.

PARR: So the state itself would not need to, say, appropriate money every year to put into that loan?

HOPKINS: No. There'd be no appropriation at all. No tax cost at all. The whole operation would be self-sustaining, and as the Permanent Fund grew from, you know, additional income from non-renewable resources, there'd be more loans that could be guaranteed. Of course, there'd be more demand too as the state grew.

PARR: Thank you. I'm clearer now than I was initially.

GRUENING: Mike.

DOOGAN: I just want to get this straight. I think you said that at some point, you would decide whatever money hadn't been used to offset inflation would be divided up equally among current residents based on their voter registration, but that if they did nothing but save it for five years, they'd have to give it back?

HOPKINS: No. I didn't suggest that they get any cash out of this fund at all. All I suggested was that they get a loan guarantee that they could use. If they wanted

to borrow money in the private sector. That's all they're getting is the guarantee of these loans.

DOOGAN: I see.

HOPKINS: An equal share, a guarantee that's available.

DOOGAN: Well, then anybody who got a loan guarantee and didn't use it in five years, he'd have to give it back to the fund.

HOPKINS: Well, it would just revert. If he didn't use it, if there's no point in having it just hang fire indefinitely. You want to put it to some use.

On the other hand, maybe a person would like to think about what he's going to invest in for awhile, whether it's a house or some business or a share of an industry or something like that. But that way, you'd find all Alaskans trying to figure out how they could get into business in Alaska and get their own homes. It would, I think, really would stimulate our economy tremendously up here.

GRUENING: I think one problem might be is not everyone is going to have some collateral. I guess it's finding the collateral for the loan.

HOPKINS: Well, that 5%. You've got to be able to save a little bit on your own. But you know, you can start out small. It doesn't have to be a big investment.

GREUNING: Any further questions?

MEEKINS: If people over 18, I guess it is, can vote in the general election, it seems to me, of course these are very small parts of what you are saying, I suppose, but just in regards to that five years, I'm not sure that by somebody knowing when they're 18, that they'd know what they want to do by the time they're 23 really.

HOPKINS: I think there are a lot of people who start out at an early age and, you know, have made it by the time they're in their early twenties. It depends on the individual. Maybe all their investing in is a home or in shares in an apartment house or something, just they can get started building up some capital of their own. This is the important thing. They'd have some more incentive to save part of their income than to just spend it on consumptive items.

GRUENING: Any further questions? Thank you very much.

HOPKINS: Thank you.

GRUENING: You next? Great.

COLLETTE: My name is John Collette. I live in Fairbanks on 3 Mile Sheep Creek Road. That's just out of town. It's not often that we get invited to speak on things that we know nothing about. So I'll take full advantage of it.

GRUENING: We're invited to that all the time. That's a prerequisite for the job.

COLLETTE: Like everyone else, everyone I've talked to has very loose ideas about everything and because it's governmentally orientied, we're hesitant to bring this up. A lot of the ideas I have emerged from what I do every day. I'll run through a few of those ideas that I've just been kicking around.

I'm a life long Alaskan and I'm proud of it and all this. This precedes everthing I'm going to say. What I'd like to see for the Permanent Fund generally is us not to relinquish our responsibilities. We shouldn't give our responsibilities, meaning our money, to other people to invest. The good and the bad that they do with the money is not their moral burden; it's ours because we made it. It's our money. I don't think that an investment banker on Wall Street is going to be taking that kind of morality in mind and while we may here. How to enact that is a very diff-

icult thing. I don't have any conclusions there.

Also I'd like to see Alaska remain somewhat as it is, encouraging the same virtues that Alaska has encouraged. I enjoy them because I embody some of them. One of the things that allows me to do this is the land, of course. When we have another 5 or 6 million people in Alaska, that land isn't going to be available and these virtues won't be encouraged. So I think anything that's done with the Permanent Fund should encourage as small population growth as possible. The petrochemical industry in Fairbanks is anthema to that.

One of the ideas I have about investments is in the tourist industry. Now, right now, as we're told from the federal government that they're going to be making all sorts of national parks in Alaska. Well they'll also be taking a lot of the tourist dollars from the private industries, I think they'll be encouraging private industries to produce capital things in order to compete with national parks. They'll be apart from metropolitan areas. We won't have transportation systems to them; we won't have gas stations along the way or eating places. They'll be flying in and flying out or maybe by boats.

I think that the state of Alaska should go in with some of the Permanent Fund money and invest it in the tourist industry. One of the things I have, an idea I have, is building

a sternwheeler for the Yukon River, a huge, huge boat painted white and make it very grand and charge an exhorbitant amount for tourists.

GRUENING: I'd like to join the venture.

COLLETTE: Keep people on the boat; they'll only dock in certain areas. Places like Tanana will obviously change, but they're not so good right now. There are other things too. But that's the only specific answer I have for the tourist investment.

Again we're generally, health in Alaska is really a big problem. I think with our Permanent Fund, we've got a chance to affect that positively. Another thing we can do is create a preventive structure in medicine. A structure of preventive medicine alongside the existing medical facilities. The existing people, the doctors, the clinics have grieved themselves to a crisis situation in medicine and have put very little of their energy in preventive medicine. We can, as a state, do this on an educational level, in schools and in colleges, and just create a healthier environment.

Let's see. Also too, I just recently got back from Europe. One of the things I saw there that I was most impressed with was the economy of Denmark. The Danish I've always responded to really well. I love their architecture; I love the products that they produce; I like the people too. But they've got a country there

which is poor in natural resources yet they have a fantastic standard of living through the exportation of their talents and their brains. Their people are very energetic and inventive. I'd like to see Alaska create an educational structure, through the Permanent Fund, which would create a net expertable talent.

Another thing I'd like to see too is, an interest I've had for years is in housing, and I'm teaching a course at the Community College in cold weather design in housing. I see a huge area there where we don't have the expertise available, because no one has bothered to look at Alaska, when they design houses. I have, and other people I know have, and we're going to try to be teaching these things to the community.

But there are a lot of other areas within technology, which Alaska gets ignored. The United States is temperate and all the resources temperate...their research is temperate. We get overlooked in our automobiles, our houses, our clothing, everything else. I'd like to see more research being done to create an Alaskan technology, which we may be able to export too.

I guess in conclusion I can say that I'd like to see an Alaska, Inc. being made. I'd like to see a more socialist

state. I'd like to see a socialist state investing in people and hopefully we can take this investment and find out a few answers about what to do with our Permanent Fund. We can actually invest in wisdom. That's all I have to say.

GRUENING: Thank you. Are ther any questions from the committee? You just mentioned one thing about investment bankers. I think Bob Weeden probably touched on it when he said he'd hire a mechanic to fix your car but you don't necessarily ask him where you're going, where you should go with your car.

VOICE: Talk into your mike, will you? We can't hear you.

GRUENING: I'm sorry. Okay. I was commenting on an earlier testimony that it was pointed out that you have a mechanic fix your car but you don't ask a mechanic where you want to drive it. It may be that the institution would use expert advise in terms of investment counselling. But I think your point was that they shouldn't be necessarily fixing the directions of the Permanent Fund.

COLLETTE: Definitely. Right. We have at our disposal much power. I can see a lot of destructive power there.

GRUENING: Any other questions? Thank you very much. Yes sir.

DESPAIN: My name is Glen DeSpain. My address is Box 1255, Fairbanks. I live at 2 1/8 mile Chena Pump Station Road.

In December of 1969 or January of 1970, before our local legislators went to Juneau after the windfall that we got on Prudhoe Bay bonus lease sale, a group of people, a large number of Fairbanksans met with the legislators in the Chamber of Commerce log cabin in the basement. It was a packed house. To the man, everybody agreed that we had no right to spend this money from the non-renewable resources that we were taking out of Alaska. We should live off the income from it. Well, I don't---between the time that we met with them and the time that they got out of Juneau, they had taken pretty much care of the $900 million.

I don't know how many billion we're in the hole now with the type of bookkeeping that our government uses. They sell oil in the ground and they'll take it off---in a few years from now when they take the oil out and, of course, according to our state constitution, it's against the law for the state to go in debt. However, there are ways of getting around that. They have certainly found all of them, I believe.

As far as the Permanent Fund is concerned, I think that every penny that comes into the state from the sale or the bonus or the lease of non-renewable resources should to into a permanent fund. And I mean a permanent fund. I don't think

it should be distributed to everybody that's lived here for 30 days and went down and registered to vote. That is really a socialist concept.

I, as you probably know, am not a socialist by any stretch of the imagination. I think that the government should be forced to live within the income off of this. The interest or whatever is derived from this Permanent Fund is what our government, that along with whatever taxes or levies they decide---the legislators decide to put on things is what the state should live on. I don't think that we have any right to spend the money that comes in from these non-renewable resources.

It'd be just the same thing as taking Southeastern Alaska and selling it to some other country or some other entity other than the state. Lose all control of it; I mean we don't own it any more; we sell it; and we live off the money that we get from it. I think that future Alaskans have every right to these resources that we are exploiting today. The only way that I can see that this can be done is to keep that money intact and live off the income from it. It's just like a fellow that has a tree farm; he doesn't just cut down every tree he's got and spend all the money. He harvests what he can and lives off some of the income, but he plows some of it back. In this way, we wouldn't be plowing it back but we would be keeping it intact. I'm very much opposed to the tremendous growth of our state government since 1969.

As far as giving the money back to the people, any time the government takes from whatever source and gives it back to the people, the people get very little of it. I mean very little---just crumbs. The bureaucracy eats up the money. I can foresee a tremendous amount of people working for the state figuring out who's eligible and who isn't eligible for this bonus or Alaska, Inc. or whatever you want to call it.

An example I'll give you, as I had a discussion with the governor, two or three of them, while he was in town here a couple, three weeks ago. One particular day I went down to the license bureau to get a driver's license. It had expired some time before I became aware of it. I was the seventh person in line. Thre were six people ahead of me. I was number seven. There were six people working in the driver's license section of the state building down here. They had four of these big computer consoles and desks and everything. It was 50 minutes before they issued the seventh driver's license. I was the seventh one. Fifty minutes for six people to issue seven driver's license. Now the state took in $35 on those seven driver's licenses. As I pointed out to the governor, there's no way that we can afford to issue driver's licenses under that program. I also told the governor, I said, "I've seen glaciers move faster than some of

those people back there." A couple of them, I was a little surprised that they were still alive. But I guess they must have been because they left at 5 o'clock. But the point I'm trying to make and I'm trying to put a little humor into it is that the state can't do anything, even give back money, without losing money on it.

I think there's a drive afoot here to lock up this money into an area where the legislators can't get all of their little pet social projects going. I would hope that we can do that, and when you're considering this Permanent Fund, I would like to have you consider the total income from non-renewable resources that are sold or leased or royalty or whatever we get off of it, put it into a fund and then get some kind of a thing into the framework of our government, the constitutional amendment or whatever, that that money cannot be spent. It has to remain intact.

The interest or the income from that money is the only thing that should be used to live off, if you will, to maintain our government. That and whatever money that they take in in taxes---income taxes or whatever.

I'm not in favor of doing away with the income tax. If we do away with the personal income tax in the state---man, what a haven this will be for the deadbeats who want to come up here and live off of our income. I'm not in favor of that in any way.

This revenue sharing is another thing I'm not real happy with

at all. All it does is encourage local governments to build up a huge bureaucracy like we have here in the North Star Borough, and I suppose Anchorage has got the same thing. Then pretty soon the state gets everybody hooked on spending lots of money in the local government. Revenue sharing sounds awful good. But boy, it's sure an awful headache the next morning.

I think that pretty much covers what I have to say, I didn't write anything out but my main point is that I think all of the money from all of sale or lease of non-renewable resources should go into the Permanent Fund. The Permanent Fund should be absolutely inviolate. I don't think it should be given back to the people in the form that I've heard of here while I've been here, in loan guarantees or anything else. Boy that could get to be an awful kettle of worms.

Some bank for whatever reason makes a bunch of loans and the state has to pick it up. There's nothing in there to ensure that those loans are going to be sound investments. The state government should be forced to live within the income they get off of this Permanent Fund.

If they had kept that $900 million intact at the time it was producing $53 or $54 million a year. That was more than the state budget was the previous year. But of course, it isn't any more, because they spent that plus income off it and everything they could hock from in the future. I think, regardless

of what kind of administration we have in Juneau or who we seem to send down there for legislators, they just can't resist that giving somebody something for nothing. There isn't any free lunch, as we all know. Thank you.

GRUENING: Thank you. I think we got your point loud and clear. I wanted to ask you about you say you want it invested and none of it spent. What would you invest it in?

DESPAIN: Well, of course, I don't invest in government bonds. I think they're one of the poorest investments there are. Everybody seems they're pretty safe, but we talk about keeping up with inflation. I invest most of my money in precious metals; it's done real well. I've invested---I'm a coin collector---and I've invested in rare coins. I have several coins I've paid just like five or six dollars for that are worth fifty dollars or more.

Now I don't suggest that the state go into the rare coin business, but there are other investments that beat the federal bonds all to heck. At one time, I had part control of a fairly large sum of money here in one of the banks and we invested in some short term securities in Bank of America, which paid more in interest than the federal bonds were paying at that time, treasury notes or whatever.

GRUENING: Thank you. Russ.

MEEKINS: I think the point you're making is one that, in general, is supported by many people in the legislature. I think that's where the generation of the Permanent Fund concept has come from. The idea of taking money from the day-to-day operation of government. I think, implicit in that is the assumption that spending will increase to the amount of money available for spending.

DESPAIN: It certainly has.

MEEKINS: But there, of course you know, the Permanent Fund can't really be spent on operation of government unless you---well, it could in a sense---but it can't be spent....

DESPAIN: It will be. It can't be, but it will be. One way or another, it will be.

MEEKINS: The other point, I think is important to make, just for the record, is that, although it is true in many people's view, the money from the $900 million was wasted, because it was spent on the operation of government and the increase of the number of people employed by the state. Not all of that money has been spent. In fact, there are hundreds of millions of that $900 million left.

DESPAIN: But it is committed though. It may not have been drawn out of the bank, but there's been money borrowed against it and spent.

MEEKINS: Well, it went into such programs as Veteran's Administration loans to Alaskans. The purchase of those loans...

DESPAIN: Do you have any idea of what percentage of the money went into the veteran's loan fund?

MEEKINS: The point is that there are hundreds of millions that aren't spent, that are indeed earning a return. I think that's important, just for accuracy, that while three years, $500 million may have been wasted, in your view, not all $900 million.

DESPAIN: Well, if it wasn't spent, why did we sell the oil in the ground up here a couple of years ago?

MEEKINS: It was invested, just like you're advocating the money in the Permanent Fund be invested. Invested where the principals return plus interest. Of course, one side the principal is committed, it can't be used for the day-to-day operation of government. So in that case, that was a good use of that money.

DESPAIN: That's a good use of the money, yes. Loan out with fairly secure loans. That's fine. But we're talking about tremendous amounts of money.

I've seen some of the shenanigans that went on here after the flood, where there were tremendous amounts of money loaned to different people here through the SBA. Then they went out to Arizona or wherever and bought huge tracts of land with this money. Believe me, these things happen. That's what I see is going to happen to the Permanent Fund. The right people are going to get their hands on it, or big portions of it. I've only lived in Alaska for about 36 years. But there's some of them that have been here a long time. Believe me, I've seen some pretty fine shenanigans go on.

MEEKINS: That's a good point. I think, one of the problems with loan programs that we've had in the state is not so much that they're operated in a poor manner or even an inefficient or corrupt manner, but that, generally speaking, the people are aware of those kind of programs and have enough knowledge of---enough financial background to work the paperwork and apply for them are only people who don't need those funds. So you end up in a situation where the general public, or a group of people you've designed for---the loan program

for---don't really get those funds, because they're limited to people that are already dealing in high financed things in the state and banks Outside.

DISPAIN: In my experience here in Fairbanks, I've borrowed from the veteran's loan fund several times; have always paid it back with the interest on it. I don't owe anything now; haven't for 10 or 15 years. But it certainly was a boon to me to be able to borrow money at a reasonable rate of interest and---I was in the plumbing business here from 1950 on my own. I mean I went into business for myself in 1950 and I'm not retired---lately, I just quit working.

But the veteran loan was a wonderful thing. There's no question about it. I saw very little abuse of the veteran loan fund. If something like that could be worked out in the state government, that's fine. But letting the banker make the loan, then guaranteeing to pay it back---I think we're asking for lots of trouble.

GRUENING: Mike.

DOOGAN: Mr. DeSpain, the governor makes a great point of telling us, and I don't---haven't seen anything to disprove this---that roughly 60% of the current state operating and capital budget

I believe, is financed through some sort of revenue from petroleum production. If you advocate putting all of the money from all resource development in the Permanent Fund, then I assume you're not...

DESPAIN: Non-renewable resource.

DOOGAN: Okay. A broadened definition. I assume you're prepared to live with 60 cents less on every dollar for every state program that now exists?

DESPAIN: I'd like to see about 20 cents on every dollar state program right now. I lived under a situation like that here in Alaska for a good many years when the state wasn't trying to wipe my nose and everything else for me. I don't think that the people in Alaska---I'm not talking about these 30-day voters, but I'm talking about these Alaskans that have lived here for any length of time---want or need the state to provide all of these things that they are providing for them.

I would suggest that some of you people might get an education if you would go out here to the highway department and just go in there and sit down and observe what goes on out there.

I went out there one time to see a party. I spend about 50 minutes in that office. There was three in the office. I

waited for somebody to come in the office, was what I was waiting for. I just sat down and didn't bother anybody. For 50 minutes and there was three women in the office, secretaries, I assume, or something. Anyway, they had desks and typewriters. Maybe they were the kind that couldn't type, I don't know. Anyway, one girl was sitting there reading a book. One was sitting looking out the window. The other was just sitting, just with her arms folded. She had a piece of paper in the typewriter, but she never hit it. And for 50 minutes there wasn't one of those girls did a thing. Now that's why our highway department spends so much money. Because they hire people to sit around over there in that office and do nothing.

I mean literally do nothing. So if the money that goes into the highway department was spent on maintenance crews and people working out on the highways and doing some work, we could have a tremendous road system and probably 20 cents or 25 cents on the dollar would do it.

You name any division of government and, I think, the same thing applies to it. When I talked to the governor about this deal over at the license bureau, he said, "Well, I don't know what to do about that." I said, "Well, pay them by the licenses they issue." I said, "well, contract it out and let somebody else do it." Do away with the license bureau as far as the state's concerned and contract it out and let somebody do it on a bus'el basis.

Pay them so much per license. Give them all five bucks. It would save lots of money. Give them the whole five bucks. Okay.

GRUENING: Thank you. I have one question. I asked you about the investment. You suggested that one investment that would at least look good was an Outside one in the Bank of America short term.

DESPAIN: Well, no. I used that as an example of one that we had used one time on a large loan for a year. We got a CD from the Bank of America and it paid one and a half percent more than the treasury notes were paying at that time. There are other investments, other than treasury notes, federal mortgages that pay more money. Maybe they're riskier, I don't know, but anybody who thinks that the interest on the treasury notes keeps up with inflation, they're just not very well versed, because inflation is always 4 or 5, at least 5 points higher than they're paying on treasury notes.

GRUENING: My point was did you infer that it might be that some of the Permanent Fund money or at least the majority of it might be invested Outside if there were no sufficient programs for investments in the state?

DESPAIN: I think that the---absolutely, I don't think that

the state has enough industrial wealth or capitalization to absorb that kind of money. I think it would have to be---the majority of it would have to be invested some place Outside but the income from it is what the state government should be living on. I think it should be invested where it does the most good.

Now I'll tell you. It would be a tremendous boon to business and private enterprise in the state of Alaska if the state lived off that kind of income, rather than keep raising the taxes and raising the taxes on gasoline, raising the taxes---business license tax and these things---that hasn't been raised recently, but---if the government would just leave private enterprise alone and not keep taxing them to death. Of course, I know these socialists, they think that the big business is the one that is hurting the working man and the people in the lower income bracket. But believe me, without big business, these people in the lower income brackets are going to be way down the line along with the business. Because when you knock the businesses out, people don't have the money, they don't have a job. Maybe they work for the government and don't produce anything, but they don't have anything that really sets them up and they don't have a chance to go into business for themselves when government gets so oppressive as we're getting right now.

GRUENING: Okay. Thank you. Are there any other questions

from the committee? Thank you very much. Have we exhausted everyone? Please.

BRAVARNEY: My name is Stanley Bravarney. I'm a citizen of the United States, who's lived in Alaska since about 1954. I work as a surveyor, construction surveyor. I notice that Mr. Collette teaches how to build things. I build things. I don't teach people how to do it. I just do it. If you don't know how to build things, you teach other people. If you do know how, you get a job building.

I have some small investments in market stocks. I've had them since 1957. They're very modest. I make some modest returns on those things. I like to think that I beat inflation out. There are a few rules about investing. One is you got to win. All's fine---you wheel and deal and buy this and buy that. You do all those things. But you still want to win, you have to make money.

When you get guys like Arlon Tussing and Rex Fisher and people like that handling the money---these people are socialist, Communists. They think that government, big business is immoral. They're born losers because they feel that money, making money is wrong. You give them the money, they'll lose it.

GRUENING: I want to put your mind at rest. We're not going to give it to anybody.

BRAVARNEY: Well, you have been giving Tussing millions of dollars for programs which he hands money to people to have these study programs. These people of socialistic government in Alaska gets very, very large funding. They don't give us anything out of it. Incidentially, Mr. Parr might tell us how much the University of Alaska got this year because I haven't been able to get that from anybody. How much is the total budget for the University this year?

PARR: I'm sorry I can't tell you.

BRAVARNEY: It's a state secret---either that or the evasion of rights. You can't give a budget total for the University of Alaska.

PARR: Well, there are two reasons. First the total funding is not available because a good amount of the money was held back by the finance division pending application by the Board of Regents. Until the regents have applied for it and showed they have a genuine need for it, they won't ge it.

BRAVARNEY: Very interesting. With our million dollar

computer we threw it away and we got a three million dollar computer. So now we don't know about this computer enough to tell us how much money we're spending. This is one of the situations.

The second situation is again like if you're investing money as a private investor, you can be eaten up by commissions if you're buying and selling and again having lots of fun. But after five or six years, you find out that the commissions will have eaten up all your profits.

It's the same way. We have spent tremendous amounts of money for all kinds of expert advice. The only thing we got out of this was a bunch of expert advice that didn't give us any money.

Okay. So those are the things that we shouldn't do, but what should we do? As far as I'm concnerned, I'm speaking as a non-Alaskan---here for 20 years. I've got maybe $35 or $40,000 and I can invest it in something. I can buy some land in California or Oregon or Washington. I can buy land in Alaska. I find land in Alaska is about five times the cost of comparable land in California. If I can find land say in Washington for $2 or $300 an acre, you can't induce me to invest my money in land in say Delta, if anybody is looking to buy it.

So my idea is I don't want to invest in me; I want to

invest in you, young people in Alaska. I work as a surveyor, I said, and all the people that I work with they're the young. Some of them have more talent and more education than I. Some of the best surveyors are some women that survey for me. They're real hot shots. When they're not surveying, they're not sitting around here doing this. They're taking courses. For the young people in Alaska, are we going to have roads, are we going to have acres that we can let them develop, that we can let them build on? Are we going to let the young people use the resources, their minds, their talent, or are we going to let people like Dr. Walden, Dr. Drew and all the rest of those people decide what we are going to do? Are we going to say have 150 acres or 250 in Big Delta, that you can squat on, do anything you want with it?

If I want to invest in anything, I don't want to invest in government. I don't want to invest in the University. I think that our university has a very, very bad program. We got this because it's ours. I'm saying we got to make our own minds. Thank you.

GRUENING: Thank you. Any questions? Next. Thank you very much. You're the first woman to testify today. I'm glad. No. Wait. Sandra was the first.

WESTCOTT: Well, I wasn't going to testify today but I am one of the young people in Alaska that would like to do something.

First of all, I think I've heard inflation here today.

GRUENING: What is your name?

WESTCOTT: Excuse me, Rynnieva Westcott. I live at 6 1/2 mile Richardson Highway.

I've heard inflation, I've heard a lot of ideas of what we shouldn't do with our money and what we should do with it. I think I'd just like to bring forth a few thoughts. I think the only way that Alaska is ever going to fight inflation is to develop a manufacturing economic base utilizing our renewable resources in a way that is beneficial in several aspects to our cash flow and our destinies. I think we should be re-circulating money in Alaska instead of seeing the money spent in our current flow system where the money eventually, through the economic chain, ends up in the coffers of an industrial corporation on the East Coast. By establishing an industry with our renewable resources, we also decrease the liability on our less than desirable transporatation systems from the West Coast.

I think also, by establishing an economic base revolving around our renewable resources, is that we establish once and for all, a stable economy that is composed of production and processing within Alaska versus our current system and our past system of being reliant on the government and on our

boom and bust cycles.

In Kansas this year, farmers are getting $1.85 per bushel for their wheat. But going back to the cycle that we are living in, by the time it gets here, we're paying a dollar a loaf for our bread. This is what we've got to get rid of or we'll never eliminate inflation.

Of course, the other question is why do we need agriculture here? That question is always brought up. Well, in the lower 48 right now, we're losing prime agricultural land at the daily rate of 5,500 acres per day and while technology increases production, the multiplying factors of population increases kind of pours water on the fire.

Now this land is being lost because of population increases. You have higher home demand. New industry comes in. New services area businesses come in so you're losing land.

Regardless of what our likes are in the way of recreation or any other aspect of life, food is one of the basic requirements of life. Alaska is already in the position where we are highly dependent on importing our foods. I think we should be producing our foods, not only growing our food, but producing---processing the by-products of the initial crops, and taking care of Alaskans. Once we've taken care of Alaskans, then we can use it as an export commodity. Of course, what I'm condoning here is for Permanent Fund monies to be used for low interest loans for agricultural

development. Not just farming, but the actual processing of the products. When I say this, I'm talking about canned goods, frozen goods, lunch meats, the red meat industry, etc., so that we do have the food here. I don't know what the current statistics are, but a year ago we had a seven-day supply of food in the state at any one time. I think it's essential that we have more than that, because with a major strike of our transportation system, most Alaskans would get very hungry. The Alaskans that wouldn't get hungry are going to cause others to starve, because they're out in the stores as soon as they get a hint that there's going to be a strike, buying up all the food products in the stores, and the shelves are empty. Any questions?

GRUENING: Thank you for your statement. Any questions? When you mentioned agriculture, I thought of Charlie's bill and his work to promote it. A question comes to mind of you know, why it hasn't really flown in the past? Maybe you have some insight into that.

WESTCOTT: I don't think our state adminstration has ever supported agriculture. The federal...

GRUENING: The present one?

WESTCOTT: I'm talking about present and past. The federal

government has never encouraged agriculture development. In fact, there was a team of so-called experts sent here in the 1930's to explore the possibilities of utilizing agriculture lands in Alaska. At that time, they documented that it was unfeasible to utilize the agriculture lands in Alaska because they didn't need it.

Well, basic composition of this panel that came up here were farmers from the Midwest. Naturally, they're not going to want the competition that could be incurred from farming in Alaska. This brings up another point that's probably very far-fetched, but one possible utilization of Permanent Funds money, if the right set-up could be established, would be to buy some of the agriculture lands from the federal government.

GRUENING: You mean some of the D-2 lands that are proposed?

WESTCOTT: Not specifically D-2. There are lands in the D-2 that could be utilized for agriculture that are class 2 and class 3 soils. Of course, the federal government has told us that we don't have class 1 soils because of the climatic limitations within Alaska.

PARR: I'd like to reinforce what Ms. Westcott said. Of course, the bill which Governor Hammond vetoed would have been, at least, a start, first step in the direction of agriculture in

the Interior.

But I know that Dr. Burton from the university has published a series of studies on agriculture in Alaska. He may be a little optimistic but his figures indicate that we would eventually have about a $4.4 billion agricultural sales in the state at an investment cost of about $3 point something billion per year. So about a billion dollar's profit a year in agriculture alone. It may be a little optimistic but they are big numbers. It does require a big investment.

I think, those of us in the Interior, certainly look at agriculture as being one of the prime sources, prime targets for investment in the Permanent Fund.

WESTCOTT: I think there's a few aspects of the legislation, although I endorse the concept of it, that I have certain problems with. One is agriculture rights. These rights have never been clarified in documentation as to exactly what agriculture rights will be.

First of all, agricultural rights are going to have to be a bankable commodity that the farmer has. The other thing is, of course, that people do not invest their lives in something they don't own. What I mean by that, say a farmer lives on his land and farms it for 25 years and through circumstances that are beyond his control, he becomes vitally ill. He is the bread winner in the family, and he is going to be forced to

sell his property to pay for his medical bills and support his family. This is one thing that should be taken into consideration on agricultural rights. The way it was defined in the Delta land use study, if the land was not farmed, it would revert back to state ownership. This is not owning land.

GRUENING: If I may just comment, I appreciate your testimony on that. One of the problems around the Anchorage and the Mat Valley is that land is rapidly eaten up by subdividions. Now I think, one of the points to try to restrict it to farming was to prevent the Mat Valley situation. Maybe that's not the way to do it, but I am too concerned with the fact that more and more farmland is irreversibly converted to other purposes. Once you get a subdivision on it, it's not going back to farming.

WESTCOTT: Well, this is correct. You shouldn't be able to subdivide farmland, but the other thing is, of course, that the farmer can sell the land to another farmer. But the way it's written up, if you can't farm the land, it reverts back to the state ownership.

I'm not saying this is the way that agricultural rights will be defined, but they haven't defined it yet. No one is going to go in and purchase land from the state until they know what they have. This would be the same circumstance with Permanent Funds. How can

you take money that has been raised through revenues of non-renewable resources and loan it to someone without clarification that he does have control on the land? Of course with your state system, it's fine and great because it's the state's money; it's the state's land if it's reverted back to the state. Nobody loses. It loses some of the personal property appreciation that individuals have.

GRUENING: Okay. I understand that. Any other questions from the committee? Thank you very much.

VOICE: Could I make another comment?

GRUENING: I'd much...we have a plane to catch. I'd like to hear from you if we have time. But I'd like to hear if anybody else who hasn't testified would like to. Is there anybody out there who would like to make a comment? That hasn't testified. Mr. Murphy.

MURPHY: Like most of the people, Representative Gruening, I didn't plan to testify, so the gist of the...

GRUENING: Could you give your name, just for the record?

MURPHY: My name is Frank Murphy. I live at 308 Noyes Street. The gist of the testimony seems to be as how we might invest the Permanent Fund. I was wondering, my understanding of the Permanent Fund was a safety valve against the day when our declining oil revenues no longer supports the state's budget. I was wondering, if that was the case, perhaps the paramount criteria for how we spend the money is the amount of return we get on it. Is that a correct view of the Permanent Fund or...I guess that's a philosophical question.

GRUENING: That's what we're asking you. That is one philosophical stand that I've heard a number of people state. But there are others, if you sat through today, you'll see there are other goals that people are interested in.

MURPHY: The General Fund is probably more flexible than the, and possibly larger in dollars and cents than the amount of money in the Permanent Fund. It would address itself to most of these investment names which I thought I would agree with, as far as developing Alaska.

But in terms of, and I don't know whether we are going to have people project this situation that the state might be in 10, 20 years down the line, of not being able to support its operating expenditures due to a decline in oil revenues. If we are

faced with that, the Permanent Fund then would be our guarantee against being in that embarrassing situation and should be defended as such would be. And that's all I really wanted to say.

GRUENING: Thank you, Frank. Any questions from the committee? Thank you very much. Is there anybody out there who hasn't had a chance to testify? Yes, sir.

MORGAN: I guess somebody's got to be last. I'm Ray Morgan. I live at 2½ mile Farmer's Loop Road sometimes and sometimes on a homestead across the river in Delta Junction, which I'm still trying to improve upon. I'd like to take off probably where Rynnieva left off and say a little bit about what I'd like to see about the Permanent Fund and also zero in a little bit on the agricultural possibilities in Alaska.

First, it's been my impression since we've been talking about, what I've read in the news media about the Permanent Fund and it was supposed to have been a Permanent Fund for the development of renewable resources in Alaska taken from the non-renewable resources. I guess in the last few months or a year or so we've changed that, so now, also including non-renewable resource development in this, and this I would not argue with. I think we need the non-renewable resource development along with the renewable resource.

I would like to see about half of the non-renewable resource funds put into the Permanent Fund. Just using the interest on this money for the development of non-renewable resources.

Thre are four non-renewable resources as I see it in Alaska that should be a part of this development. I'd put on the bottom of the list, I think, tourism. I think tourism is a renewable resource, whereby funds can be used to help support this industry.

I think the third one I'd put would be the fisheries industry. Fisheries have certainly not been explored very much in Interior Alaska, but is one of the biggest incomes we have in the state. Probably the second one outside of all our mineral industry today probably I'd say would be the timber industry. This is not again in Interior Alaska, has not been talked about, has not been explored very much at all.

The first one, I think, the top priority I'd put would be agricultural development. Last year we exported from Alaska about $100 million to buy food that we can produce here in the state. If you take this, carry this out over another 10 year period, you can see this is going to master quite a few hundreds of millions of dollars that we're going to send down to Seattle and to California and other states to buy the food that we can produce here. I'm not talking about food that we can't produce here, just the food that we can produce, the red meat and about 35 different kinds of vegetables.

What I'd like to see us do is to provide funds for two phases

of an agriculture program that we don't have.

One is for the infrasturcture to help support an agriculture program. Without an infrastructure to help support it, we will never succeed in agricultural program. I think the 5,000 acres the state is going to sell in the Tanana Loop area down to Delta Junction will never become an agriculture supporting program. It will become a lifestyle where people want to live in the rural area and will become a kind of a rural homesite, the kind of area that I like to live in too, but I can't afford to do it. Suppose the infrastructure means the machinery dealers, the repair stations, the warehouses---this is the kind of infrastructure I'm talking about. You can imagine now we don't have that in Alaska. It's almost comparing a railroad to a---what do you have if you have a railroad without tracks or without a railroad yard? You have to have an infrastructure to support the railroad. You also got to have this to support an agriculture program.

The second thing we don't have in agriculture program goes along with infrastructures and marketing system. Until we get a marketing system developed to market within the state and outside the state, the things that we can produce and program jobs for the unemployed and the underemployed, we will again be doomed for failure in any kind of an agriculture program.

So I'm talking about---think I've said this---use the

Permanent Fund, the interest from the Permanent Fund and allow it to be controlled by the people in the state, as some other people have said, let's keep control of that 50% of the non-renewable money that we have and let's spend the interest on it and save it for, the principal part of it for the children that's coming along. I've got three that'll probably be in the state for quite a long time after I'm gone. I'd like to see them have a part of this. But the agriculture program, I think the marketing system and the infrastructure that it takes to support an agriculture program---without those we're going to see some more Matanuska Valley, like you folks have seen in Anchorage, happen right here in the Tanana Valley too. Thank you.

GRUENING: Thank you, Mr. Morgan. Are there any questions? Mike.

DOOGAN: I'd like to make a statement for the record. There is nothing in the law right now that stipulates that the Permanent Fund will be used for development in Alaska; there is, however, nothing in the law that stipulates that it will not. One of the purposes of these hearings is to find out what people think about that proposition.

GRUENING: I had one question. You know, I know so little about agriculture that I hate to make any statements, but I have

a question in my own mind of why it hasn't flown in Alaska. I've heard this has been suggested that in the Outside agriculture business, called the agribusiness, it's huge, through its massive size and efficiency, can out-compete anything we do up here. Now does that mean to compete we have to get on the same scale? What advantages do we have that would enable us to, say, produce food as cheaply without, say, heavy subsidy as is done Outside?

MORGAN: I think I'd include agribusiness enterprise in this infrastructure as a part of it. And yes, there is a volume that has to be produced before you can do it economically an agriculture program. Some of the folks at the university have said---it's the best information they have---that about a barley development project, the minimum is needed to support the infrastructure, the marketing system to be able to go in the state.

This, of course, is what the governor's planning for the 70,000 acres in Delta Junction. I think we have never had that volume to be able to support the infrasturcture, the machinery dealers, the kind of equipment that is needed to be able to supply the market for our own use, and this is why today we're importing about 96% of the food we consume.

GRUENING: Do I understand your proposal that the interest

from the Permanent Fund earnings would be used to help agriculture or was it that actual investment of the principal of the Permanent Fund would be used? Or both?

MORGAN: No. I think I'd like to see just the interest used for the promotions of the non-renewable resources as well as some other kind of economic developments like a phosphorus mining operation, a petrochemical operation which would supply the state, other kinds of nitrogen for agricultural programs. I think these too would need to come along with---to support the non-renewable resources too. Using just the interest, right, not the principal.

GRUENING: Now what about---agriculture would receive loans or grants from the interest---is that the thrust?

MORGAN: I would not say grants. I would say we would receive loans. Yes. I'm not too much in favor of grants.

GRUENING: Okay. Any other questions? Charlie.

PARR: Only one. I might comment, of course, as it was pointed out by somebody, must have been a few minutes ago---there will also be money available in the General Fund, which can be used for some of these things. It wouldn't necessarily have to come---all of the agriculture help wouldn't have to come out of the Permanent Fund monies.

GRUENING: There was a newspaper article, I think it was in the Anchorage papers---it may have been statewide---about some of the defaults in the agriculture loan program, the state agriculture loan program. In other words, the loans are in default and the state isn't getting paid back on some of them. I think we want to try to avoid that. Any suggestions we can have, and maybe it's the fault of the way it's administered. But I think we want to, if we're going to put more money into it, we want to discover what went wrong.

MORGAN: I think this is true. And again, I'd say any of the reasons for the defaults has been just a lack of volume. You just cannot operate an agriculture program in the state of Alaska unless you have the volume to support the infrastructure and the marketing system, those two things. Until you're willing to invest in those, I think it's doomed for failure. I'm sure the agriculture program in 5,000 acres in Delta Junction will never succeed as an agriculture program. It'll be a lifestyle, that some people who buy the land, have agriculture rights, will be living there. That'll be about basically it.

GRUENING: Okay. Since our time is limited, we're only going to have one or two witnesses. We may try to make that

plane. Is there anyone who hasn't testified yet who would like to? Yes, ma'am, why don't you comment on that?

WESCOTT: Can I just speak from here?

GRUENING: Why don't you speak in the microphone? We're recording this. We'd like to preserve it.

WESTCOTT: You are referring to the agricultural revolving loan fund---correct? I think one of your basic problems with that program is that it's very political and very isolated. You have a recommending board, that is made up---the majority is made up from the Palmer area, residents of the Palmer area. I have seen case after case where a loan is approved through that program more on who knows who than the actual economic basis of it. That would be my only comment on it.

GRUENING: Well, I appreciate that, because you can see that same problem facing the fund. We can have it all go out in bad loans, depending on who Permanent Fund managers are. We have a real problem.

WESTCOTT: In fact, I think you may be aware of the fact that Bill Lewis, who is director of agriculture, was dismissed three

months prior to a new director being put into the office basically because he was going against one loan on the basis it was not backed up properly with collateral; it was not an economic venture that he thought was a good banking loan. It was approved after he was dismissed from his office.

GRUENING: Do you have any comments, suggestions on how these loans might be administered differently?

WESTCOTT: I don't have any suggestions. I have suggestions of what not to do, and that's to set it up the way the revolving loan fund, is, with just a geographical board sitting in Palmer making the decisions for a statewide development program.

GRUENING: I sense also that you feel too many of the loans aren't getting up in this area. Not enough of the money is getting to this area.

WESTCOTT: I think that would be a legitimate complaint. Yeah.

GRUENING: Okay. You, Mr. Bravarney, is that it? Could you make it short, because there's one other comment in the back? Thank you.

BRAVARNEY: Very short. I want to briefly state a couple

other things. I'm from Pennsylvania originally. We folks are Polish people, many of them were farmers. I've seen exceedingly skillful, dedicated people with small farms. My attitude about farming and growing things---you can grow on two acres; you can grow on two million acres. You got to be a farmer. That's all there is. I have a degree in forestry from the University of California, 1954. We didn't know economics. We had chemistry, physics, mathematics, botany, and all those things. We didn't know too much about economics. (inaudible)...a hell of a successful forester. Wouldn't mind seeing (inaudible)...farmers for, if they think they've succeeded (inaudible)...It's the same with farmers (inaudible)...I could perhaps go to an area and maybe have (inaudible)...sort of thing. I could put the type of energy that it would need into developing something, young people can. Right now this (inaudible) business, but everything comes to Alaska late. (inaudible)...the university is notorious for that. They get the (inaudible)...There's a nice thing about this great, big (inaudible) Marxist Socialism. If it's succeeding here, (inaudible) is falling in other places. (inaudible)...but in many cases, it isn't. It (inaudible). There are lots of...the state is (inaudible)...We can't plow the ground with (inaudible)...

GRUENING: I think there'll be a hearing some other time on the university.

BRAVARNEY: We're not developing students; we're developing PhDs. Thank you very much.

GRUENING: Thank you. I saw Mr. Spencer enter the room, and since everone has testified, did you want to say something, Jerry? We're trying to catch a plane out, not because we want to get out of town, but because we have another hearing tomorrow.

SPENCER: Okay. Thank you, Mr. Chairman. I just had a couple thoughts. I'll try to be brief. I appreciate very much your coming to Fairbanks and collecting opinions on this Permanent Fund idea, which I don't really know much about, but it seems to me it's got some extraordinary possibilities.

GRUENING: Excuse me. Could you identify yourself please, for the record?

SPENCER: I'm sorry. Yes. Jerry Spencer. I'm a 17-year resident of Fairbanks and director presently of the Fairbanks Town and Village Association. We're a regional, non-profit development organization.

I think the only thought I had to offer to you, I'm sure you've heard some very good testimony this morning---when I was here. I'd like to second many of Mr. Wallis' and Mayor Carlson's thoughts on the nature of the Permanent Fund and these

types of investments and so forth. Some of my concerns, though, have to do with, you know, just the whole idea of how you deal with a billion dollars or two billion dollars in a state this size with 400,000 people in it.

The state's budget this year---and Mr. Gruening, I think you and I would probably find a great deal in common on how the state spends its money---but the idea of a billion, one hundred illion dollar budget is just overwhelming to me. The idea of the Permanent Fund having, you know, what are we talking about, two billion dollars in it a few years down the line. This is just mind boggling as far as I'm concerned.

As you deliberate how to manage this thing I would hope that there'd be not only decisions on how the fund is to be allocated in terms of what kinds of things are financed, but you spend a great deal of time on how, you know, the general public is going to be able to keep in contact with the managers of the fund.

As far as I'm concerned, the general public doesn't have much to do at all of the expenditure of that---talking about how you accept policies, how you set up administrative practices in the spending of the billion dollar state budget. I think it's causing some se ous problems. That may be an unfair statement, but I feel that people just don't feel like we have the management tools to manage that kind of money. I feel it often myself.

Now you're contemplating something of this sort, which is really

going to make Alaska, I would assume a force in the international money markets. People of Alaska are going to want to watch that very closely. They're going to want to feel they've got good communication with the evolution of the fund. You can't set up administrative mechanism at the front end and just sort of say that's all we need to do with it. This thing is going to evolve day by day in terms of the theory, the thinking about it, how the money's going to be spent, how you're going to allocate parts of it, whether you're going to spend a bunch on rural communities, whether you're going to dump a bunch in the banking system, whether you're going to get involved in investments in Saudi Arabia, or whatever.

The public, you know, that device for making sure the public is constantly in tune with the evolution of the fund, I think is equally as important as deciding how to spend the money---more important, because without that, you're going to be---distance I'm afraid is going to be so great that you're going to have a serious credibility problem and a constant political hassle. We've had enough of those. I'd like to see less of them in the future. As long as we've got this immense gap between the people and their understanding of how to spend or even consider a billion dollars, I think that's where I would recommend the committee and other interested in the development of this fund---I hope they would spend a good deal of time on that.

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GRUENING: Thank you, Mr. Spencer. You just mentioned one of the more difficult problems and that is how you make the funds responsible to public need yet not, let's say, acceptable to a lot of political manueverings where you have bad loans made because your friends are asking for loans. Any suggestions you have along that line would be helpful.

I only can say that the General Fund is managed by, of course, the executive; but the budget is made up by the legislature. If you don't like the way the legislature does it, you can always vote the legislator out of office. With the Permanent Fund, if you have a structure that doesn't have elected officials, I don't know how you would directly respond. So we have a difficult problem.

SPENCER: These comments that I am making now, by the way, have no parties in cast to them at all. I think it's a problem both Democrats and Republicans are going to have to address themselves to.

You know, you're quite right. The legislature, there's a term for it---the legislature appropriates, the administration spends. The nature of the spending is a problem for both branches. I think it's a serious problem and it's going to get worse, I suspect, because I don't see that the people are that concerned about the mechanism for managing all of this money. You know. And I'm not talking about the services people receive. I'm talking about how you actually put the policy together with the adminstrative mechanisms and the

communication with the people that, I think, is necessary constantly. I just don't see that. I don't see much movement towards trying to develop those things. That's my concern. I appreciate your...

GRUENING: Any questions? Thank you very much. Has anyone not testified who would like to? Yes, sir.

LAUESEN: My name is Elstun Lauesen. I live at 2416 Gillam. I assume that you're after some broad, general ideas. You're just here to get people's feelings.

GRUENING: To get a nutshell. What's your philosophy on the Permanent Fund?

LAUESEN: Alright. In a nutshell, I feel that the Permanent Fund should keep a...let me read from my notes here, because I have a lot of ideas and I want to get them out systemically. Alright.

I want you first to consider this---that public equity and private equity are fundamentally different, because the definition of value changes as one moves from consideration of the public good to concern for the private profit picture.

I feel that, as much as the Permanent Fund is capable of

doing so, that it should be considered a public trust. While remaining secure, it must have the flexibility to penetrate the thick overlayer of corporations and institutions that exist in the state and be able to reach the individual and the group who have a legitimate and reasonable need for funding.

The question is what defines reasonable.

I would like to suggest then that the major criteria for the reasonable kind of development to be encouraged by the Permanent Fund and also for the Renewable Resources Fund is principal of economic self-sufficiency for the Alaskan People. That is a real public equity, but that would be an investment nightmare.

I envision the development of both production and distribution co-operatives in this area as large numbers of individuals undertake programs of resource-pooling in order to deal with long-term unemployment which exists here, either by circumstance because of the seasonal nature of a lot of the work here, or by choice, by those individuals who seek to be de-intensify the economic future of their lives. I see nothing subversive or wrong with this. There's a lot of people who are trying to approach that kind of style of living. Now obviously these are not the kinds of conditions that traditional money-managers would enthusiastically embrace, but they are on the horizon. I see them increasing. They will require servicing.

Excuse me for breathing into this microphone, but...I would

like to see two conditions, therefore, created within the Permanent Fund and Renewable Resources Fund. First I would suggest a generous allotment of capital for risk, what I call risk capital or venture capital based upon the assumption that the public equity derived from programs and projects designed to foster self-sufficiency are worth the more liberal risk structure.

And number two---the uses of the fund be monitored by public agencies as well as the Permanent Fund committee because of the range and the special condition of these investements will require an understanding kind of review and analysis. For instance, the Cooperative Extension Agency might be the review agency for family and small group investments dealing with commodity production, such as small agricultural cooperatives. Risk capital is review analysis. The latter is important because in some cases the only public equity would be the knowledge derived from the risk taken. This would include individual excursions and alternative energy resources in the building of their homes or whatever.

I'm of the conviction that the existence of risk capital might ignite success in community terms. For each enterprise it successfully interfaces with community need and lending, thereby, a greater self-sufficiency to the community as a whole, represents a public equity and not measurable in dollars.

I wanted to bring this thing, but I didn't get a chance to type it up, that is illustrating this whole point through the development of food cooperatives. In an attempt to quickly establish a source of local economic developments infrastructuralization, where there is a cooperative arrangement between producers and consumers to avoid what, in the future, is going to be a spiralling cost in macro-economic factors affecting Safeway stores and that kind of thing. We have to localize our production and localize our development.

GRUENING: You can submit a written testimony any time later on.

LAUESEN: Okay. I have just one final thing before you off to the airplane.

I would like to end this part of my testimony by questioning the advisability of what may have called the tools of the money managers. By encouraging large scale investment, you create an elite class of borrowers. Unlike that gentleman, I think either loan guarantees or syndicated loan arrangements should be de-emphasized because it is the internalization of the Alaskan economy, that I believe, ought to be encouraged, along with, I'd like to add, stablization of the economy.

Even if these conditions weren't such hugh blocks of capital unless it is a sizable project, which I would submit, might be more efficiently and effectively funded co-ventured or owned by

the state directly rather than having to launder it through private enterprise in order to give a patriotic or traditional appearance to your undertakings. This is precisely the condition that I fear the Hammond adminstration recently proposed to $750 million loan guarantee to El Paso's gas lines.

In any case, I realize that the Permanent Fund will represent a considerable sum, but we're not under any gun to invest it as fast as we can. If the business community is worried about the Permanent Fund maintaining parity with the eroding value of the dollar and thus urge us to "put our dollars to work" I would suggest that the logical thing would be to ignore the advice of the so-called Alaskan business community and convert the holdings of our Permanent Fund from the all-American dollar to the Canadian dollar and sit on it. Thank you.

VOICE: Could I ask the gentleman a question?

GRUENING: I would like to let this go into debate, but I saw Mr. Dempsey come into the room. We are debating whether we're trying to catch the plane. If you...

VOICE: No. That's okay. Thanks.

GRUENING: If anyone has a written statement that they want to make later, please feel free to submit it to the committee. Is there anyone who hasn't testified who would like to? I want to thank everyone for turning out. I've enjoyed this. I really have. And I plan to come back to Fairbanks before we recommend anything final to the legislature. Thank you.

Proceedings

of

The House Special Committee on the Permanent Fund

PUBLIC HEARING

September 15, 1977

Anchorage

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

GRUENING: Good morning. We'll call this meeting to order. We've got a list of people that want to testify and I think there are some that are not on the list and we'll just take you down on a Quaker basis. You raise your hand and come forward and testify. Don't let the ads put you off. I saw the ad in the paper that this was called the House of Permanent Fund like the House of Pancakes. This is the House Special Committee on the Permanent Fund.

Representative Ernie Haugen on the committee from Petersburg told me this morning that he heard on the radio that this meeting was to hear from you folks on how to spend the fund. I can assure you that is not our intention. We want to hear we can preserve that fund and we are just as interested in what you don't want the fund to do as what you want it to do.

We had a very interesting hearing in Fairbanks. We heard a lot of what people wanted it to do and what they didn't want it to do. Since it's your fund and before we actually draft specific legislation for consideration of the whole legislature, we want to hear your philosophical approach. So this is---don't feel you have to be an investment banker We are really talking about philosophy today.

Also with the committee is Representative Bill Miles

and Representative Russ Meekins who is on the committee will be here shortly. Our A.A. to the committee is Mike Doogan and he may be asking some questions today. Do you have any statements, anybody, that you would like to make? OK, our first witness is Senator Joe Orsini.

ORSINI: Mr. Chairman, members of the committee. Thank you for the opportunity to make a little pitch here. I will be brief. My concern is not at this point with what the use of the Permanent Fund is going to be, but how the uses are determined. To a large extent, the legislature will undoubtedly set broad policy guidelines, but the actual management of those guidelines will be done by some body or some group of people and I'd like to address my remarks to how that group of people come into being chosen.

The Permanent Fund was overwhelmingly adopted by the public last year, as we all know. I suspect that your hearings are turning up a variety of opinions when it gets down to the specifics of how that money is going to be used. I would also imagine that probably there isn't a great deal of coalescence of public opinion at this point and people are kind of vague about it except for those people who happen to be in investment or other kind of industry that is directly involved with it. I would also suspect that, despite the good efforts of this committee in trying to get the issue before the public, that until something really happens or

until the fund is viable such that the impact is being felt substantially in whatever corners that money is going to be spent that the general public will not become involved in this. I could be wrong, but I think that is likely to happen.

On the other hand, people who are knowledgeable about such things as large investment fund maintain that those who control this fund will be extremely powerful in a political-economic sense in the state and probably to the extent that the size of the fund in the next 5-10 years is probably unprecedented with respect to any other state in the Union as a proportion of our state budget. This concept of the power of the fund manager will probably come to pass.

For these reasons, it is my opinion that the managers of the fund ought to be people who are directly accountable to the people, the voters and the general public of the state as opposed to being selected by some other secondary method --- as a panel selects potential people from whom the governor selects. This is sort of a circuitous approach which, in my opinion, ought not to be implemented. I think that one man ought to be directly accountable to the public. As the public sees a need for change in the way in which that fund is invested or used, that change will be reflected in the debate when these people run for their office. And, of course, it

ought to be a full pay, full time office, not just a token or a commission, but a full time, full pay position. The people that run for that, I would think, the public would demand that they have some ability and expertise in handling money in that it is more strictly aimed at than, say the legislature, which is a very broad type thing.

I think the problem with, say, a gubernatorial appointment is that every four years the governor runs for election and there are many, many issues that the governor has control of or discusses and the Permanent Fund will be lost in so many other issues that the governor is involved in --- any governor. I think that this is important enough that they ought to be separately elected.

The frames of the constitution, the state constitution, of course, determines that the governor is the one that has the appointing authority and there are no other elective officers on a statewide basis other than the legislature. But I think that the constitution was framed more than 20 years ago and the state has changed its standards. And we are into an area now, with the oil starting to flow, of a yet greater change than we have seen in the past. And this change should give one reason to take another look at the constitutional concept of only the governor being elected and look at those kind of offices that are perhaps of genuine statewide importance and have statewide input for that particular concern.

That's really the extent of my testimony. I would urge you to take a look at the concept of having elected people managing the funds. It can be done without changing the constitution as long as the governor has some choice, you could have an elected official---is what I'm told by the Legislative Affairs Agency. Of course, the cleanest way is a constitutional amendment.

GRUENING: Thank you, Senator. Can you stay for a few questions? Any questions from the committee? Representative Haugen.

HAUGEN: Senator, how did you set up the---you mentioned qualifications for the fund manager---that it would have to be people with expertise. Have you got any idea as to how you would qualify that? How would you set these qualifications up?

ORSINI: I wouldn't. I would let the public---presumably ---running for the legislature, there is---you don't have to be particularly have to be an expert in anything. The legislature deals with all kinds of things.

I think the Permanent Fund is different. It is a function of investment. I would think that the public would always

vote for those people who at least have some sort of ability or have evidenced some sort of experience in finance. Maybe he's been a banker, maybe he's been a union fund manager, maybe it's been a whole raft of things that have become involved in the financial implications.

HAUGEN: But you would first have the public set up the background essentials and then ...

ORSINI: No. I think it ought to be an elective office, period, with no other than---I would have no more restrictions on that office than I would have on an office of the legislature.

HAUGEN: Oh, I see. I thought you were implying that you wanted restrictions.

ORSINI: No. I think the public, as the public, will vote for those people who have some of those qualification.

HAUGEN: OK, thank you.

GRUENING: Mike.

DOOGAN: Senator, have you given any thought to whether these people should be elected on a statewide basis or by region or anything like that?

ORSINI: I would support a district basis to assure that there are a variety of interests. I suspect that you are hearing from various parts of the state has borne that out. That different parts of the state do have different concepts as to how that fund should be used. I think that on a district basis it would be preferable. It may be, my suggestion would be some combination of existing election districts where you group---an individual would run for a seat that would be comprised of several election districts so that you wouldn't have the new election districts to try and fit in.

GRUENING: Senator, you hit on probably one of the more difficult issues for the legislature and that is the issue of control. When you have a sizable fund, people are concerned about who is going to control it. It occurs to me that what we'd have there is---we'd be establishing two legislatures to the extent that you increase the size of the Permanent Fund, you'd have a competing legislature. And whether you needed a constitutional amendment or not, I think you do. Do you see any problem with establishing essentially two

legislatures and---with a very strong executive in this state? Wouldn't that kind of tip the balance in the constitution where we have a legislature, although not, maybe not a match for the strong executive, at least it is one body and has the power of the purse. This might fragment it into two. Have you considered that aspect of it?

ORSINI: Mr. Chairman, I don't think you'd have two legislatures. I think you may have two legislatures if you, for example, took certain legislators and put them into Permanent Fund managers. They would almost be operating a separate legislature. But this is a separate body and this body would still be subject to the law as passed by the legislature and signed by the governor. I would presume that we would have laws of general conceptual of appropriateness to the way in which the Permanent Fund is used and this group would have to operate under those laws.

But still, like any law, whatever executive authority it is has a varying amount of leeway, depending on how tightly those laws are written. I don't think you'd be---you'd have another group just as you have the executive and you have the judiciary and you have the legislative groups now. This would to some extent, with the more narrow confines, I suppose, would be almost a competing group who would have also direct public accountability. But I

don't think you are getting into a separate legislature. A lot of it depends on what the ultimate will of the legislature is with respect to the types of use this Permanent Fund is put to.

Basically, if the legislature decides anything other than maximizing a safe return on the investment, then you are subsidizing some group. It may be homeowners, it may be investing people, it may be fishermen, it may be farmers, it may be anyone of a number of groups, whether a narrow constituency or broad statewide groups. It is still some special group or a series of special groups. As opposed to having maximizing returns, having them coming into the general fund for use of legislative determination of how the funding should be spent.

GRUENING: You raised an interesting point there. You were saying that, if I understood it correctly, that when you are dealing with anything but a sole criteria of maximizing income, there is usually some subsidy involved and if you are going to do that there ought to be some equity or some representation.

In other words, if you are going to dole out subsidies, it ought not to be done, let's say, at the decision of some expert, but rather somebody that's responsive as an elected official.

ORSINI: Yes.

GRUENING: Well, let me toss this out as an alternative to that. The extent that you get into the programs which involve subsidies, what do you think of handling it as we do now in the general fund loan programs, in that we establish them out of the general fund, that with the Permanent Fund, you establish that criteria of maximum---of conservation of principal and return the income.

In other words, rather than do everything you have been doing with the general fund, put the Permanent Fund off to the side and say, "OK, we're not---that's the one fund that is not going to be, let's say, doled out, as, say, political pressures dictate, but will be at least for the short run set aside for just preserving capital and producing income." In that way, you don't have that accountability problem that is difficult when you do get into subsidies.

ORSINI: I think I have been on record as personally supporting that concept. Certainly in the short term. As the Permanent Fund grows and as the public becomes more aware of it, you will make a policy at some point. But I think that in the near future it ought to be managed for maximum return, maximum safe return on investment.

GRUENING: Thank you very much. Any other questions? Thank you, Senator. Our next witness is Robert Rutherford. Did I pronounce that right?

RUTHERFORD: Yes. Mr. Chairman, members of the committee. Thank you for the opportunity to appear. I'm not exactly--- consider myself very experienced with these things. I hope I understand the intent of the hearing.

My business, as you may know, is a consulting engineer working primarily with the electric utilities throughout Alaska. So, most of my experience in Alaska since I came here in 1950 has been related primarily to the electric utilities industry. Along the way in working with these utilities, of course, the business of providing money for the development of electricity, that unique energy that really contributes to the quality of life, is one of the things that we are constantly dealing with and I have some thoughts to share with you and I hope along the way that I can understand the intent better so that I can add to this with some written testimony which I can supply later. Will I have the opportunity to submit some things in writing later?

GRUENING: Yes. And I'd like to say for everyone here that we'll accept written statements any time until the time

of the session. There are kind of informational booklets the committee has prepared with a questionnaire on the back. Feel free to help yourself to that and, Paul, why don't you take a stack of that so people don't have to come up. Grab them and they can help themselves. Go ahead, sir.

RUTHERFORD: Let me recite a few areas where it's occurred to me that the Permanent Fund or something similar to it, at this point, I'm just trying to understand what some of the concepts for it might be, what the committee might be thinking about it. Let me talk about these briefly. There are several areas where I believe that the use of the Permanent Fund might be valuable to Alaska.

First off, I'll start out with saying that I believe that my understanding of the Permanent Fund that its use should be on a basis where it's returned. In other words, that it is not intended as a gift, that it should be used in a manner that it is returned to the Permanent Fund if it is loaned on various bases. My own personal feelings are that the fund should be used in that manner. So that it does not definitely become part of the system of grants, perhaps.

GRUENING: Incidentally, that's a constitutional requirement,

the way they---it can only fairly be read to preclude grants. It would have to be income producing.

RUTHERFORD: That probably was in my head from back a ways and I'd forgotten it was already a constitutional provision.

One of the areas where I believe the fund could be used, I like to talk about a minute, is perhaps might be considered as marginal in the sense of whether or not it might be a grant, but, let me explain. There are a number of projects that I have seen as potential in Alaska which are the nature of being somewhat unconventional because of the unique requirements of some Alaska situations. So there are some areas where ---I'm speaking of the electric utilities business where the utilities could use some support for projects that engineers such as myself believe are feasible projects and good projects, but at the same time they may be somewhat unconventional and on that account may have some difficulty in obtaining funding from the more usual sources. I'll give you an example or two.

There has been under study by the Alaska Power Administration some ways in which electric energy can be brought to some of the small villages of Alaska on a basis that, perhaps, is a little more reliable and feasible than some of the present

systems that are in use, mainly small individual generating plants scattered around in the various isolated villages. In an effort to evaluate whether there are some alternatives to that, and in particular see if there is some possibility of being able to deliver forms of energy that can displace fossil fuel, the Alaska Power Administration has in this case asked us to do some studies relating to interconnecting villages with transmission lines, or lines of some kind whereby a group could then receive energy from a larger central supply source or perhaps a small hydroelectric project. And of course, as you know, hydroelectric projects are determined by where the water is and where there's the head and invariably it's necessary to take that energy and deliver it. So, in the small village communities, the only alternatives are to figure out a way to interconnect.

There is a concept that I have presented in these reports that is not unique in the world, but it is somewhat unconventional and it's what I've called a "one wire ground return system" of transmitting electricity. It's been used in many parts of the world. The technology is well known. It's not something that's R & D. It is unconventional. There is a small report here that's been prepared suggesting a demonstration project along the Kuskokwim, perhaps centered around Bethel, to interconnect some of the villages that are now supplied primarily by little individual

generating plants. In some cases each home has its own plant. In some of the villages there is a centralized system.

For such a project, I'm convinced that eventually a project of this kind can probably be financed by REA funds, for example. But at the moment its unique characteristics is such that REA says that, well, it isn't exactly according to our specification, our standards. I've had some nice discussions with them, for example, and I can see their engineers believe me. But there's a few hangups that relate to the uniqueness of the system and I'm suggesting that, perhaps through the use of the Permanent Fund and whoever operates it, that some of these unique solutions that may be adaptable to Alaska be given consideration that perhaps some of this fund could be used as a pilot project.

Which I'm saying again is not R & D. It may be unconventional, but I'm convinced would be feasible. You could then produce what you might call a yardstick . That word has been used in other areas to say this is a feasible project. And that means generate additional support from such as REA by saying, "Here's a project that works." This is the way it's doing. We'd like to build a lot more of it.

In the case of REA, the whole philosophy behind it--- their own program is such that, to me, it's a natural to do

this kind of thing. But it does need a little yardstick, something to get it going. Maybe the Permanent Fund, as an Alaskan fund, can help produce a yardstick program that is required for Alaskans because of the unique or unconventional nature of some of the solutions we have to deal with.

Along with this one wire scheme, it just happens also that in the Bethel region there are some interesting records regarding the wind. There is some possibility for the use of wind as power to supplement diesel generation. Because the delivery cost of the fuel, etc., are pretty high, why the cost of energy in those regions are exceedingly high. And even though wind power generation is a very high-cost scheme, basically today, some of the figures we have digested make it look as though it might be useful if it were part of an integrated system where it's not the sole source of energy, but simply used as a supplement to displace higher cost diesel fuel. So the little report suggests the possibility of adding a little wind generation to find out if that is true.

In another area of the supplying power, electrical power, to small villages, you are all acquainted with AVEC, I think most of you know about the Alaska Village Electric Co-op, which is attempting to do the job throughout Alaska, using REA money. Practically all the clients that are in use are diesel clients isolated with

the same problems that I'm talking about here. I think in some cases we can show that interconnection can help that.

But there are some other things that can be done besides the one wire line, for example, and that would be some improvements in the design of diesel electric generating equipment. Here again, there are a number of things that are available in industry. We're not talking about R & D, but we're talking about something that would be a little bit unconventional. Somebody would have to spend a little bit of money to put in the first step.

One of the areas I'm talking about is the operation of diesel electric equipment. One of the big difficulties in these isolated areas in operating the equipment in a reasonably efficient mode and with the electric load bouncing up and down over the daylight, nighttime hours, it's difficult to keep a generating unit running at an efficient load. So, conventional designs of such equipment, having been developed over the years, using the trade-off of fuel cost and other things that generated those designs by the manufacturer, have resulted in designs that are not necessarily adaptable to some of the problems we've got now resulting from high fuel costs and the very isolated nature of some of these systems. Here again, we believe, and there are other engineers who would

go along with this, I'm sure, that there are some modifications of standard generating devices that can be developed, put in a pilot project and shown to be workable. Perhaps that is something that could be done in some other ways too, but I'm using it as an example to say there are some solutions that I believe, as an engineer, are adaptable to Alaska conditions where they might not have been thought about or even useful on the basis of the trade offs in other areas. And perhaps the Alaska fund, Permanent Fund, can look with a different eye on the things that are peculiarly Alaskan in terms of some of the solutions that we need to find.

Getting away from the pilot nature or yardstick nature of projects which the first ones I talked about are, I would suggest some other areas where I believe the Permanent Fund could do some great things for communities of Alaska in energy. And that would be for the fund to participate in some manner with communities in funding for a renewable resource project such as hydroelectric development. I don't have to tell you about hydro---I know that Ernie has been pounding the table for hydroelectric in the communities of Southeastern Alaska for a long time and I'm sure that he would feel that this Permanent Fund could be a tremendous aid to the community to that area. What I'm suggesting is perhaps there is three modes of participation that might be considered.

One of them, of course, would be just a complete funding of a hydroelectric project on a loan basis, long term at appropriate interest rates, lower interest rate, loan to accomplish a hydroelectric project. Through the use of the Water Resources Revolving Fund, which has been operating for a year or two, some communities have been able to get front money to investigate such projects and get them up to the point where it's a go or no-go proposition and then they are faced, of course, with going to the bond market or looking for other sources of funding to actually accomplish the project itself.

And that's where I'm suggesting that the Permanent Fund could participate, either complete funding, perhaps partial funding, and maybe there would be other sources of money, but there would be mutual benefits in lowering interest rates, etc., if the Permanent Fund could participate with a portion of it.

And perhaps the third way would be using the Permanent Fund in a guarantee mode of some kind to guarantee a project rather than using the money directly, backing up a community in the offering of a bond with the guarantee of sorts.

Perhaps I'm influenced to some extent and been sold by the fact that I've been working with REA for a long time, the federal agency. And today they used those three modes for

working with utilities that they finance.

One is a direct loan program, in which, as you know, I'm sure they have two interest rates that are used. They have a certain amount of the money that's loaned out at 2% interest on a 35 year basis and they have some other direct loans they make at 5% interest cn 35 year loans.

And they also have a participation program with other lending agencies where they loan part ot the money.

And they have guarantee programs.

I'm suggesting that perhaps the Permanent Fund could look to communities for help in energy projects in a similar manner. That there may be s mething really worth looking at there for the use of that Permanent Fund.

To be a little more particular about renewable resource projects and what it means to Alaska, the hydroelectric development has one thing about it that is---well more than one thing, but---the thing I'm referring to, one thing about it that is quite different than other energy projects and that is that once it's built, its cost, for all practical purposes, do not escalate. And as a practical matter today, we know that almost everything else has been escalating at a pretty substantial rate and most of the economists that make any kind of forecast at all agree generally that escalation is part of the real world and is some-

thing that ought to be considered when you compare alternate projects of one kind or another.

This is one very important difference between the hydroelectric development and alternate energy, electric energy supply systems that you fuel. Because, as we all know sorely, fuel costs certainly have been escalating. And it looks like they're going to continue to escalate because of the fact that we're running out of fuel. Just for the purpose of finding more of it and developing the lesser profitable fuel resources, we know that we are looking at escalation.

On the other hand, the hydroelectric project, once it's built, the sun does the job. It's solar energy, really, and it's free. The falling water is there, it does not escalate. So that obviously there are tremendous benefits to a community when hydroelectric development can take place and displace the fuel they might otherwise have to buy at an escalating rate. And I've made some estimates over a period from now to the year 2000 and the differences are startling if you compare and if you assume some reasonable escalation rate and make a comparison. So, while the support of a project of that kind, I'm suggesting by the Permanent Fund, would be on a loan basis, you'd get your money back like any other loan, it would have a tremendous spinoff on the community itself and obviously

the state in terms of number one, electric cost to the community, number two, stretching the fossil fuel resource because it displaces what would otherwise have to be consumed in the fossil resource.

Another area that the Permanent Fund might find use, and this one is perhaps a little more way out, pardon the expression, I think it is real however and there may be some opportunities for the Permanent Fund to be used this way and that would have to do with some more major developments of energy systems in Alaska. Such as, the support, perhaps through the use of guarantees, I'm not suggesting direct loans in this case, but that it could be very influential in the feasibility of such projects. A major project such as a generation of transmission system for Central Alaska which would extend from Anchorage to Prudhoe Bay As come of you may know, I've suggested electrification of the gas line and oil line route. I believe that it's feasible because the energy displaced by such electrification has a pretty fancy value today. And if you look at the value of the energy you displace, that would otherwise be burned in the simple transportation of the energy through Alaska, you can show that the electric isolators, that the electric generation would be feasible just from an economic point of view. And of course it would again substantially impact those fuels which---the ones I'm talking about now are oil and gas.

Now where do you get the electricity to do this? Well, there's other fossil resources such as coal. I believe that coal fired electric energy can probably be feasible to displace oil and gas. Coal at the present time---and I'm thinking about fuel is at a lower priority than gas and oil---and so it might be useful to displace that oil and gas.

Obviously, hydroelectric energy could certainly be used to do the job. It does also appear along the way, though, that the hydroelectric project that we are looking at today in this region---which in this case would be like a Susitna development---that most of that hydroelectric energy can actually be absorbed for other purposes in Alaska. It can be used by the community for their normal load growth of Anchorage and Fairbanks and the Central area. I'm suggesting that, if projects such as this catch on in any sense, that perhaps the Permanent Fund can be helpful in improving the feasibility of such a project.

A similar project could be accomplished in Southeastern Alaska. And this is one of the concepts which was talked about many, many years ago by the Forest Service when they made their little study of the water power of Southeastern Alaska. They suggested the possibility of an energy intertie throughout the whole of Southeastern Alaska through the use of sub-

marine cables in many cases because of the rugged nature of the country. And I'm saying now, that while this concept may be slightly way out, there are developments happening in Alaska which very likely may bring such a suggestion to the fore again. But because of the Alaska conditions that exist, it's going to take horsepower to make it go and that Permanent Fund is certainly---it's going to be a device that would impact projects of that nature.

And I'm simply saying that I believe those projects are likely to show feasibility as reviewed by Alaskans. We Alaskans do have some difficulty communicating with other parts of the financial world on some of the things that are unique to Alaska. And this is an area where I believe the Permanent Fund, using good judgement ---I'm not saying do anything silly---but because there will be Alaskans involved, they're probably in a better position to evaluate the kinds of things that I've been talking about in Alaska terms and arrive at a conclusion that says it's a good deal where the general financial market that we usually look to might not be able to evaluate it that same way and thereby something might go begging that really is a good project. The Permanent Fund, to me, would seem like it could perform a valuable function in supporting some of those concepts when they develop.

I guess that's about it and I'd be---I'm intending to put a little more of this in writing and perhaps you can tell me what

portions you feel at this point in your hearing would be appropriate related to the Permanent Fund. I haven't been at any of the other hearings so I don't have the benefit of that.

GRUENING: Well, thank you very much for your interesting comprehensive statement of the possibilities of Permanent Fund participation in energy development. I think we'd like very much to have your written statement. You might include in it some of the reasons REA funding isn't possible for these projects and any more specifics you have on how the financing might work.

RUTHERFORD: Yes, I have some of that and I can do that.

GRUENING: Are there questions from the committee for Mr. Rutherford?

HAUGEN: Well, I could ask a lot of questions but I think it would be a repetition of what he said.

Principally, what you're saying is that maintaining the idea that the Permanent Fund principal will remain but, if those projects could be financed on a long term, low interest basis, the state would get its money back, it would be just

the thing in the early period that---we're using hydro only as an example---the early costs are the ones that put most of us---I'm talking about Wrangell, Petersburg area---out of business if we could have that money loaned to us on a long term, low interest basis say at an early cost of 3 or 4% for the first ten years, knowing how the state fund managers in other funds operate, they want, of course, to obtain the maximum yield.

But, farther down the road, when these utilities got on their feet, they could probably have an accelerated rate of interest. They jump it from 4% to 5% and 5% to 5½% and that of course depends on the size of the project to take. My idea was to have one that had 30 or 40 years of life which, even if we ration it out on a 6% annual growth rate, the state would still get a good return on its money in the long run.

I'm not talking about any giveaway projects, I'm talking about good projects. That if they could get this foot off of the ground and the state would get its money back, we'd retain the idea of what the Permanent Fund is. It would do all kinds of things. It would save the consumer. It would maintain the interest of the consumer down the road if we're going to displace these Mickey Mouse projects we've got now with diesel power. It's just the peaking load---you're acquainted with our problem in Petersburg that throws the rate schedule out to the point that you never

get out of the woods as far as debts are---in fact the peaking power costs you more than the primary power. I appreciate the comments that you've made to the committee and it's along the lines I've been thinking. I look forward to some more of it.

RUTHERFORD: Well, I say again that I believe that the Permanent Fund can perform a unique function and I know there's lots of ideas for the use of the Permanent Fund, so whoever manages that fund has got a problem of spreading it around the state in a fair and best manner---for the best interests of the whole state.

But, when you look at the communities themselves in general and potential spinoffs, I think the energy area is one place where the use of that fund can result in benefits that will spread throughout most of the population of the state. There are particular problems related to Alaskans and now Alaska is going to have a particular fund that's also Alaska's. And I'm just suggesting that right there we have an opportunity to do some of the things, that we have a little difficulty convincing the rest of the world, that are feasible. Through the use of the Permanent Fund, I believe you can yardstick some stuff so we can get some more

money in besides. And since the Permanent Fund can perhaps be used to really generate additional spinoffs to a lot of the communities.

GRUENING: Any questions? Thank you very much.

RUTHERFORD: Thank you.

GRUENING: Our next witness is Carl Steeby.

STEEBY: Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to be here, appear here. I do not have an entire text or anything, but I would like to offer some of my thoughts to the committee on the Permanent Fund.

I have asked quite a number of people the question what's the purpose of the Permanent Fund to see what their thoughts where when this Permanent Fund was set up and, needless to say, I received numerous answers, mostly to curb legislative spending, to help all Alaskans, to have some money left when the oil runs out and a few had the same opinion I did when the Permanent Fund was set up. It was to mainly develop renewable resources from the income of non-renewable resources, whether it be oil, gas, minerals, whatever they might be.

I was at the hearings Saturday over at the Anchorage Westward and listened to Dr. Gordon and Dr. Bergman make their presentations and, really, I couldn't agree with either one of them and their thoughts on the Permanent Fund. Dr. Bergman split her ideas straight down three different ways. She had three scenarios, you may remember. One was spend it as you get it. The other was the gilt-edge investment. The third was a development fund.

I don't subscribe to any of these scenarios, per se. I subscribe more to all of them. Not necessarily spend it as you get it. Maybe spend the income that would go to the general fund for things like parks, recreation, campgrounds, pioneer roads to the attractions and so forth.

There was several mentions of the $900 million that disappeared. I might say that, for personal reasons, I had to leave the state from 1963 to 1973. I first came to Alaska in 1942 and have been here most of the time since and in 1963 our roads were in a terrible mess. You couldn't find a campground anywhere, you couldn't find any rest areas, you had to go by the nearest tree or anything else. When I came back in '73 we had campgrounds like no other state has that I know of. They're everywhere, there's lots of them, we need more. They're crowded. But, a lot of that $900 million did some

good. It wasn't all rat holed as Dr. Gordon said.

On the second scenario of Dr. Bergman, I believe that we should have a portion of the Permanent Fund go into gilt-edged investments. These would be long term, high interest bearing investments that would go into our general fund, the income, and reduce some of our taxes. Everybody all over the state--- the Permanent Fund is supposed to help everybody and I think that we could reduce our taxes from the income a certain percent. I'm not offering any suggestions of what percent of the Permanent Fund should be used in gilt-edged investments. I think that would be for somebody that knows a little more about economics.

Thirdly, the development scenario, which I subscribe to wholeheartedly, is long term, low interest loans or participation loans or guarantee loans as Mr. Rutherford pointed out.

And I might say that I am an engineer with Robert W. Rutherford Associates, so I---however there is no collusion. We haven't talked together or anything. We didn't even have time to prepare a text.

But these three different methods of financing projects should be considered. Again, no giveaway program---it has to be returned to the state. And in the development, I think that we should consider first our renewable resources for these funds.

The world is going hungry now for protein. We have a lot of bottom fish. Somebody is going to develop the bottom fishery.

Who is going to do it? We need more canneries. We were flying fish to British Columbia, to the lower 48. They were telling me the other day they lost a planeload of fish flying them from Yakutat to Anchorage. We need more cold storage plants. Timber Resources. A lot of the smaller communities could develop small shingle mills, veneer plants, finished lumber. Who's going to do it? Are we going to do it or are we going to let the Japanese come in here and do it---take all of our lumber, our bottom fisheries, build our canneries. Or are we going to do it ourselves?

And, another renewable resource that goes to my heart is the hydroelectric development and I would like to say right along with the hydroelectric development, fish hatcheries. You may wonder why I combine these two, but I have worked from Kotzebue to Ketchikan and this past summer I have lived in nearly every community in Southeastern Alaska from Yakutat to Metlakatla many times. And although they had an excellent fish run this year it was a very dry year in Southeastern Alaska. There were a lot of smaller streams where the salmon were dying in the mouth of the stream because there wasn't enough water to get up to spawn. And I'm wondering what it's going to be

3 or 4 years from now when those fish that would have spawned normally came back.

In Petersburg, there is a hydroelectric plant. The water from the tailrace is utilized in the state fish hatchery. If it had not been from the Petersburg hydroelectric plant, they would not have had enough water to operate the fish hatchery. Also, fry from the fish hatchery was put into streams where the salmon could not get into spawn. So, in my way of thinking, we can build hydroelectric plants and fish hatcheries at the same time and we can go Mother Nature one better. We can do a lot of things to enhance the fisheries as well as develop hydroelectric power.

At the present time in Southeastern Alaska, the average fuel costs per kilowatt hour of energy generated is running a little over 4¢ a kilowatt hour. Nearly all the smaller communities are using diesel electric, while the largest communities are using diesel because of the front-end money. It's hard for a community of, say, a thousand people to go to the market and say we would like to borrow $8 million to build a hydroelectric plant. Well, that's kind of unreasonable for a banker to say here's a thousand people that's come in here and wants to borrow $8 million. They're out of their, way out of their league. Personally, I start pulling my hair out when I get my electric bill and I'm paying about 2¢ a kilowatt hour for it delivered to

my home.

And these people are paying over 4¢ now just for fuel. And in 1995 they're going to be paying over 13¢ a kilowatt hour for diesel fuel. I maintain that if you can build hydroelectric plants at fuel replacement costs at the time it comes on the line, it should be built. And I would like to have the committee really dwell on this development portion of the scenarios that Dr. Bergman set forth. And I think we can use some of the income, say, from the low interest we get on our development programs or the high interest from our gilt-edged investments to even build a few amenities for Dr. Gordon, but I would say more in convention centers and that sort of thing and not opera houses and golf courses. Thank you.

GRUENING: Thank you. Were there any questions from the committee? I just have one. My brief experience with looking at hydroelectric projects, at least explained on paper, is that they are expensive. If we're talking about a $2 billion fund and we consider all the uses that people want the fund to accomplish---like in Fairbanks it's everything from artifacts to whales, literally, yesterday.

Buy, hydro wasn't mentioned, but I know in other regions

of the state it's probably more feasible and it's popular. But, how many projects do you think the fund could get involved in and still accomplish some of the others here. You see a limitation in terms of the number of hydro projects that the fund can get involved in.

STEEBY: Yes, that's why I brought up the three different types of financing. Possibly if you had finance money, there wasn't a demand for it, you could go in and make a complete loan package for a hydroelectric development. Now, I'm talking more---the smaller outlying villages, Dillingham, Kodiak, Petersburg, Metlakatla, Hydaburg, Klawack, where ever. More so I think than I would in actual development of Sitka.

Like I was preparing the energy cost. The rail belt area along the pipeline I feel has benefited economically from the oil and gas business. This same economic enhancement in this area has made a hardship for the rest of Alaska by increasing the wages, the prices of fuel, one thing and another that people have to pay. It has done nothing to increase the price of fish or how much a cant of lumber or something like that is going to bring in. But, still they're paying the higher prices and one thing and another. It hurts them and it is more or less, I think, helps the Anchorage-Fairbanks area.

And to make it a more equitable thing, I think the fund should be spread out and not one huge hydroelectric plant for one specific area of the state, unless there is the money available. But, if you have a limited amount of money, I would say participation. Pay a project off, a small project, say in Petersburg, maybe $8-$10 million. Maybe you can say well, we'll loan you $3 million; we'll guarantee $6 million; we'll guarantee the loan. You find the money someplace else, but we'll guarantee it. And with that guarantee, they could get a whole lot lower interest rate from somebody else. I mean, it depends on how much money you have available for the different projects and it would be a matter of alloting the money throughout the state.

GRUENING: Thank you. Are there any further questions from the committee? Thank you, Mr. Steeby. Our next witness is Peter Van Dilla, if he's still here. OK, Betzi Woodman.

WOODMAN: I have mine written up because if I were to just talk, I would spend all the rest of your hearing time because of---this subject has such broad interests. I'm not an expert in investment and management things and I won't address myself to that particular of it, except to suggest

to the committee that there be an investigation of the state bank concept, that is, and the Dakota is not going to like this, but I don't know whether it's North or South Dakota, has it. I know a little bit about it. But, I do have a statement and I'll read it for you. First I'll identify myself.

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this, our adopted home. I have been involved in numerous volunteer activites over the years and, after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer, which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent Fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented $900 million in oil and gas lease bonuses in 1969, the last Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had---a lot or a little---the desires would be the same: to maintain that peculiar quality of life and to enhance it.

Brainstorming sessions revealed that defining quality of life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically however, accomplishing this goal would include these things:

Protection of environmental values.

Conserve non-renewable resources.

Develop renewable resources, particularly fisheries.

Provide educational opportunities which fit the people's needs and desires.

Encourage cultural development.

Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases of development---such as industrial---and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline. (That's capital letters.)

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership---you, in fact--- can

help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom, is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something, when they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So, with that for background, here is my specific suggestion:

Establish a percentage of the income from the Permanent

Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

GRUENING: Would you say that again, please.

WOODMAN: Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined later here) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facility or addition of a wing, etc.; acquisition of art works or museum material; salary for a curator or a director; assistance in re-

tiring a debt on an existing facility; furnishings for such a facility---new or to upgrade; sponsorship of a program recognized as valid for the type of facility, for example, instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representatiave of public interest.

To define a cultural facility: It is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of, for example, the State Council on the Arts, and its member local arts councils---always keeping in mind that the local interests get true representation. The object would not be to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and the projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuse of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 percent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in views on art of the average working person talked with 400 blue collar workers---maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study, Opinions of Working People Concerning Art. Some critics hailed it as the first "tell it like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. And this is a quote from the report. "We found that contrary to the general belief, they (man and woman on the streets) like art, enjoy it, feel it worth-

while, know much more than we (the arts world) give them credit for . . . and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps---that they act in neighborhood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeals to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an eleven-community Cultural Facilities Development Committee---and I believe you are aware of it through some appropriations to the Southeast Regional Arts Council, or beginnings of it, and I can tell you the names of the communities involved in this at present, are Dillingham, Naknek, Anchorage, Haines, Skagway, Juneau, Sitka, Ketchikan, Wrangell, Hoonah and Petersburg. And I'm on the executive board of that committee.

Now then, where was I? The preamble of that committee reads, "We who are involved in the arts know the importance of cultural facilities to the life of a community. We also

know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, (and can answer the question of young people---what is there to do), providing entertainment, cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

"Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment." That's the end of the preamble.

If ever there were something which would contribute to and enhance the quality of life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest cities, would be the catalyst.

We can do it differently in Alaska and this is one exciting, beautiful way. And we do care how they do it Outside because that's where we learn, both what to do and what not to do. Thank you.

GRUENING: Thank you very much. I appreciated the philosophical bent of your statement. What we are really asking today, not the technical aspect. Someone said in Fairbanks yesterday, we can hire a mechanic to fix our car, but we don't ask the mechanic where we want to drive it. And I appreciated your point of view. Are there any questions? Bill?

MILES: Thank you, Mr. Chairman. I really appreciate your outstanding presentation. Betzi, while you were putting your presentation together, did you at any time at all wrestle with the problem of the income producing limitations under which we are restrained?

WOODMAN: Say it again, please.

MILES: Insofar as the Permanent Fund, we're somewhat limited to income producing...

GRUENING: She mentioned dedication of the income for this purpose.

WOODMAN: Yes. Not the main fund, but a specific percentage which---and I wouldn't think that it would be our

responsibility to figure out the formula when the management group is there just so it could be done. But it would go on in the community, you know, forever.

MILES: Thank you.

GRUENING: Representative Meekins.

MEEKINS: Mrs. Woodman, one of the questions that keeps coming up, and I think it's a good one, is why would a certain proposal be more appropriate or better accomplished through the use of the Permanent Fund that through the general fund or some of the other funding mechanisms available to the state?

The reason I think that's a good question is because I'm assuming that people voted for the fund in order to circumvent the normal funding mechanism which is through the general fund. And if we were to fund all of the needs that have been demonstrated or even the good ideas that have been demonstrated to us in just a couple of days of hearings, I think we'd end up with something very similar to the general fund, because there are, of course, a great many needs in the state and we try to address them through the normal budget process.

So, it's becomming clear to me that, or at least I'm starting to think that the Permanent Fund being used for activities that

are more appropriate to it than to the general fund and I'm wondering if you had any chance to think in those terms at all.

WOODMAN: I suppose I'd go in terms of what our experience has been in trying to get such things from the general fund. The demand for very basic economic related things has been so intense that it is very difficult to address to this. And it's kind of too bad always to have this one left over thing when I have a feeling that this---I've lived long enough and been experienced enough to realize that this kind of thing is more important than an awful lot of other things.

We use the phrase, as you know, that we don't live by bread alone, and we say it very glibly. But, the great deal of investigation into the internals of how people think and how they live---the young people's protests have been to discover that they really don't answer their needs. They are not the same.

I had the opportunity to gather a great deal of information from people who participated in "Cry of the Wild Ram" over the years at Kodiak. And this was an amazing thing. What it meant to individuals to be part of this. It had nothing to do with who came, who saw, who benefited as an audience. It had to do with the person relating to other

people. A sense of creativity, a sense of belonging, a sense of history of their area which they gained. And they were very emotional about it. They felt it had given a direction to their lives. And, you know, not everyone has ski boots or can afford them and not everybody wants to go down the mountain and not everybody can play in an orchestra. But in a cultural facility, there is a place for anybody who wants to be there. And the responsibility of course is on the community to generate how it's used. And in Naknek, the museum and saving of their artifacts seems to be their major need now. This might change over the years. In some of the larger urban areas, the dramatic presentations and the music presentations become more important.

But, I've taught school over the years. I've taught music and I've worked in theatre and so on. And it's my experience that over and over again it has been the saving thing to many a person because he found a place where he belongs and it's important to him. His community is the life.

MEEKINS: I think you make a very compelling argument for the need for these types of things in our lives. But, I guess, what you are saying because historically, you don't feel that it has been funded enough or quickly enough, or something, through the general fund, and since the Permanent Fund would allow us to, in essence, dedicate a certain percentage year after year and you

wouldn't have to continually make presentations and try to get them from the state since it would be a dedicated fund, that that would be a more secure way of funding it and that's the reason you look to the Permanent Fund, then?

WOODMAN: I think so, yes.

MEEKINS: Thank you.

GRUENING: Any further questions? Thank you very much.

STEEBY: I'd like to comment on the question there.

GRUENING: OK, well normally---we'll go out of order---we don't like to do that---as long as we don't get involved in a debate. Go ahead.

STEEBY: Her ideas are quite a bit like mine on using the income from the Permanent Fund for recreation facilities, campgrounds, art galleries, medical centers and things. I think we're going to have to keep our taxes up to keep all of the freeloaders from coming in and, rather than take income from the Permanent Fund and put it into the general fund to maybe reduce our taxes too low, designate some of

this money for some of the more social aspects of our living. Rather than just having it all go into the general fund.

GRUENING: I guess your only disagreement is on opera, right?

Thank you very much. I think we have time for the last listed witness, Harold Pomeroy, and then at that point I think we'll break for lunch and then it's a free-for-all. The way we did it in Fairbanks is anyone who wanted to testify next just came up and the first one to get here got it. Everyone was very gentlemenly about it.

POMEROY: Mr. Chairman, members of the committee. I was plagued in attempting to prepare testimony because it seemed to me that I didn't have anything to say that you didn't already know and I'm not a specialist or a professional in a particular field of finance. I was uncertain as to how to proceed and be useful. I decided to take a look at your preliminary report by the House Special Committee, that it might aid you a little bit in your further deliberations. I also thought that I could be most useful, if useful at all, by proceeding from my own experiences in the field in Alaska and make reference to them. I have prepared my testimony, you have copies of it. I think it well to read through it so that if there are any questions...

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The preliminary report by your committee on the Alaska Permanent Fund is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund are so complex and extraordinary, however, that enough data from which to draw well-considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

And I interject there that we are possessed of a great many illusions, a great many hopes and aspirations that are just that. For example, recently the urban conservatory conducted an attitudinal study in the lower end of the Kenai Peninsula and contacted more than half the families there. And, in asking about what the people would like to see developed, what they'd like to see evolved, 92% of them said the emphasis should be on agriculture. Well, agriculture started on the Kenai Peninsula in 1949 and it is negligible now. And however a person might feel emotionally about agriculture versus industrialization, for example, there is a large part of illusion there as there is in some of our other hopes and aspirations.

Such qualifications as I may have to appear before you

on the Permanent Fund come mostly from actual experiences.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce, and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry, would be too meager to be feasible. It looked as though importing tens of thousands or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability. Perhaps my original interest had been stimulated a little bit by a statement by Interior Secretary Hickey's in the 1930s that Alaska's future would rest on very large scale settlements of people, that is to build up population.

I was raised in alfalfa ranching and dairying in Los Angeles County and after six wearying years in Europe during and after the Second World War, the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay,

operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone. And I know of one viable farm on the Kenai Peninsula and there maybe a few more, but it is negligible.

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization, asked for a conference on behalf of peasant Russian emigrees from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple lifestyle. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

The Russians were enthusiastic about agriculture and they were peasants. But we cautioned that they should be ready to do anything as agriculture might be too meager. They are now hardworking, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials just too limited.

They have been self supporting from the outset and now

have more children in their grade school than there are in the Anchor Point school. If more consumers produce prosperity, I imagine this success story is a good thing.

When the legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initiated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry not its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high-value nitrogen fertilizer urea could be a big boost to agriculture. And now, anyone can drive his truck to the plant and have it filled with bulk urea. This has not been enough to improve the agricultural outlook.

In 1972 the legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in

remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were six more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U. S. Federal Government grants for the infrastructure required. The underlying problem however was economic feasibility---the product simply could not compete in the international market. I have heard no more of the other six just waiting to go.

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved, I have been interviewing persons at random since the end of the Cook Inlet-Kenai Peninsula oil and gas development boom---hundreds of them. The persons

queried are as varied as: truckdrivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building Supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitchhikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work, are you staying? Not one has told me that he was disillusioned and leaving or couldn't get a job. Of course this is not a professional survey, you understand and there is a great big turnover among people in and out of Alaska, but it does appear that we simply have a constant pressure.

From experiences and observations since the organization of the Kenai Peninsula Borough following the October 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of newcomers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. But it seems to me that whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment---or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax.

The property is a substantial body of copper ore which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax, the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be $1.20 to $1.25 per pound for the enterprise to break even. Copper on the world market was then between 50¢ and 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility, but the state would be incurring a cost of several million dollars for public services for the persons involved.

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation..." This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the Permanent Fund and everything else concerning the future.

If anyone believes, however, that we should spend as convenient as we go along and accumulate in the Permanent Fund

only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay-size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety of level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had previously been able to support. Costs in Alaska are higher than elsewhere--- for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the legislature and a "bureaucracy gone wild." There are of course always some inefficiencies, extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to "grass roots" will bring expenditures way down is deluding himself.

The upshot of the situation is that the state is disbursing close to $1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almost total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than

pay our currently relatively moderate taxes. In fact, the report implies the probability that use of Permanent Fund money to diversify will require benefits such as low interest rates---meaning some measure of subsidy.

Taking account of the central reality of our situation one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on Page 9 of the report is an excellent statement. I would change only the second word from "may" to "will" so that it reads, "subsidies will only make sense if the loan will be supportable and the enterprise will pay for its cost." This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraph on Page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in Section B, Anchorage Times, September 4, 1977, be given close attention. It states inescapable facts, but also quotes what seems to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is quoted as saying, "In fifty years

farming and prices might no longer be marginal. It's something to plan and work for." And, "it would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry."

And I interject here, I am not against agriculture. I simply am hopeful that we will not go overboard and will not pursue a course that may be illusionary as far as its ultimate effects. And I refer to your quote in the preliminary report to agriculture as a special fund so that we can rapidly develop agriculture throughout the state. It will be a long, slow, limited process.

I had occassion to make a study on the Kenai Peninsula with respect to a proposed forage project on which the Bureau of Reclamation had spent some $300,000 and the gas line was going to provide the heat for pelletizing the forage for the many thousands of horses and other livestock we have around here. And it was easy to find very quickly the fatal defect. It was simply that in order to be feasible from the standpoint of justifying the capital expenditure, capital investment necessary for that project, it would have had to operate 24 hours a day for something like 95 days. Well, the optimum for the production of forage, because of our adverse climate, may be only about three weeks. And that project, even if it had gone ahead and been realized with individual operators having 500 to 1500 acres of land, it would have taken

care of maybe 25 or 30 pounds, that was all.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on Page 5 of the report states, "As oil wealth declines, the Permanent Fund may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will". A qualification might include words such as, "...barring some unpredictable windfall."

The first paragraph on Page 5 touches on the underlying concept of the Permanent Fund by referring to preserving the dollars into which the oil and gas wealth is being transformed. And that's one of the most sophisticated statements you have in your report. Dr. Barbara Bergman of the University of Maryland speaking on a panel on September 10th said, "The idea of the Permanent Fund is to preserve resources for future generations." Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the fund for high return can help preserve the value of the dollar resources.

And I note here a little bit from some of the discussion so far that I think it appropriate to say that the whole concept of the Permanent Fund is rooted in economics. And there must be a purpose of a hard-headed approach from the standpoint of economics because the idea is to take this resource that has to be gotten out fast rather than spaced over 50 or 60 years because of the economics of transporting it, is to take it and put it into a form that will save it. And it will keep it up so that it can make a permanent contribution.

There is probably no more important statement in the report than the sentence on Page 9, "If no in-state opportunities exist, the Permanent Fund cannot create them." In other words, if the requisite conditions for economic viability are not present the state can't buy them. Further, as a general proposition, if requisite conditions are present, money is available and the state need not go into the financing business separately. This of course excludes some social purpose which might be deemed worthy.

And I interject here something concerning electric power because of what has been said here. I concur in the testimony presented. I concur in what Representative Haugen has said because the development of electric power, if done of course on the basis of good sound evaluation of a project and the longevity of it, can make just very good economic sense. When we started producing

oil in Alaska, oil was about $3 a barrel. No one thought then it would be priced at $14.60 and no one may think that it will be priced at $30 in twenty years. I do. I think that it won't be long before it will be $16, $18, $20 and more, simply because of the pressure on world wide resources. And so, if an investment is made in a hydroelectric project as in Ernie's area, for example, and it is sound, even with a moderate rate of interest, the feature that Ernie referred to of an accelerating interest rate as time goes on would still make it very, very good sense from the standpoint of the users and from the standpoint of the investment of the fund as to overall return in the long run. You heard testimony here that per kilowatt diesel fuel new represents 4¢ per kilowatt. Well, as it goes on up it may represent 13¢ or 14¢ or 15¢ per kilowatt. And by that time electric power---those projects which are thoroughly sound---can make very, very good sense.

So that's the only point at which I make observations specifically as an object of expenditure and in that connection I would say, Russ, I'm not worried about money, that is, if I had the say of what we did with respect to the Permanent Fund, because I would save a helluva lot more than $2 billion and hope that we do arrive at that point.

This of course, referring again, coming back to the text, referring to your statement about if no in-state opportunity exists. This, of course, excludes some social purpose which might be deemed worthy enough to have attention from the Permanent Fund. Any action in this direction should be based on a clear-cut identification of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating. You know this of course, but maybe there is somebody who don't. If the state's budget is increased an average of 10% per year, the budget in less than 20 years will be $6 billion; the 10% annual increase might be made up of 5%-6% inflation, 2.5% plus or minus population increase, the rest in services expansion. Now as to comparisons, gold production in 1976 showed a big increase over '75. If the state revenues totalled $20 per troy ounce for gold for '76 (a ridiculously high figure, I think), this revenue would be equal to about four hours of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million barrels per day.

Recently an exuberant state official said the 200 mile limit

provides us with such a potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the official's enthusiastic figures, indicates that the revenues to the state by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet-Kenai Peninsula fields, it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years. And I note that just simply to indicate the pure magnitude of what we are dealing with.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principal. But it seems to be that we haven't made clear enough the picture as to the possible total of the abnormal oil and gas revenues---not just the revenues of which 25% must go into the Permanent Fund. Figure 1 on Page 6 of the report is a good start, but it isn't enough. I suggest there should be an expenditure chart starting in '74 or '75 and projecting on to about 1997. Of course it would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (including the pipeline tax), and the "normal" revenues, shown separately. Now this may seem like an impossibility, but I think almost anything is better than nothing so that the people can get a better picture of the whole dimension of everything with which we are dealing. It seems to me the people need to be more fully informed, if possible, in order to make value judgements on any aspect of the oil and gas revenue. More information might lead to better perception as to a basic goal for the long time future and perhaps influence a person's judgement as to "diversification" and "renewable resources" versus "investment in high yield, low risk securities", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money, is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the average of seven construction industry classifications, including laborer, had risen to $15.43 an hour, excluding fringe benefits, by last January.

If people should believe it desirable to feed and nurture the Permanent Fund to maximum feasible size and producitivity, the

result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

GRUENING: Thank you, Harold. You have obviously devoted a great deal of time and thought to this. Are there any questions from the committee?

POMEROY: Well, I just hope that it may give you some few thoughts that will help you in your consideration. You know that I'm a member of the Growth Policy Council and we are taking some of these questions to the people in a series of Public Forum meetings. I expect to spend almost my entire time in November and the first part of December in that. I don't know how good a job we'll do. It's so difficult to get enough information into the hands of the people so that they can form good judgements without the person leading the group, actually leading them and suggesting what he thinks they ought to think. We try to avoid that. We try to do what you're trying to do---

is to gear what we have to say. And thank you for listening to me.

GRUENING: Thank you, Harold. We'll return at 1:15 and try to start at 1:15 sharp. If there is anybody here that hasn't testified, I mentioned that we did do it on a kind of free-for-all basis. But if there is somebody that couldn't testify other than right after lunch, just see me.

LUNCH BREAK

GRUENING: I want to welcome everyone back to the continuation of the hearing by the House Special Committee on the Permanent Fund.

This morning we heard from several people who have various ideas and philosophies on the Permanent Fund. We just returned from Fairbanks, a one-day hearing in Fairbanks and there was a series of suggestions by the Fairbanks people. Some of it ranged from very conservative philosophies to investment in everything from artifacts to whales.

And today, this afternoon, I am as much interested from the witnesses as to what they don't want the Permanent Fund to do as what they want it to do. As people will recall, we do have a general fund in which the greater portion of our oil wealth will be going unless we change the law as it now stands. Twenty-five

percent of that oil money of course goes in the Permanent Fund. The other 75% together with all tax revenues goes into the general fund and from that the legislature decides among all competing priorities, everything from artifacts to whales, again, as to how much of that money will be spent for what.

We have a Permanent Fund which separates that amount of money---25% of that oil revenue---from the general fund and from the legislature to appropriate. Today we'd like to hear about your philosophy, how that should be treated differently, how that should be invested and how the income should be used. And I think our first witness this afternoon is Paul Brown.

Incidentally, I'd like to introduce the rest of the committee. I'm Clark Gruening, the chairman. And sitting to the left of me is Representative Russ Meekins, to the right of me, Ernie Haugen from Petersburg, and Representative Bill Miles of Anchorage and our A.A., Mike Doogan. Did any of you gentlemen have a statement or anything you'd like to say? OK. Paul.

BROWN: Thank you, Mr. Chairman. I would like to address the issue also of the quality of life in Alaska and some of the observations that I have having lived in the state now for nine years and some of the changes I've seen that I think

are both positive and very negative in this state. And I believe that that ties into both the Permanent Fund and the larger general fund that you spoke of. Whether or not money should be used in the general fund for particular needs within the state or the Permanent Fund, I think it's probably better decided with a great deal more planning and by people far more knowledgeable with the finances of our state government than myself.

Dealing in a particular area, and mine is the---professionally ---is the producing director of the Alaska Repertory Theatre, I am aware of the continuing and changing needs within, not only the theatre segment of the arts in our state, but in a larger sense the statewide arts needs and getting even more general than that, what I come down to call my version of the quality of life.

First of all, I think that what Mrs. Woodman testified to earlier this morning relative to the vital role that the arts are playing in the development of our state is, if anything, understated. For one reason or another, and there are many theories on the idea, the arts in Alaska are more important in this state than they seem to be almost anywhere. The study that was referred to this morning on the number of Americans who appreciate, who seem to want the arts in their lives is one conducted by the National Research Center for the Arts which is an affiliate of Lewis Harris and Associates.

It was that same firm three years ago that got this what is

called an attitudinal study under sponsorship then, partly from the National Endowment to the Arts, the Greater Anchorage Borough and the Alaska State Council on the Arts. That study, which is available, and I recommend that you take a look at it, didn't ask people how many plays and concerts they wanted. They asked the people's attitudes towards the arts. What they wanted and where they felt funding should come and if in fact those so called amenities could be available or should be available only by private contributions. In general the study found out that people in Anchorage, Alaska, at least---and unfortunately there wasn't enough money at that time to do a statewide study---seemed far more sophisticated in their understanding of what the cost of the arts were, where the arts had to be funded from and even more basic, that is the needs of the arts here in our lives. I'd like to say that maybe one of the reasons it is important in Alaska is that we don't go to the beach a great deal. I think it's partly due to our climate.

There is a program, to get specific, there is a program that has been operating now for quite some time in Canada which has dedicated funds to an arts endowment. At the time the Canadian Council on the Arts was formed, millions of dollars at that time were---created a fund which then dedicated the money to the continued growth of the arts. Essentially that

money is administered by a special committee of the National Council for the Arts in Canada and in addition to the appropriations---and this is the key to it, there was some misunderstanding at the time that the endowment created---that this should replace the annual appropriations from the states and from the provinces in Canada. But that this fund which helped to develop and to continue to fund the arts does come from the earnings from the money that has been appropriated by Canada. The income is averaging something like 7¼% annually, the fund managers, because of some investments that were not as wise as they hoped they would be, are making changes and hope now that they will be able to bring that up to at least 8 1/5%. The administration costs from the Canadian Council are kept low, they are 12% of the earnings annually. It allows the arts in Canada, the various institutions, to undertake multi-year projects that are not tied to appropriated annual dollars. All grants are then made from the special committee of the Canada council.

Now, that system works in Canada and I would suspect that it might work here because it takes the administration of arts dollars away from, or at least partially away from, the year to year political fluctuations that occur in their government as of course they do in our government. The arts are not, should not be political. Apparently, too often they get political and when we have our legislature determine what is good art or what play should be

supported, then we're really attacking the very root of art, which is self-expression. And I think that every member of this committee would agree that the legislature need not determine self-expression from the people of this state.

There is a problem that exists now within the arts in this state, that is oddly enough related to at least the conventional wisdom and the rest of the country about our new found wealth. I can remember a time only three years ago when I was going in search of funding at the national level and at the national foundation level when to merely be involved in what seemed like a sound arts project way up in the frozen north would create a great deal of excitement. And there seemed to be almost a special treatment in Washington and elsewhere in private foundations in New York and Los Angeles, merely because a state that was perceived to be so backwards was interested in the development of its---of other size programs.

Just about the time that I was in Los Angeles and the day before I approached the Schubert Foundation this spring, there was a banner headline in the Los Angeles Times. That banner headline read, "Oil Companies Lose, Alaska Wins." Now the story that followed beneath that banner headline wouldn't have been a surprise to anyone. We were all following the great debate in the state as to what the new tax

revenues might be on the oil companies. But the impact that that press had---and certainly the Los Angeles Times is not the only one to blame---the national impact, rightly or wrongly, is that we have new-found wealth and that we needed to begin to look internally as to how we were going to support some of the programs that had been funded for many, many years at a federal level. What I'd like to point out to you here is that the arts are by no means an exception to the national perception that we have the wealth and we need to do more of the job ourselves. I suppose that is true and it weakens our arguments.

We have an added problem that is an old problem but it continues to be a problem. Traditionally, as many of you know, the arts in America have been funded by the wealthy, they have been funded by private foundations and corporations in a more recent time, but by people in the private sector who had the money to make up the difference between what the arts could earn and their actual cost. Alaska is a late entry into private wealth. There is, as you probably know, only one private foundation in this state that is active. It is a small foundation and has disbursements of roughly $65 million a year for ı programs. It does support the arts. It cannot do the job alone.

What I'm suggesting here is an idea for an endowment to the arts is certainly not for the state to take over the role of the small amount of private money that is available or the corporate

contribution which has been rather generous, particularly since at least the advent of the oil companies, but rather to increase or hold out the carrot for further private contributions to the arts. If an endowment were created by the state, it certainly could be created in a way that would encourage further private corporate donations to that endowment. I certainly don't think state money should ever replace what is available to be raised from the private sector, nor should it decrease the interest on the parts of those of us who manage the arts in the state in the potential for earning. I think it is first and primary that the arts try to earn every bit of the income that they possibly can, but that we cannot hamstring them with impossible tasks that we are now beginning to do.

There is no question that the audience exists. And to use the statistics that are quite familiar to me because I use them all the time the first session of the Alaska Repertory Theatre, the state's first professional company, drew in an audience in Anchorage alone of over 20,000 people in its very first short season. In one week's time in Fairbanks, we drew in an audience of nearly 6,000 people. Because of limited funding, as a matter of fact because of state funding, not so much by the legislature but by the administration, the statewide programs that have been envisioned in the inception

of this organization have yet to be realized.

I'm going to get away from the arts in particular and make one other suggestion that this group might look at. We have seen, and particularly in Anchorage and Fairbanks, the loss of the character of both of those towns due, at least partly, to development. I hate to admit it, and I say it sort of embarrassed when I'm outside---my friends, because my love of Alaska exists or I wouldn't be here---but Anchorage distinguishes itself as certainly one of the ugliest cities that I know of. The reasons for that are numerous. But what there was in terms of a character in this city, and I think that this is probably true certainly in Fairbanks and maybe elsewhere in our state, has been lost. We have scattered development, we've had to build quickly in order to handle this tremendous oil boom that you are now trying to decide some of how it's benefits should be spent. There is no program that I know of that it's going to encourage the small businessman. It's going to encourage the commercial side of this city to invest in what the asthetics might be of their businesses. And I'm talking about the improvement of the exterior of buildings. Spending the extra dollar with construction costs as high as they are to take into what is not considered important because of the economics. The architectural considerations. We are probably sitting in the building in Anchorage now that distinguishes itself above all others architecturally and it certainly isn't going to win any awards

anywhere. And of course it was built by state money. Maybe the Permanent Fund needs to address itself to the changing character of Alaska cities and maybe there has to be some incentive from, again from earnings from the Permanent Fund, to encourage business and local government for that matter, to turn the urban areas of both, particularly Anchorage and Fairbanks---and I single them out because they are the only communities in this state that qualify as cities, at least by outside standards, and have more of the problems of cities---into making this a better place to live.

We no longer have the tiny little pioneer towns that they once were. We're going to build urban areas. We read reports that Fairbanks will be 70 and 80,000 people before too many years and that Anchorage will go up over a quarter of a million people pretty soon and 300,000 by 1985 or 1990. I'm interested, and many other people are interested, in what those cities are going to feel like. What are they going to look like. What are they going to be like to live in as they are in real cities. Is there some way, is my question, to turn some of the state's resources, through the Permanent Fund, into the encouragement of---so long as we're going to have cities---building cities that are far more pleasing for every Alaskan who lives in those cities or everyone who visits those cities to be in. Thank you.

GRUENING: Thank you, Paul. Any questions from the committee? I take it, Paul, that you have at this time no comment on the actual investment of the fund. Your comments relate to possible dedication of the interest or earnings in the fund.

BROWN: That's correct. I think a great deal more study would have to go on to determine specifics.

GRUENING: Thank you very much. I appreciated that. Is there anyone at this time who would like to testify?

WILSON: I wasn't really prepared to make a statement today. My name is Richard Wilson and I'm working with a citizen's group in Anchorage which is called Breakthrough and I'm one of the volunteer participants. My job happens to be the local financial resources to pay for various improvements, some of which the previous speaker referred to. I'd like to broaden my concepts into a much more Alaska-wide framework.

The first thing that strikes me when I look at Alaska is that we have a state that is going through tremendous change, rising aspirations in terms of the services the government provides, in terms of the amenities of life. Everything from electric, dependable electric, service on through to cigars. We have so many wants and the presence of a Permanent Fund is so all pervasive that the

two have got to clash or be reconciled in some way. And I think the thing that I would---my suggestion to the special committee would be on behalf of Breakthrough---and really on a statewide basis is to---not to preclude the possibility for utilizing these funds for purposes of community improvements.

I noticed in the publication that the committee put together, the green-colored publication, one of the possible strategies for use of the funds mentioned was the assistance for local capital improvements or municipal projects. One of the things that struck me is that under the possible implications column on Page 9 you find that almost all four of them, three out of four, are more or less of a downplay implication. In other words they do not really say positive things about the idea. And I think that may well be true. One of the comments was that it was not a good rate of return to the Permanent Fund to subsidize a municipal electric system, for example. Where they had no electricity previously. Other investments would bring more money back to the Permanent Fund. But in terms of the broader social purposes to which I think this fund has to address itself, this committee has to address itself. The net return to the fund can be maintained and yet you can apply some of the fund to worthy community improvements, that not be a high rate of return, but are, you know, of long run appeal kind of investment.

I would like to give an example, just along the these that was employed this morning by several speakers, the energy theme. Energy conservation wasn't mentioned. I think perhaps this is one of the fields that should be explored. For example, every community, every city borough in the state has municipal facilities. How many are begun in such a way as to conserve energy---get the maximum energy efficiency possible. Well, maybe one of the best investments that could be made is, and on which a return is possible, is to fund a refurbishing of the municipal facilities around the state. You can naturally cost out and project out the savings in energy costs over the future as fuel costs rise and you can do this in conjunction with the various demonstrations and pilot projects that are proposed by one of the earlier speakers this morning. Mr. Rutherford. such as your wind power and hydroelectric.

But, here's an example of a community improvement that may produce a long-term benefit to the citizens of this state. Economic as well as social. And I think it should be considered and not precluded by the committee. And the list of examples is endless and I won't go any further.

I think the point is that we have an existing and growing demand around the state, as Mr. Pomeroy mentioned to me over lunch. The Alaska Public Forum, various hearings around the state, produces an almost unanimous feeling that what the fund really could be useful for is funding community improvements.

Whether they be a hydroelectric facility or a library. And given this really felt need around the state, I think the legislation should be written in such a way as to be broad enough to authorize the use of a certain proportion for these purposes and I think this is a statewide need and that's about all I have.

GRUENING: Thank you, Rich. We appreciate your comments. Are there any questions from the committee? I only have one. I believe your profession is investment counselling, is it not? Or what is...

WILSON: Well, it's municipal finance and community planning and development. I'm consulting with municipalities and boroughs and hopefully with the state in certain circumstances to basically achieve a more efficient use of public funds.

GRUENING: Now, we heard from consultants who recommended against the Permanent Fund getting into bonding, purchasing bonds because the income is generally lower. Although it's tax-free, the Permanent Fund being a government institution, a public institution, will have tax free earnings anyway. It was suggested we get into some of the other areas that are higher and I'm interested in your thoughts on that and the

thought that once you start devising various ways to invest the fund that involves social implications, you, what you are doing in effect is allowing certain subsidies for certain classes of people. Then we have an accountability and an equity problem. To what extent do you feel we could solve that problem so that the most benefits get derived? Is that the thrust of your testimony? That through city or municipal improvements you reach, let's say, the division of the assets of the funds in a more equitable manner if you distribute it that way?

WILSON: I think that is one of the points I would make, yes. And I didn't make it specifically, but that is one of the major points, I feel, to consider by the committee. If you ask me what I thought the purpose of the fund were, I would answer it is to maintain a nest egg for the future. In case, for that rainy day in the future. It's constitutionally required. But the constitution does not preclude a net return to be maintained. And what I mean is every investment that is made doesn't have to be the highest rate of return. It is only the net return on all of the investments, whether they are high, medium or low, or even lost subsidies in effect. Just so that the net return is positive and you make money. That's what I think is the constitutional requirement. Given that, I think, it's only a question---and

given the fact that you have demand for services that is existing, and you as elected officials must feel it every election. We need to do this. We need to do that. We're talking about facilities, we're talking about municipal improvements. And this pressure will maintain itself and it will grow. The question is, in what form can that assistance to help those community improvements be funded take without producing a net loss.

Basically, a small proportion should be the limit. And I think that one of the things that I would propose is that the committee consider utilizing a decentralized system of decision making for those investments that aren't intended a net high return. Decentralize that part of the process and centralize the profit making part.

GRUENING: OK. Mike, do you have a question?

DOOGAN: I just want to make sure that I'm clear here. You are saying that your interpretation of the constitutional amendment will allow a certain proportion of these investments to be made regardless of whether or not they were income producing. That is, that you could make investments even though you were going to lose some money?

WILSON: No, I didn't say that. I don't think that we should go into it with the idea of losing money. That concept is---it's not the right way to say it. The word subsidy was used in place of that. And I think there is room for certain subsidies to be made within the confines of that constitutional requirement, but a very small proportion of the total investment. Out of---2% even, just to take a figure out of the air. I haven't studied that part of it. Don't hold me to a figure. But it's possible that the net return could be made even though you do subsidize certain investments. And it is---the question is which do you subsidize? And in analyzing the relative net benefits and costs of each form of subsidy is a tremendous task we have before us.

GRUENING: Thank you. Are there any other questions from the committee? Thank you very much. If there is anyone, because of time that wants to testify right now, we'll take another witness. Otherwise, we'll take a short break. If there are no further witnesses, we'll get home and get some rest before we go to Kotzebue tomorrow. We'll take a five minute break.

BREAK

GRUENING: Call the meeting of the House special committee back to order. We have a witness, Mr. Bob Posey, who would like

to give us some of his thoughts.

POSEY: Thank you, Mr. Chairman. As a long-time Alaskan, I also am quite concerned about quality of life in Alaska and this afternoon we have heard some comments about the importance of quality of life here in Alaska. One of the things that all long time Alaskan's remember, though, is that for many, many years, the only employment within the state was by the government. Everybody was either on the government payroll or worked in a service industry that provided services to those who were. I believe that any investments of this fund should take into account that we should keep Alaskan residents employed.

I notice here in your report, preliminary report here, that you published, that we talk about risk. Well, I have an answer, I think, to that question which you raised. There has always been risk in Alaska. The people who came up here in the gold rush were taking risks, there was no guarantee. The farmers who came to the Matanuska Valley were taking a risk. There was no guarantee. There are many people here in Alaska today who took a risk to come here. There were no guarantees. We have a wonderful state, we have a dynamic state and dynamic people here.

But, unless we look to the future, it's entirely possible

that our children and our grandchildren will not have jobs because it's entirely possible, in fact it is even probable, that when the oil resources are depleted, the oil companies are going to pack up and leave. They are under no obligation to stay here. And I should hope that we would have built Alaska into some type of business or industrial base to where we will have jobs for Alaskans in the future. That's all I have, thank you.

GRUENING: Thank you, Mr. Posey. Questions from the committee? Representative Meekins.

MEEKINS: Mr. Posey, I agree with your statement quite strongly. I've been concerned about exactly how is the best manner of going about that. One of the problems that we've been confronted with on this committee is that our consultants tell us that if we go on a program to increase jobs directly that, because of legal problems with limiting those jobs to Alaskans, and because the labor supply that Alaska utilizes is basically all the rest of the United States because they can move up here and they have. If you're a long-time resident, you certainly know that. Then, how it is we can give this benefit to the people that need it the most? We want to give it to the current residents of Alaska. What they're saying is that we won't have any effect on unemployment, we might increase it because of the number of people that

come up. And they may be in fact, compete successfully against residents for jobs that are in existence currently.

POSEY: There certainly is that possibility and we have a recent trans-Alaska pipeline project to look back upon. I think probably one of the answers to this is that, if we encourage Alaskan industry that, rather than use the fund to develop jobs directly or to do training directly, that there are monies available from the federal government which we receive in this state at this time for training programs. The native corporation certainly has a certain amount of money. I would hope that some of their funds would be used in developing training programs within their various regional areas.

MEEKINS: One of the suggestions we've had to get around the constitutional problem of Alaska hire provisions is that the state participate in large scale development similar to the pipeline---maybe not quite that large, but whatever large scale developments might be going on in the state. That the state participate in those at least enough to get a contractual agreement by the owners of the company that the development hire Alaskans first. And that would be in fact legal and get around the constitutional problems that we have. Would

you favor such a use of the Permanent Fund?

POSEY: Well, that's certainly a possibility. The only problem with it is that it's only a short-term solution. We are interested here in the long-term possibilities, the long-term effects of what we do today. I think one particular pet project of mine would be the state participating in hydroelectric projects because this will not only create certainly a large number of jobs during the construction phase, but having relatively available and hopefully inexpensive electric power within the state is going to encourage development of industries throughout the state, or at least throughout those areas where electric power is available. And the state is certainly going to benefit no matter who is employed ---we hope that it's going to be all Alaskans. I think certainly, probably a major percentage would be. But the state is going to benefit from the increased revenues that we have, not only in individual income tax, but the business taxes.

GRUENING: Any further questions? Mike?

DOOGAN: You sort of addressed my question in that last statement, but, if the Permanent Fund is to sponsor development which in turn can be supposed to bring up at least some additional people from outside to live in Alaska, that it in itself would create a

demand on government services that would not otherwise exist and particularly at a time when the residents of the state seem to be against spending in the public sector. Have you given this any thought? Do you think that the revenues generated through personal income tax, which for instance is relatively low and stable at this time, would pay for the services demanded by the people who came up? Or would we need to increase the level of government spending from oil resources?

POSEY: That's a good question. There's an old saying, in effect, that there is no such thing as a free lunch. I think part of our problem is that we are deluding ourselves to a certain extent in that government services cost regardless. We're going to have to pay for them. There are many places, one example is Delaware. Throughout the state, other than in their major cities, they have volunteer fire departments which bill the people on an annual basis. So, no matter what services you get, you have to pay for them. If people within the state of Alaska want the services, they're going to have to be paid for. How it's paid for is going to be up to the voters.

GRUENING: Thank you. I'd like to ask a question I think every witness may want to examine. What do you think

is the primary purpose of the Permanent Fund. Why do you think we should have one?

POSEY: Well, quite honestly, I voted against the Permanent Fund.

GRUENING: Then tell us why you think we shouldn't have had one. That might be instructive.

POSEY: I can understand, I think, the reasoning behind it and it's to help keep the money in Alaska and make some long-range benefit to Alaskans from the oil revenues so it won't just slip through our fingers as monies have done in the past. My primary concern about the program is the possibility of mismanagement. It scares me to death to think that this money can be mismanaged. I think that as long as we have the proper safeguards within this that that possibility diminishes. But this is always going to be there. When you have large amounts of money to be managed by a group of people, there is the possibility of intentional mismanagement and deliberate mismanagement, but then there is always the possibility of human error. It is going to exist.

GRUENING: As you are probably aware, the general fund now is managed by the legislature and the executive to the extent that

we make an expenditure, the legislature decides who gets it and how much and generally the governor through his staff and departments administers that money. Do you think that there is a greater potential for mismanagement there or one for the fund?

POSEY: That's a very hard question to answer. I think it's probably a toss-up at this point in time. As I said before, there are no guarantees. I think we have to, now that the decision has been made to establish the Permanent Fund, pick up the ball, as you gentlemen are doing, and run with it and do the best we can.

GRUENING: Thank you. Are there any further questions? Thank you very much Mr. Posey. I notice a few people came in the room. Ma'am, did you want to testify? Representative Osterback is here, would you like to join us? We'll be a little while longer, I think. Do you want to be in the audience? We've got fewer of those than committee members.

OSTERBACK: Do you want me to join you?

GRUENING: It's up to you. Great, we'd love to have you. Would you state your name.

WOOSTER: I'm Marjorie Wooster. I live in Anchorage. I represent a group of people who are interested in developing agriculture in Alaska.

GRUENING: I think I received a letter on wheat from you. I hope you received our reply.

WOOSTER: Yes. I received your reply. Thank you. However, it's always good to reinforce a letter. What the gentlemen was saying about looking ahead to the future we are very much in favor of. Money is money. We just can't eat it. What we hope will happen over the next 10 to 15 years is that agriculture will really be stressed.

There has been many views on how the world should feed itself and Schumaker, one of the economists, recently passed away, said that each large metropolis should have surrounding it a number of farms to feed it which would cut down on transportation and so on.

Well, Alaska is in a delicate position as far as food is concerned in the world in that we ship in most of our foodstuffs. And we would certainly like to see a change in this status in the next years. The Permanent Fund money is helping to establish and---farmers can farm, but a lot of processing marketing that gets in an area where there is a big lapse, and Permanent Fund

money can help there in just establishing those areas of processing and marketing. We feel that way. And that's part of, that's what I wanted to say.

GRUENING: Well, thank you. We had an interesting observation in Fairbanks. They were quite interested in agricultural as well and I asked one witness why she felt that present agricultural loan fund was failing, at least it appeared to be not accomplishing its objectives in terms of where agriculture is and the loans were in default. She felt that the loan program was mismanaged, that the loans were given out on a favoritism basis. And, of course, she felt that the interior wasn't getting it's share. Do you have any reflection on what we are not doing and what we are doing that seems to keep agriculture in its kind of poor stepchild kind of industry?

WOOSTER: When I grew up in the valley, there was a lot of farming going on. And last year, I talked to an Iowa farmer who was taking a trip around the valley and said there was many fields laying without being turned over. And I think the farmers are being outpriced, you know, by developers. And another thing, in my opinion, there is no cooperative area where they can---some of the potato farmers have gotten

together and made a market for potatoes, but a pea processing plant came up a few years back, folded. I have a friend who started a freezing plant up there and just ran out of funds, and I believe it has almost bankrupted him. And some of these ---a lot of it is just getting started. Once a process gets rolling and this is where the Permanent Fund could help to get the system started, then they can use the fund to put the produce into the economy.

MEEKINS: I think that is the important part you just touched on, is that---I certainly would like to encourage agriculture and we may end up doing that---but the question is, of course, if it's just, it needs a little push to get going, that the Permanent Fund could help it and then it could eventually sustain itself. Then I think it is an appropriate consideration. But, I'm wondering, as you said, so many of these things folded. Is the reason is that it is just not economic or because they just needed a little more investment money and couldn't obtain it or something?

WOOSTER: This was the case in that freezing plant, I know that. That he ran out of his own money, couldn't find financing and those freezers sat there for a long time.

MEEKINS: But you feel it could have made it if it had some sufficient backing and then sustained itself?

WOOSTER: Yes. Yes. Surely, a large freezer plant for all the vegetables in the valley and then it could be put on the market if it was time for them and so on. Holding is very necessary.

GRUENING: With, say, adequate capitalization, do you think the products of the valley would compete, let's say the massive agri-business or farms of the lower 48?

WOOSTER: I think we'd have to stimulate "Buy Alaska First". Instead of looking for---I know Totem eggs are a lot different than the eggs sent up from the states, I mean you can't compete---$1.25 for Totem eggs and they are what, 80¢, 90¢ for the others. So naturally people buy the other ones.

GRUENING: Aren't they forced to do so, I mean the prudent homeowner or householder is going to stretch the budget as far as it'll go. I mean, "Buy Alaska" may be a couple of cents difference, but isn't there a point at which patriotism will not go?

WOOSTER: We may be forced into feeding ourselves.

GRUENING: You are saying that the transportation systems may fail?

WOOSTER: I'm saying energy altogether---there's an article in the December Reader's Digest, I'll refer to it so that I don't get anything wrong. This is a five page ad and it's bought by Americans for Energy Independence. And the title is, "The Energy Shortage Could Bring Starvation - Have you Ever Thought of That?" Well, we've been looking at this since the world food crisis back in the early 70's. And, where is Alaska fit into the scanner? We have to feed ourselves. I think it is a must. And everything is shipped in here. That's put a higher cost on everything. I think we have to. There is no doubt about it.

MILES: What percentage of Alaska's current population, can you guess, would their agri-products be?

MEEKINS: Four.

MILES: Four?

WOOSTER: Did you say four?

MEEKINS: Four percent. That's what the testimony was yesterday.

WOOSTER: Now, with stimulation, it could change, you know, to 15 or 20, I'm sure.

MEEKINS: There was some interesting testimony yesterday. It said that we had in the state at any one time only a seven day supply of food.

WOOSTER: I'm sure that's true. If you had been here during the strike, you know how delicate the situation is.

GRUENING: Mr. Osterback, I think had a question. Go ahead.

OSTERBACK: Mr. Chairman, you know, I brought up this about transportation out on the chain. It's not that many people, but I would think, they use a lot of produce. And to get produce out of Anchorage you have to pay 38¢ a pound. If you bought a sack of spuds and you want it shipped out real quick, it cost you $38 on a 100 pounds of spuds. That's why I brought up this fairy tale. They say, why don't you order your stuff on the ferry from Seattle. It takes them

about two weeks to get up here by the time your fresh produce comes up through the chain, the food is spoiled. You'll feel a head of lettuce and know what I say. If we could get a ferry system or some kind of freight transportation from here, everybody would buy from them. The valley up here.

WOOSTER: Or establish some controlled environment agriculture. Now there has been a good experience down Soldotna way. There are some quick-growing products, but a controlled environment type of a---in a building say, you know, could help feed an area, cut down on costs, once the initial cost is spent.

MEEKINS: One other thing I'd just like to comment on is that yesterday we had a great number of people testifying in favor of---a great number compared to how many testified, only three or four probably---but in favor of agriculture and we always noted to them that there is a renewable resource development fund.

WOOSTER: We know that.

MEEKINS: OK. And I just---just for informational purposes ---because it in fact for agriculture in some respects is much more appropriate than the Permanent Fund.

WOOSTER: Now that's for growing, right? That's not for processing and marketing.

MEEKINS: Well, it depends on who you are and how you look at it.

GRUENING: Are there any further questions? Thank you very much. I notice there is one gentlemen who hasn't testified. Do you have any...? OK. Thank you.

I don't see any point in waiting for the next witness. So with that, we'll call these proceedings closed. We'll have further meetings in Anchorage. For those of you who haven't picked up a copy of this booklet, please feel free to do so.

Proceedings

of

The House Special Committee on the Permanent Fund

COMMITTEE MEETING

November 18, 1977

Anchorage

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

GRUENING: This is the meeting of the House Special Committee on the Permanent Fund. I'd like to introduce myself, I'm Chairman Clark Gruening and sitting at the end of the table is Ernie Haugen from Petersburg. Ernie has been in the legislature a few more years than I have and sitting next to him is Leo Schaeffer from Kotzebue. That's a little bit north of here. To my immediate right is Mike Doogan who is the administrative assistant to the committee and, just walked in, is Bill Miles from Anchorage. Bill and I both represent downtown Anchorage.

We have today some people that know something about money management. The committee is now at the point where it is about to work on a draft for a piece of legislation that deals with the Alaska Permanent Fund, an institution we may call the Alaska Enterprise Investment Fund, and Renewable Resources Development Fund, which is an additional dedication of our oil revenue for a specific purpose. But there is a lot we have to learn about money management and we have essentially three groups today. One, the Hanover Trust, which is involved in kind of bank management. A gentleman from Minnesota named Mr. Blixt who represents a method of---a board that has a method of in-house or state ---public state investment of funds. And then representing

the Fidelity Management Group of Boston is Terry Magrath who is not in the room.

So, we'll just go---I think in the kind of order that we originally met you gentlemen so we'll start with the Hanover Trust people and maybe introduce yourselves again when you are speaking or testifying, use the microphone right at the end.

MCCANDLESS: Thank you, Mr. Chairman. Can I be heard standing or shall I sit?

GRUENING: It would be more comfortable sitting, I think.

MCCANDLESS: I'd like to identify myself. My name is Jake McCandless. I am vice president of Manufacturers Hanover Trust Company in New York and the purpose of my being here really is that my responsibilities include the development of new business opportunities in the public arena for our trust division.

GRUENING: Representative Osterback, would you like to join us?

MCCANDLESS: Before I introduce my colleagues from the bank, may I say first that we respect the opportunity that we have to

testify on money management before your committee. We are aware of the responsibilities that your committee shoulders as you look to the Permanent Fund and its future and, indeed, the fact that we have chosen to bring representatives from various segments of our management team, totalling at a group of four and, myself included, five, gives you some idea of the importance we place on the responsibilities that you as a committee and the citizens of Alaska shoulder when it comes to a decision on these matters.

If I may, as you face our group, from left to right, I would like to introduce our senior vice president, Mr. Willard Wheeler. Will is responsible for the employee benefit trust department in the trust division and in that department we are managing $7½ billions of dollars in pension assets. We are using our experience in the area of pension fund management as a proxy for the investment guidelines to be established for the fund. And Will will begin our program in just a moment by describing some of the historical background on the development of these funds and how we look at the Permanent Fund in relation to the experience we have had with the pension fund.

Next to Will is Mr. Vic Melone. Vic is the senior vice president responsible for the investment philosophy, basically, of our division and his testimony before you will include our

basic investment approach, as well as the equity investment philosophy that our departments maintain.

Next to him is Harold deRopp. Skip heads our fixed income management team at the bank and has been with Manufacturers Hanover Trust Company since 1961. In his capacity as head of our fixed income team, of course, Skip has a very large group of support people that he will describe to you as he describes our approach to fixed income management.

Behind these three gentlemen, Dimitri, would you just raise your hand? Dimitri Balatsos is one of five economists in our bank's economics department and Dimitri will be talking to you during the course of his testimony about the capital and financial markets and also discuss some of the ideas we have regarding the investment of your fund.

Without further ado, then, let me introduce Will Wheeler, our senior vice president who has overall responsibility for $7½ billion of investments. And I should point out to you that, before Will starts, our trust division is large. We are managing over $11 billion in trust assets which makes us the sixth largest trust entity in the United States. Thank you, Mr. Chairman, and I will turn it over to Will Wheeler.

GRUENING: OK. Before Mr. Wheeler starts, we'd like to introduce Mr. Al Osterback who is the representative from Sand Point

which is considerably west of here. Thank you. If we could, none of us is an expert, if we could break in and ask for clarification in case the words get a little fancy for us. Would that fit into your presentation?

WHEELER: Sure. Please do. As Mr. McCandless has indicated, we think that perhaps there is a good deal of similarity between pension fund and your Permanent Fund. Where we find the similarity particularly is that, number one, pension funds for the most part are very large pools of money.

The second similarity, of course, relative to the Permanent Fund is that they are tax exempt as the Permanent Fund would be and therefore are invested differently than taxable pools of funds are.

And then, finally, pension funds, particularly since the recent legislation on pension funds, pension funds are not in the private domain. They are considered legally as in the public domain and those involved are responsible to the public in terms of their management and, again, we see a great deal of similarity between that and the Permanent Fund as well.

We have provided you with a booklet; I wonder if you could turn to page 4 where we have prepared a chart which tracks for the most part the historical, at least the recent

historical development, of the investment pension fund.

Now, actually, before World War II, pension funds were almost entirely insured. In other words, the concept in that point in time was that the pension to be paid over the lifetime of the employee was a fixed liability in which you promised the employee that you would pay him $1, let's say, 25 years from now. And at that point in time you would place, let's say $55 in an insured annuity contract and then at the end of 25 years the insurance company would pay the employee $1.

And accordingly, almost all the assets that were funded prior to World War II in pension funds went into this kind of a single premium annuity contract, something similar to what you and I would buy as an individual. Now, after World War II, two significant things came to light in terms of pension funds viability. Number one, that in point of fact, if you were required over time as you improve people's compensation, it required over time to improve this pension benefit. In other words, the dollar that you promised really was not a significant amount of money and that you had to improve it and let's say as a result it became apparent you were going to have to pay him $2.

Then, really a little later in time, as inflation began to become a problem and you found that not only did you have to improve his benefits, but you had to try to do something in terms of keeping him up with inflation. And typically, that had to do

with giving him an average of his final years of pay. And in many cases since then, with higher rates of inflation, this has actually resulted in increasing his benefits after he retires.

So, the liability that you thought you had that was fixed was no longer fixed. Actually it was a moving target. And accordingly, a simple, single premium-insured kind of funding was not appropriate for a moving target. Now we think this is a similar problem for the Permanent Fund in that certainly one of the things you are going to have to overcome in time is trying to offset inflation. Now inflation over the next 15 or 20 years is unpredictable. But nevertheless, I think most of us would agree that we'll have some sort of inflation over the next few years. So you can see when you refer to page 4 that the funding has switched from the insured type of funding to the non-insured type of funding. In fact, from the time period 1958 to 1975, as indicated on this chart, the insured assets grew at 413% rate, the non-insured assets of pension funding grew at a 537% rate.

If you turn to page 5, we have given you the statistic of state and local retirement funds, what we call public retirement funds and, if I may, just to digress for a minute, when we say private pension funds, we mean pension funds

established by a corporation or multi-employer, union negotiated funds. When we say public pension funds, that's just for state and local employees. And they have had, interestingly enough, they have had a significantly different history in their evolvement. Now, we don't have the statistics on the insured versus non-insured as you can see on page 5 for the state and local retirement funds, but typically the state and local funds were not insured. In fact, typically when state and local pension funds were established, what they did was buy their own obligations. Their own municipal bond. Now the concept on this was, well, we'll try to save the taxpayer money by funding---using our--- the taxpayers' funding of the pension fund to hold down---to buy our own bonds and hold down the interest rates. But this clearly was not appropriate because, as you know, state and municipal bonds are tax exempt and therefore the coupon on state and local bonds is significantly less than the taxable bonds, and if you have a pension fund which is tax exempt anyway, it's not logical to invest in a tax exempt type vehicle.

And so many of the state and local funds of course have been switching---rolling out of investments in tax exempt bonds. Do you have any questions on that up until now?

Alright, if you'll turn to page 6, we deal with---we have some historical information on what has happened in terms of the investment, the types of assets---the assets mix---used in the

non-insured portion of the assets. And again here we are dealing with private pension funds and what has occurred here, as you can see by the line, is that there has been a distinct rise in the use of corporate stock in an attempt by the funding agencies to overcome this moving target that I talked about---that the perception was the stocks would provide a higher return than bonds and therefore we would try to get as much yield for total return as we could in order to offset ever-growing inflation, and you can see on that blue line that corporate stocks has risen to approximately 60% of all of the assets invested for private pension funds. You can see, historically, back in '58 they---there was a higher investment in corporate bonds that has declined over time. Mortgages, as you can see over time, has never been a significant portion of the investments now for private pension funding. It has declined significantly.

I would only make this comment. That it's our conception that probably the use of corporate stocks for private pension funds has peaked. Now, probably over the next 10 or 15 years, you'll not see a big increase in the use of corporate stocks versus fixed income investments for private pension funds.

GRUENING: There are a lot of decreases.

WHEELER: Certainly there is a possibility for a decrease and that's a good question. The reason for that has been---is that over the last 12 years common stocks---the strategy to use common stocks has been unsatisfactory. In fact, instead of out performing corporate bonds or government bonds over the last 12 years, they have under performed bonds. Now, my only answer to that long term is that if---and this will be dealt with a little bit by Mr. Melone---but just let me give you the long term concept---is if common stock---if our type of capitalism remains in the form as it exists today in the type of pecking order in terms of balance sheet structures of corporations, that obviously the common stockholder is at the bottom of the list. And the axiom is that if you have a riskier investment you will get a higher return over time. If you do not, it would be irrational to invest in stocks. So it is our assumption that, over a long period of time, that common stocks will do better than bonds as long as the system stays in place as it is. Does that answer your question?

GRUENING: Well I see--I don't---you're not making any predictions, then?

WHEELER: Well, year by year, no. What I'm predicting is that long term, and I don't want to take too much on this because Mr. Melone is going to show you some statistics on that, long term

common stocks will do better than bonds, but they'll be more volatile. I do not think that there will be a large increase in the use of common stocks for private pension funds, nor do I think there will be a large decrease in the use of common stocks for pension funds.

On page 7, you will see that the history of the development of assets for state, local pension funds and you can see the blue line---it shows federal and state and local securities at 60% of all the assets originally invested in their own type tax exempt instruments and that has declined significantly and you can see the big rise over time in the use of corporate stocks. But you'll note that corporate stocks are only 20% of the total asset mix at this time. It would be my projection that, while there probably won't be any increase in the use of stock for private pension funds, there will be an increase in the use of stocks for public pension funds.

One other thing I just wanted to comment on was ERISA. The legal aspect of ERISA and how we see that applies judicially to this type of fund, i.e., a fund that belongs in the public domain. Now, if we make---it is unlikely that any of the type of protection---individual protection under ERISA---will apply to this type of fund because that has to do specifically with pension fund; entry, vesting, things

like that. We think it certainly unlikely that any of the funding assets of ERISA will apply to this type fund. But we think it highly likely that all the fiduciary standards set forth under ERISA will apply to this fund and---you know, over time will be tested that way.

Now, what I mean by fiduciary duties is ERISA has sent me this. It essentially says that a man---excuse me---any person involved in this type of fund is---must act as a prudent man would and I'll detail that a little bit in just a minute.

Number two is the funds must be operated exclusively for the benefit of the participants.

And three that the investments must be diversified.

Now they have not told us exactly what they mean by the investments must be diversified. In fact, we know more what it is not than what it is. But we do know they have a 10% rule. You can't invest more than 10% in any one issue. So that tells you one thing. It does not mean that you could not take a fund like this and invest it all in bonds. But what it would mean in our perception is that you couldn't invest it all in one bond and you would have to stagger your maturity and the type of bond---the problem is the type of bond you would invest in.

Now, in terms of the prudent man rule, that we now have what is called a federal prudent man rule. Before we had state and local prudent man rules. We now have a federal prudent man rule

and that's the way everybody is going to be measured as we see it. And all that really means is that you have to act responsibly with other people's money. And that's all the prudent man rule means. It's a common sense kind of rule. Now there is one new element to this prudent man rule. It says those people involved with other people's money must be familiar with the matters he acts on. Now this is a new hooker in the prudent man rule, in other words, ignorance is no defense is essentially what the law says at this point in time.

OK, given that as a background, I would like to turn it over to Vic Melone to discuss the assets as we see them and your opportunities.

GRUENING: Thank you.

MELONE: Alright, I'll talk about the investment process at Manufacturers Hanover. The system that we use to make decisions with respect to the kinds of assets we get involved with. I mentioned system. Why do we need a system? Why can't we use something like just seat-of-the-pants judgement or gut-feel or intuition or---we think that's fine and can be successful, but not running large pools of money. If you'll look briefly at the chart that is on page 7A of your

chart book, there is a table there showing the total rates of return. You got that? Page 7A. That table indicates the rates of return for different classes of assets in the period 1926 to 1976, both in nominal terms and then adjusted for the inflation that has persisted over this period of time.

I think it would be helpful if you could, as I have done here, bracket the fifth line down which is the consumer price index. The numbers above that line indicate the nominal return that has persisted for common stocks, long term corporate bonds, long term government and treasury bills in the fifty-one year period. The middle column indicates the volatility around that return as existed for those various classes and, of course, you've got a '66-'76 experience.

You'll notice first that inflation and volatility are the two items that pervade this table. Common stocks in the 51 years returned an average of 9.2%. However, the volatility around that totalled 22.4%, which meant that in 34 of the 51 years of this survey, the range of returns for common stocks went from a plus 31% to a minus 13%. So your average may be 9.2, but there was a great swing around that average. In the period the last 10 years, you'll see that the return on common stocks, the column on the far right, is sharply lower. You as treasurer...

MILES: Wouldn't it follow that the deviation---that deviation

percentage follow in the last 10 years or would that just relate to the 50 years?

MELONE: No, the deviation refers to the 51 year period.

MILES: There would be essentially no relationship to the current 10 years?

MELONE: We didn't calculate it, but if anything I would think the deviation is at least as great. In fact, the next two tables on pages 8 and 9, if you could take a quick look at that, you'll see the light blue line on page 9, referring to the years you are talking about. You can see the light blue line which represents the return from common stocks. And the pattern from '66 to '76, particularly the last four years of that, continues to show very wide swing. Treasury bills, which are considered to be totally risk free assets, returned a 2.4% annual return which was just about the inflation rate that persisted over this 51 year period. So, if you go down to the inflation adjusted return on treasury bills, the last line, you'll see that treasury bills, when you do account for inflation, return actually nothing. Now, there is no tax affect on this table either, that may not be important here, but for individuals,

they would have paid a tax, obviously, on the return they got from the treasury bills and then also have the impact of inflation. So, their return would have been below zero. After taxes. I won't detail each of the others. I think they are self-explanatory. Typically, you've got a lower rate of return from corporates and governments which your volatility, that middle column, was considerably below what it was for common stocks.

Mr. Gruening, your question on the future, the professors who di_ this calculation did make an estimate of what the return for common stocks might be like after the year 2000 and the projection was that it would approximate 12.2 or 12.4%, something like that. Higher than the 9.2% experience that we have experienced in a 51 year period. The inflation rate is there, including was, I believe, 5.3%, and the volatility factor remained very high. I don't remember what the...

GRUENING: You have a lower rate of inflation...?

MELONE: Than the most recent 10 year experience, yes. Well, when you are making assumptions for a 25 year period, things have a way of smoothing out. The volatility on the inflation rate would be as wide as the volatility on the return from equities. I think what this table indicates is that it's a little more difficult to pick the right assets, particularly for the right accounts. It's

a process that requires a system, a discipline, and we think a large organization, if we are talking about large pools of money. I think the charts on pages 8 and 9 are---clearly--- graphically illustrate the volatility we talked about. It's particularly the impact you get from common stocks. The chart on page 10 is just a graphic illustration, really, of the table.

So, as I said, we believe that it requires a large resource, a commitment, etc., and I'm going to just take one or two minutes and---I don't think you want to hear about our organization in great detail---but let me tell you what we do at Manufacturers Hanover and try and anticipate the problems that are presented by this record.

Our commitment began first of all by having a senior investment committee which the senior policy making committee for the investment decisions. On that are three senior vice presidents, the executive vice president in charge of the division and the heads of all major departments in the trust division. There are 10 people total. The function of that committee is primarily to determine the overall economic forecast and to make forecasts of the direction of the capital market, short and long term interest rates, and of course the stock market itself. And we try to do this in detail for a two-to-three-year period. In this case, out to the

end of 1979. We are also working with long term factors as well, within which we look for deviations for the near term.

We get help in this task by a very large organization. Being the fourth largest bank in the country you might suspect we have a large economic department. And they provide a lot of economic input, do a lot of the interpretations for us.

In the equity management side, we have three groups. The first is a group of ten portfolio managers who specialize in equity investments. Two of them deal in small capitalization companies and one other in intermediate sized companies.

We have a staff of investment analysts who are industry specialists. There are 16 of those. They cover in detail 25 industries and well over 300 companies. And within the investment research department there is a great deal of specialty as well.

The third part of this equity management group is a special support group. We carry on very precise and again highly specialized analysis, whether it be in long portfolio theory, econometric studies, economic simulations, etc. We also have a team of six equity treasurers who themselves have specializations within that organization.

The fixed income staff, which is a third contributor to the work of the senior committee, is also broken into three groups.

We have, the same way, we have a group of portfolio managers

who specialize in the fixed income area.

The second group is a specialized support group which is headed by Skip Duarte that has within it a lot of fixed income specialists dealing with arbitraged lots, cash management, etc. Skip will talk more about that later.

The third part of this group is free credit analysts who do the work that might be familiar to you from the stock security analysis standpoint. It's the same kind of work. And they prepare a proprietary bond representative list for example which is used by our portfolio managers.

The final point is that a bank of our size obviously gets a lot of attention from the investment banking community on Wall Street and around the country. So that we can tap a lot of the resources from other people and we get a lot of attention with respect to blocks of stocks or bonds that may become available, can get specialized help.

Alright, now, we believe that in the senior investment committee we have to systematically analyse a whole series of risks and opportunities presented in the economic picture. We don't believe and we have not found that it's practical to take a particular economic forecast and say this is it and spill off from that a capital market forecast which suggests that bonds are going to do "x" and equities are going to do "y" and this is the way we go. What we have chosen to

do---it's our way of doing it, we're not saying it's the only way---we think it may be the best way. If we thought there was a better way we'd be doing it. But for us it has proved effective.

For us, we developed a series of four economic scenarios and these take into account the risks and opportunities if you will that are currently being talked about in the business community. And we present these in the senior investment committee. It was discussed in great detail and then they are given a probability of occurrence. And we do this by weighing each of the scenarios on the basis of objective information, some judgement from each of the 10 members of the committee, and we wind up with a weighting that can be applied to each of these scenarios.

Now what we are trying to do is to quantify uncertainties. And it's very rare that you find that everyone will agree that scenario one or three---whatever it is---is the one that makes the most sense; it has a 100% weight. If that were the case, it would be logical for us to take the capital market forecast that comes out of that economic scenario and say with 100% degree of certainty that we should tailor all of our investments to meet that particular conclusion. To the degree, however, that other forecasts are given weights and let's say equal weights across the board, then obviously the uncertainty that's in the system is taken into account.

GRUENING: Is there a rating system to compare your performance to, let's say---Mr. Blixt is sitting over there and, as I understand it, his operation is done mostly by state employees. Is there some way that you are rated along with him as to his cost overhead relative to results?

MELONE: Well, there are a number of organizations that do that kind of performance measurement. I don't know if our bank, our trust department, is in the same weighting system as the State of Minnesota. I couldn't answer that particular question. There are plenty of people we can be compared to because a lot of firms have made a great deal of money doing this. We do it ourselves when the results are available. We are interested in knowing how well we are tracking and how we can improve our system all the time.

GRUENING: I don't think this committee or the legislature will probably get into deciding who---a lot of these technical problems, but I do think it would be good to understand what are some of the groups that do investments outside maybe the operations of government---or not under---not state employees, so that's why---essentially what I'm interested in in a broad sense as to what you are doing.

MELONE: Right. I might say I think part of your question

was that this sounds like a very expensive organization and it is. But it is spread over assets that at the moment total about $12 billion and that helps. But it is still expensive and we make it the kind of commitment you have to make to be in this business.

GRUENING: My original question was really---is there some way you measure your cost overhead relative to the results you provide your clients? In the same way could you compare it to some of the systems that are---some states use in which they use essentially state employees, although I realize in the equity area they probably contract that out.

MELONE: I personally don't know of any measurement system that ties in the cost of the procedure itself. Since---I just don't know of anything that's done that way. Cost effectiveness in effect.

GRUENING: But your customer---I mean, he gives you some funds, whoever he may be. I assume you invest state funds as well.

WHEELER: If I could answer the question for a minute. What you can do---to cut your question two ways---one is there are

plenty of---and I am sure your consultants are aware of this ---there are plenty of information on performance put out by all bonds, by stocks, by type of bonds, and certainly we or they could supply you with that information. And it is readily available and doesn't cost anything. If you wanted to compare the expense ratio of money management under an organization like ourselves, all you have to do is take our fee and crank it against whatever your projected market value would be for your fund and then relate that to whatever--- people like Mr. Blixt will tell you what it costs to run internally. Now, I don't have information on that and I don't know exactly how you'd get the information. You'd have to talk to those state funds to find out exactly how much it costs for them to run it internally. But for example, you could use a fee ratio for us, let's say one tenth of one percent of the market value and that would tell you how much it would cost. And that covers all this cost. And then relate that to whatever help you could get in terms of other costs.

GRUENING: Alright.

MELONE: If I could ask you to just look briefly to page 15. This will demonstrate the four scenarios that we

are currently using and they are labelled: Delayed Expansion, Extended Expansion, Recession, Stagnation. And this chart shows that the real GNP growth forecast in the---that are currently being used by a dozen prominent economic firms or economists are represented by the shaded area in that table. And this indicates how the four scenarios we are working with cover virtually all of those possibilities. The chart on the next page, which has to do with inflation, the GNP deflator, shows similarly that three of our scenarios are assuming a wider range on the inflation front than is currently described by the 12 economic firms. Speaking of economics, I would like at this time to introduce Dimitri Balatsos, who is a financial and capital market expert in the economics department at Manny Hanover, and have him describe a little bit the process in some detail. And I think you'd be interested in his comments on the current economic scene. And maybe I can come back for a minute after that.

GRUENING: Thank you. Excuse the two gentlemen. They are probably going to have to read part of the transcript to catch up on all of it, but they are also on a committee called Budget and Audit which just called for a vote. They need a quorum. They'll be back, however. Go ahead, excuse me.

BALATSOS: It's alright. Mr. Chairman, I think your question

about justification given the overhead of the operation would quite appropriately be addressed by an economist. As you know economists the last few years have a rather poor record in terms of performance. However I don't feel that in our case you have to worry too much about it. After all, we are still a very small item in the bank's budget.

In addition to that you find, interestingly enough, that despite their record, the demand for economists, if anything, has increased. Now there are reasons for that. As a nation I think we have become quite a bit more sensitive to economists and let us not forget that last year's presidential election was the economics battleground. I don't have to take too much of your time to justify my presence here. What I'm supposed to do is take a few minutes and show you an example of how at Manufacturers Hanover we use economics and economic analysis in this otherwise murky environment.

So let me then start off by putting things in perspective. I'd like to refer to page 11 of the booklet. There you will see the recovery that is currently underway that started in the beginning of 1975, the blue line lies rather appreciably below the average of the previous recovery. What this shows is that, despite massive fiscal and monetary stimulation, our economic system has not performed---has not rebounded from the depths of the recession as rapdily as it did in the past.

Another way of looking at that is by comparing what we were actually doing economically today with what potentially our system could produce. There are many other paradoxes of this ongoing recovery that to a large extent explains why economic records have been so poor in the last few years. I'd like to refer you to the consumer pattern of spending. There you find tremendous strength in housing, in automobiles, other types of spending have failed to catch on. They're all going expansion. The same thing is true particularly with the business sector. I refer you to the table on page 12.

There you will see that with the ongoing recovery business outlays in real terms through fixed investments have fallen appreciably below the path of previous recoveries. Let's look at the employment-unemployment situation. For the last two and a half years, our economy has registered record gains in employment. And yet the level of unemployment continues to be severely high. Let's look at another example. What's happened to interest rates, the price of credit? Referring to page 13. There you will see the yield or the interest rates for short term commercial paper. As you can see in previous recoveries, there was an appreciable increase in money market rates as reflected by the commercial paper rate. This time around---depending---we had an overall decline until the last few months when the commercial paper rates started going up again. Also, let's look at the loans of

interest rates.

HAUGEN: Let me ask you a question.

BALATSOS: Yes, sir.

HAUGEN: When you talk about that commercial paper. Is that that short term for inventory and things of that nature that you are talking about?

BALATSOS: That's correct. The commercial paper used by companies to fund short term working type capital requirements. Let's look on page 14. There you see the course of long term interest rates as reflected by AA utility bonds, long term. Again the same path---overall declines this time around instead of the increases. Also, quite significant is the fact that three years into the recovery course if anything our deficit in the federal budget is expanding, it is not shrinking. And I'm referring to the expanded debts as projected for 1978 fiscal year.

Now what I want to emphasize then is that the nature or the structure of our economic system is changed and has changed in a rather fundamental way. And for the purpose of these hearings today I can only refer very briefly to two or three

underlying causes. The first one is the rate of inflation. This is something that economists have a great deal of difficulty coming to grips with. And by very, very contemporary standards, meaning the last two or three years, the rate of inflation today, roughly about 5 to 6 percent is appreciably below the 12+% we had in '74. Yet, when you compute it with the kind of inflation we had in previous recoveries, this is about three times higher. And inflation is a problem because it destroys the stability of the relationships between let's say income and spending and all these other economic variables that economists count on.

Part of this inflation package, if you wish, is of course the leaping energy cost. To put it very briefly, the system is still trying to adjust to steeply higher energy costs, something that was not the case in previous recoveries. There is another thing, too, that economists use, let me brush over very quickly, and this is a poor rate, poor state rather, of liquidity and the extended use of debt. To put it differently, in order to produce a unit of output today, our system consumes a great deal more debt. And this is a crucial aspect because it raises the question and it raises the requirement of very careful financial market analysis. Analysis of corporate balance sheets, analysis of consumer's finances and so on and so forth.

Again, I want to take you then through some of the ways that we incorporate in the bank, simply the emphasis that has been placed on financial market analyses and use those inputs on investment decision processes. So, as Mr. Melone, my associate, indicated, the whole process is basically a two step approach. This investment committee ascribed or puts or places odds to three or four alternative economic scenarios. This way, we get a handle on the risk factor, the uncertainty factor, then using the most probable scenario, we try to implement our investment decision.

Let me refer you to page 14A. There we have laid out for you four alternative economic forecasts. I realize that this is not an economic forecast session. I just want to very briefly touch on the two extremes, the so-called extended expansion to which we ascribe a 49, almost 50% probability, the first column. And then the other extreme is the recession which, as you can see, is a 34% chance.

I don't have to again give you all the justifications why we put a 49% probability that the ongoing recovery will stretch through 1978. You hear a lot of talk about the fact that the economy---that the recovery is already three years old. It seems the average expansion of the post war period lasted about three years. There is a rising group of economists that says another recession is just around the corner. Well, the answer to that is that economic recoveries do not

die of old age. They usually fall victims to imbalances. So after we've done our homework we discover that there are no excesses on the horizon, no excesses on the outside, any significant excess. We don't have a kind of bottleneck, a kind of instability and so on that we had back in 1973. So, I think you can make a strong case, 50% chance that the recovery will stay here so long as those excesses on the outside particularly do not materialize.

To go to the other extreme and look about recession again very briefly, we have given a rather high probability to that out come because of two basic downside risks. The first one, again you don't hear much about that, is our growing deficit in our balance of payments. Roughly $30 billion will be paid out to foreign countries this year. And although all the imports we bring in show up as goods and services consumed by our system, the wages and salaries that go to support that kind of consumption at a loss to subsidize to the foreigners.

Another basic downside risk is the chart I showed you earlier, the very sluggish performance of business investment. Unless we see some steam build up in that particular category next year, I think we will have a recession later on in 1978.

And there then we list the five or six key variables in that determine investment performance starting with the GNP, the Gross National Product, on down, pressures on the inflation front in

terms of unit label cost, corporate profits which are the lifeline of dividend payments, and then of course interest rates which determine the mix between bonds and stocks. Unless you have any questions, I would like to return the microphone back to Mr. Melone to take you a little bit more carefully about the investment decision process.

HAUGEN: Let me ask one question. On corporate profits, do you feel that minus ten there, does that mean that corporate profits are dropping? Is that what that means?

BALATSOS: If we have a recession in 1978 and '79, you can see that by '79 corporate profits will be declining 10% or will decline in the year of 10%.

HAUGEN: Can you give a reason for showing that figure? What is your analysis of it?

BALATSOS: Well, the analysis starts with sales, what kind of sales we expect in 1979, which you see a decline in sales obviously in the face of rising costs, it's going to bring about declining profits. Profits in the case is nothing more than sales minus costs. If sales come down and costs keep rising, you are bound to see some squeeze in profits.

That's why we have the 10% in 1979. Across the board if you go for scenario three and four. There is usually a slow down in corporate profits as the business cycle matures and the expansion continues because what you are doing in effect is spread your sales volume over a relatively higher cost factor here. A slower growth in your sales is spread over a higher volume of cost. And that's why the slowdown in profits is inevitable in every economic expansion, but it turns into a decline if your sales volume drops as well.

GRUENING: I'm sympathetic with a client who told me one time he wanted to see a one-armed attorney and I can appreciate--- I'd like to see a one-armed economist who is not on the other hand...

BALATSOS: Mr. Chairman, this has been a serious session. I have some anecdotes because I like to do things in perspective for the use of anecdotes, but I think I'm going to skip them...

GRUENING: Thank you.

MELONE: There are several pages of descriptions of economists somewhat like the one you just made.

Let me just summarize again the use of this weighted forecast. It is first of all to describe the uncertainties that exist

in the minds of professional investors, investors and economists and to somehow quantify that uncertainty so that it has an impact on our capital market forecast. The second thing is that it gives our portfolio managers an opportunity to assess whether the outlook that we are looking for not only is the most probable outlook but across the span of these four forecasts, whether the eventualities of that have already been discounted in the marketplace.

You know, very often things will happen exactly as you expect, yet nothing will happen to stock prices or bond prices. Or on the other hand stock prices or bond prices will do something entirely inconsistent with the facts as they seem to be presented. And what we've tried to do here is to take that into account and realize that the opportunities of catching the single best set of circumstances, or the single most accurate are very remote. And we're trying to understand the uncertainties in the world and quantify it in our decision making process.

If you will look for a moment at table 14A, you can understand a little bit how this is used. For example, under the first scenario under 1978, the S & P 400 index would range from 102 to 132---it is currently about 102. If scenario two, delayed expansion, which is the most favorable in effect, were to have a hundred degree of certainty or probability,

the range would be 118 to 152. And then you have the two recession oriented scenarios and here you see that the range from the low end drops to 85 and 86.

The chart on page 17, I'm sorry, page 18, shows in graphic terms where each of the scenarios would lead you in terms of the 1978 stock market. The shading indicates the range that comes out of the weighted scenario. The blue line, extended expansion, whic is the most probable, is leading to a midpoint in effect. Now the band around it shows what the weighting of the other three probabilities does to the capital market forecast that would ordinarily spill out of this. And you can see through the shading that it is skewed downward because of the weighting that our portfolio managers and the senior policy committee have given to the recession possibilities.

OK, let me just take another minute or two to talk to you about the equity side. All of these disciplines and overview procedures are really preambles to get us to decision making processes---the selection of stocks or bonds. I mention that we have a very large and effective research department covering about 25 industries. These analyses are given our most probable forecast and working through that and understanding the relationships of various parts of the economy to the industries that they follow, they attempt to develop earnings and divident forecasts. We have found that---and they use a lot of tools for this,

the usual analytical tools, balance sheet and income statement analysis, study of unit growth, price growth, competition and they talk to the management, they talk to experts in many fields. What we are looking at here is to get the best estimate we can of corporate earnings and dividends. Now we have found and studies have shown that the tracking of earnings growth and dividends growth is the best determinant of future stock prices. We've got three charts and I'm afraid I've got three or four more to show you.

On page 19 you see a chart depicting the growth and earnings per share---the red line, and the growth and dividends per share. Earnings here are compounding at 4.4% over the 51 year period and dividends at just about 4%.

GRUENING: Wait a minute. The red line is what, now?

MELONE: Earnings per share, using the S & P index as a proxy for stocks. So that there is a parallel growth in earnings and dividends.

The second chart...

GRUENING: Earnings includes the appreciation of stocks?

MELONE: No, that would be the appreciation of costs,

so that would come out first.

GRUENING: What's the difference between the earnings and dividends?

MELONE: Earnings per share, the profitability of the company.

GRUENING: Oh, OK.

MELONE: The next chart on page 20 shows the relationship between dividends and stock prices. You will see here that in the period stock prices generally track the rather short moves we've had in dividends, so there seems to be a relationship between the two except when you come to 1971. And you see there that dividends, at least in nominal terms, continued to go up but the market has come down over that period of time. This chart does smooth some of the wiggles a little bit.

GRUENING: It's about time the state took a bath.

MELONE: There were a lot of people in the tub at that time.

GRUENING: I think there is somewhat of a bias up here because...

HAUGEN: A year later though they kind of hung on there, could have come out a little bit better, you know.

GRUENING: Sure.

MELONE: Well, that's why I say this smooths a lot of the pattern. There were very wide swings in the period after 1970. You did get a lot back and you gave a lot away again in the '74 period and it came back sharply in '75.

HAUGEN: Well, I think the reason for that was that the people got excited from the political point and jumped on the fund manager and he started to unload, you know. Some of it they should have unloaded ahead if we wanted the top half of it back, you know. Anybody can do that.

GRUENING: Plus they had a cash flow problem, they had to liquidate.

HAUGEN: Well, I want to talk about it a little later.

MELONE: Well, I don't have to mention what happened to the price of oil and in Anchorage I am sure you are aware of that. That did influence things quite a bit.

But the next chart is the one on page 21. I think at

least partially explains that anomaly of dividends going up with the stock market going down. You can see that if you adjusted the dividends for inflation they actually turned down in 1966 and at least partially this would be a reason for the market not performing as well as it had in the past. This is investor perception that they were not getting in real terms the kind of dividend returns they were expected to or needed to stay in the stock market.

Now in addition to this kind of work where we track the dividends and earnings carefully and in real terms, we rank the industries that we follow in the chart which shows the top 12 and the bottom 12. Here we are talking about the increase in corporate profits year to year. We have found that it makes sense for us to concentrate our holdings in those industries and companies which rank in the top quartile. At the same time the system gives us an opportunity to introduce a selling discipline. You don't hear a lot about this generally. But in the same way that it makes sense to concentrate your stock in the top third of this ranking by industry and by company, we found that we ask questions of our analysts and our portfolio managers as to why we continue to own companies that are continuing to show up in the bottom third of this ranking. It is not an automatic system. If the portfolio manager or the analyst doesn't have a good reason for holding that stock or holding it in that amount, the senior policy committee will then take an issue with it and either reduce or eliminate those

stocks. So it is asking the proper question is the important thing that comes out.

Finally, one more chart, the last one by me, page 22, the product of all of this system and all of the special talents that are in the division has produced and is aimed at producing an equity portfolio which can graphically be described as you see on page 22. The green bar represents the portfolio and the black bar represents the S & P 400 so that we can and have---this is an existing portfolio---put together a portfolio where the stocks in that portfolio show an historic growth over the past five years of 17.9% compared to the market of 12.2%. And more important, an estimated future growth rate---the next bar---that's about 50% higher than for the market itself.

GRUENING: What's the period of time that this thing is covered? Covering?

MELONE: What?

GRUENING: What's the period of time that this graph is covering?

MELONE: It's a five year historic where it's indicated

and five year future.

GRUENING: From what...

MELONE: This is an existing portfolio as of September 30th, the last time it was calculated---this is not a performance, this is a graphic description of the security, the actual stock in the portfolio. Taking into account and weighting each security.

GRUENING: This is your total stock portfolio, of just one...

MELONE: This is a portfolio, but it is a representative portfolio or a group trust which is a representative portfolio of all our trust programs in fact.

GRUENING: And that was from what, this year five years back. This is a five year period and a selected portfolio?

MELONE: This is really, if you will, a snapshop of what the stocks in that portfolio look like with these characteristics at the moment. OK?

GRUENING: OK.

MELONE: It's not a trend or a movement or a performance.

It's just the---certain financial or growth characteristics of the company itself. So, moving further down you see the historic dividend growth has been twice as high in stocks that we own in this portfolio compared to the S & P. And the estimated growth in dividends is 9.9% versus 6%. So it's 66% gain. There are two profitability or qualitative ratios here as well. The five year return on capital is 30% higher than it is for the S & P. And debt as a percentage of total capital, the final column, shows that these companies are considerably more liquid in their balance sheets than are stocks in general.

The next to the last column, the estimated PE shows that despite the higher growth, the higher dividend and the stronger qualitative aspects of the stocks in this portfolio, that the multiple that were paying for those stocks is 10 times versus 8.1 at the moment for the S & P 400 which is not, in our opinion, a very big risk.

OK, if there are no questions, I'd like to get to Skip deRopp who is our senior man in the fixed income area in charge of the special support group for fixed income and I'd like to say the architect of one of the best bond records in the institutional field today. Skip.

GRUENING: OK. We've kind of advised our three main

witnesses today that we are trying to keep everyone down to an hour and that's exclusive of questions. So, go ahead. We're approaching your hour.

DEROPP: Well, I'll give you a quick 1-2-3. I'll be as quick as I can. The central philosophy for managing fixed income portfolios at least is to try to preserve capital and maximize total return---I'll explain what I mean by that in a minute. And also to the extent possible preserve purchasing power through active management techniques. Total return is the concept of investment return which is not only cash in hand but also price change---we apply this to bonds as well as stocks.

The number of active management techniques to achieve this management bond portfolio---and I'll just touch on those in a moment. But there are two realities a manager of a fixed income portfolio has to keep in mind in facing his task. And one is the profound important, interest rates fluctuate. If you turn to the chart on page 23 which shows historically yields of new AA industrial bonds 1969 to 1976 and almost every year there has been a fluctuation of yields of interest rates of 100 basis points or more. So this is of utmost importance in terms of timing, the committing of new cash or else in lengthening and shortening of maturity.

The chart, table on page 23A, shows that the impact on the

total return of a bond given 100 basis point change in interest rates, 100 basis points is the same as one full percentage point, like from 7% to 8%. It is a function of maturity. In other words, the longer the maturity of a bond, the greater the impact a change in interest rates has on the price of that bond. And what we have in effect done here is net the coupon income with the price changes, so that's the total return. So 100 basis points change increase, bond price will decline. Of an increase in rates for a 5 year bond, the total return would be 4.8% for a 20 year bond, the total rate of return would be a negative 1%. In other words the price change decline of the bond would exceed the coupon income that was received.

Now a second reality in the marketplace is the fact that there are changes in credit ratings of corporate securities and we have plotted here very briefly the number of upgrades and downgrades that Moody's assigned to industrial and utility issues. You can see that during the recessionary period of '73 to '75, for the number of downgrades increased markedly, reflecting a deterioration of credit conditions and substantial increased use of debt as corporations found it necessary to do so in a highly inflationary environment as business slowed down. The situation improved somewhat in '76.

The table on page 25 shows just some elements here of the principal involved in active management techniques and basically this involves positioning the portfolio: anticipation of interest rate changes by varying maturity, by varying quality, and by varying representation in certain sectors of the bond market, for example, industrial bonds, utility bonds, government bonds, finance obligations, etc.

The second important technique here is arbitral swapping: exchanging one bond for another bond, otherwise quite similar, in order to gain an incremental return and these opportunities are made available in the marketplace as a result of abberations and peculiarities incurred in temporary supply and balances, the dealer having been caught on the wrong side of the market in a short position and wants to cover, technical factors of that sort.

The last thing is the element here is avoiding losses resulting from credit deterioration. We go to a chart on page 26. It shows long term interest rates, intermediate term interest rates and short term interest rates. What the pattern has been since 1970 and, again emphasizing the fact that it is very important to pay attention to---to try to anticipate---changes that occur in interest rates in the position of the portfolio properly.

The chart on page 27 is a relative chart. It shows the yield of AAA, AA, A, and BAA industrial bonds compared to governments, the spread. In other words the latest figure would show that the

top line, which is a sort of purple red, looks like it is about 75 or 80 basis points higher yield than the treasury obligations.

GRUENING: Where are you?

DEROPP: I'm sorry, am I going too fast?

GRUENING: No, I just---incidentally, the $11 million or so that the Permanent Fund has accumulated is invested largely in treasury bills as the commissioner of revenue was telling us between 6 3/4, I would guess. That's what he claims. So what does this red line represent?

DEROPP: The red line represents our forecast of where we think 90-day bills are going. It must not be shorter maturity bills you are apparently investing in.

GRUENING: They must be longer. OK. So the longer term treasury bills would---would would 6 3/4 usually be?

DEROPP: Well, close to a year on this kind of basis.

HAUGEN: I don't think they fiddle around with 90-day

bills in government management, do you?

DEROPP: Sure we do, occassionally. Certain types of accounts...

GRUENING: The point is, was the 90-day treasury bill possible?

DEROPP: This is really just a proxy for short rates. I mean, that's just one indicator for short term interest rates--- we happened to select 90 days. We could have selected commercial paper.

GRUENING: Oh, I see. OK. I didn't know the purpose of the graph.

DEROPP: Well, just to show you how the---the relationship between short rates and long rates, how they could change. When you have periods of very tight money as in '74 and '75, why short rates can actually exceed long rates. And then when you get a restorational equity of assessment then short rates normally back away from long rates. And this is what you would expect. In other words, the longer maturity of the investment you make, the more you should expect to be compensated, the greater the risk

you take. Not only in terms of money market, in fact, but also in terms of credit deterioration if you are investing in the corporate circle.

GRUENING: What was the reason in '73 that we had that what looks like an unusual swing?

DEROPP: In short rates?

GRUENING: Yeah. Between '72 and---well, actually maintained late into '73 before the short term started to...

DEROPP: Well, that's actually---yeah---in '73. Well, we had as you recall, we had a commodity---a world-wide commodity inflation and...

GRUENING: Is this the result of oil prices, essentially?

DEROPP: Yeah, it started---got it away before that and that certainly aggravated it. The corporations were concerned that they would not have enough raw materials in many cases to be able to fill their orders, so they started buying and trying to buy in advance. This increased the working capital requirements, therefore they had to borrow more money and

this placed pressure on the short term credit market. The monetary authorities were trying also to contain the thing, the vigorousness of industrial activity.

HAUGEN: They also have to take into consideration the federal government, the federal reserve bank. The national fund deficit. Doesn't that play an important picture in...

DEROPP: Yeah, well, that really came later when we had a magnitude of...

HAUGEN: You have two competing for the money---that...

DEROPP: That's a very important consideration. Any more questions on that?

The table on page 27 is a relative chart. It shows a yield spread between AAA, AA, A, and BAA industrial bonds. Different sectors in the bond market against government bonds. The government bonds are the base credit market for the whole system. That's suppose to be the best credit in the system---you measure other things off of that. At the present time, the BAA industrials, which is a sort of purple line at the top---we're starting about 80 basis points off of long governments. And if you go back to 1974, why there were as wide as 235 basis points---I'm sorry, as

wide as 325 or 330 basis points off long governments.

The point is that when you have very tight credit conditions and you have a lot of other factors going on there at the same time---concern about England and the possibility of a credit collapse occurring, investors got very nervous and insisted on highest quality obligations and also---they also wanted it quick---short term obligations. So, the spread actually---the point of this chart is to show how the spread widened between AAA industrials, which is the light blue line on the bottom and BAA industrials which is the sort of purplish line. And that was about 235 basis points at its widest during the period and essentially it has since narrowed down to about 55 basis points. So that demonstrates quality shares and how they change.

The next chart on page 28 shows the yield spreads really between some different sectors of the bond market, not only governments but also industrials and AAA utilities. And if you look at '70 and the point of extremes, particularly on interest rates, why investors still would rather own government bonds because of the risks perceived to exist than even AAA utilities so that there is 150 basis points spread between long governments and AAA utilities. As credit conditions improve and liquidity came back into the system from the extreme pressures that existed in '74, why that spread narrowed down. Also, investors would with cash looking for yield increasingly

---put their money into higher yielding obligations as equilibrium returned and the risks were abating. AA industrials followed pretty much the same pattern in relation to governments as AAA utilities.

Don't forget that in an economic cycle and this past cycle we had was a very deep one, one of the deepest, well two deepest, but not the deepest, in the post war period. The earnings of industrial companies, many of them were very cyclic. And particularly highly leveraged ones, so there's more concern, there has to be more concern arise in a period of general credit concern and for obligations in many industrial companies we have had.

Now in connection with credit evaluation, it is very important as an investment organization that you have the ability---the capability of monitoring along a substantial list of credits. And to be sure that you are not holding in a portfolio any credit that may encounter severe problems. We develop a computerized ratio ranking system for monitoring the credit we follow. We divided---determined that there were eight financial ratios which portray the profitability, the basic profitability of the company. Do you go with that company and incur additional debt and the asset protection of the bond holder? These actual projected ratios are listed there on the left hand corner of the page. We computed the ratio---each ratio for each of the companies---600-odd companies that we follow. And we ranked them in the deciles. So if there

are 500 companies, why obviously a company who has the highest ratio will rank in the first decile, etc.; they are ranked in that order. And then simply by adding up the decile ranking which is the number that appears here on the page, you can decide company "A", for example---the first ratio it appears in the 8th decile, in other words will down the list---ranks pretty well. You add up all those decile rankings for each of the financial ratios and the total score of 54 gives it all down to one number the overall financial standing of that company. And we rate that---that would rate down on company "A", for example, 54.

We compare the latest years of financial ranking with the three year average, which is useful to do so, (a) to determine a trend and (b) to see in case of a cyclical company to try to normalize it. We can compare the total score of each company with a score for its industry to see how it ranks within its industry and also how each industry ranks---how the industries rank with other industries and how the---an individual company compares with other comparably rated companies by the public rating agencies. In other words, is that score high or low compared to the ratings that apply or the score achieved or comparably rated companies by a standard score as Moody's.

And the summary of those scores appears in the two right

hand columns---how it ranks with other "A" rated companies, how the industry ranks, we also attempt to look out ahead and our analysts---credit analysts---try to give us an indication here of whether they view the companies overall financial position as either improving, declining or remaining unchanged. So this is a pretty central part of fixed income management. You've got to make your own decisions with ranking credit.

MCCANDLESS: Skip, I'd skip to the last chart.

DEROPP: Alright. We have on page 31---it's a very brief form---make up a profile of a suggested portfolio in very general terms that oversimplifies what is really involved in coming up with a portfolio. We did this pretty blind. We don't have enough detailed information on how much accumulated funds there are, how they are now invested and we don't have the data on the cash flow or financial investment data. In making up this portfolio, we wouldn't want to rule out the possible use of common stocks. But based on the limited information we have, it seemed like this kind of portfolio profile made sense.

As you can see here, we have 50% of it in Government National Mortgage Association mortgage backed securities which are backed with the full faith and credit of the United States. Another 40% of the portfolio is AAA industrial securities and finance securities

and 10% in the AA companies. We think the quality spread now as indicated in the previous charts is sufficient to indicate that you are not being compensated sufficiently to take athe additional risks involved in, you know, buying lower rate securities.

At this point we just want to leave this with you based upon very...

GRUENING: The commissioner of revenue just walked in. Just as I had a question you could answer. Steriing, the mortgages that we put in the pension fund are invested in--- like the state employee's pension funds---are they Government National Mortgage Association backed, or what...?

GALLAGHER: No, they are private mortgage insurance backed mostly. Either that or the bank participates.

GRUENING: OK.

DEROPP: Well, these are readily marketable rates in a very closed and very tight market. The market building factor here is a lot higher than...

GRUENING: We'd like you to join us, John. We're going

to take a break here. I want to thank you very much and we may have questions of you later. We'll take a pause for the cause and we'll hear from Mr. Blixt after that.

MCCANDLESS: Mr. Chairman. May I point out that we have the booklet that basically we have developed with this group available and we'll give each of you a copy of that which says verbally what we've been saying here or...

GRUENING: Thank you very much. I hope you can stay. I'm sure the other gentlemen may have some questions then. We'll just take a break now.

BREAK

GRUENING: Call the meeting to order. We have at the end of the table Mr. Robert Blixt, the executive secretary of the Minnesota State Board of Investment. The new people that have come in, bob, are the Speaker of the House, Hugh Malone, and you've been talking with the Commissioner of Revenue Sterling Gallagher and Jim Rhode who is sitting right to your left there is an assistant to the Finance Chairman Steve Cooper. So, the floor and the microphone is yours.

BLIXT: Thank you very much. It is an honor to be here, but I must say I don't know exactly why I'm here. I certainly have nothing to sell. But on the other hand, it's good to be here. And I hope that we will be able to tell you a little bit about what we are doing and I hope it interests you. And maybe a different aspect of the situation to look at.

First I want to say that I recognize most of the people behind me and they are the financial leaders of the nation. I don't pretend to compete with them. I operate out of a little set of offices like this except we have sort of plywood board with paper on top of it that looks like wood. And the rugs aren't as thick as this. And still I feel that we can do a better job within the state than these folks can in New York because they are at my beck and call too. They are here all the time.

Now you just told me, for example, sir, that you don't have a college education---you played football. Why don't you call Washington and get a real politician here in the legislature? If you're too young to run the legislature, why don't you call somebody in Washington and say, now we'll handle things just fine. I'm sure you aren't as versed in government as the speaker of the house he gets in Washington, but what I say is baloney, isn't it? Because all of the time

you have to talk to the people of Alaska about Alaska. About their money. And you folks get advice all the time and say the best thing to do is turn on Wall Street and buy stocks and bonds and watch it grow and the people of Alaska say, wait a minute, it hasn't been explained to us. Maybe we can give Alaskans business.

Have you ever had pressure? Boy have I had some my 17 years. The people in Minnesota always say we don't want stocks and bonds, we need minority housing. We need this industry. We need to help this distressed area. We need homes in this area. Still I'm trying to point out we need an investment. So what does it take? It takes going around to the churches and the civic organizations and the Kiwanis Clubs and everybody else and telling them the story. Telling them why we have something to do in saving our Permanent Trust Fund. And I think that's what you have right here. I sent out a little piece of paper, now we don't have time in Minnesota to send this out for everybody. You notice up here I put, "Representative Clark Gruening, Chairman." Don't feel you're a big shot because of that. If I was in Minnesota and we were at the Presbyterian Ladies Aid, it would be "Mrs. Uplift, Chairman."

Why? Because we go to the Presbyterian Ladies Aid and say, folks, we have something to sell. We want something that is good for the State of Minnesota. We want something here that's going

to have that support. And that's the only reason I've been able to be there for 17 years. Everything on earth has happened to us. We've been condemned, we've been criticized, I've been worked over, I was going to say by the Republicans and the Democrats. I've had five Democratic board members; I've had five Republican board members and the only way I can get going I've found is in that state you have to be able to speak faster than Hubert Humphrey, Orville Freeman and Fritz Mondale put together or you don't have a fighting chance. That's why we are here.

Folks, I am convinced that in Alaska you can do something for Alaskans. I'm not selling anything. For God's sake, we're not going to sell the Minnesota Investment Board. But these folks are magnificent. We need them for investment work. But when I go to New York, I'm the little Bob Blixt with his little briefcase and says, "Say, folks, I need a little help, we'll be able to give you some business, or maybe we can put a measly deposit in your bank by putting in a little in the First Bank at St. Paul and they can put a few million in your bank or a few hundred thousand." For some unknown reason they're willing to open the door. I'm able to get in. I'm able to talk to them.

But at the same time, just as important than meeting the people in New York, it's going to be meeting that Kiwanis Club in Fairbanks. Maybe you should go up north and talk at

Prudhoe Bay once and a while. Maybe you should go to some of the churches in Anchorage. Just a few minutes ago, for example, we had a little question come up---what was it? On treasury notes. I don't mean to criticize you, sir, that's the last thing to do here, but you say, "We're doing pretty well on treasury bills, 6 3/4%." Right. Right. That's good. But the first thing I'd like to say to you folks is my goodness, if it is the Permanent Fund, the last thing we want is treasury bills. They're due in 90 days or 6 months and then it's down.

And in 1974 I had a legislator say, "Buy treasury bills, Bob, they're up at 10%. Commercial paper is at 13%." And it was exactly the wrong thing to buy. Because that's the time we could have gotten long-term bonds for 30 years up at 9% and 10% and I found it's best to buy the things that yield the least. When treasury bills yield 12, buy something that yields 10. The long term bonds. Sometime when treasury bills yield 3¼, that's the time to buy treasury bills. Because long term bonds might yield only 5½ or 6. Wait until the bills go higher, but then the long term bonds will go higher, too. If I don't want to buy long term bonds yielding 6% and be locked in for 30 years after interest rates go up to 8%.

But folks that has to be explained to each Kiwanis. It has to be explained to the men's clubs. Because you folks aren't operating in a vacuum and here I guess I can talk like any politician who has been there quite a few years. Folks, you can have

any kind of high standard you want. You can be convinced that you know exactly how to run the Alaska Permanent Fund and if you are knocked out of office, what good does it do? You've got to be able to relate to these people. You've got to be able to tell them how you think it should be done. If you don't know the details of finance, fine. You can find that out in a hurry. But are you in a position to look at their needs? And I guess that's all I'm going to talk about this afternoon. Economic charts, yes we can go over that. But we've been able to build up a department. I have everything in here including my budget. What we're doing this year, what we started out with and I'd like to tell you a little bit about Minnesota and how Minnesota is very comparable to Alaska.

We got in this business about 100 years ago. They set up a Permanent School Fund for Minnesota. I'm sure you've heard of a permanent fund. We were one of the first states to have this. One section of land in every 36 in Minnesota was put in the Permanent School Fund and the Permanent University Fund.

But we had a very unusual state, nobody in Minnesota liked to pay taxes. They said, let's not pay taxes, let's sell off this land. Oh, if we only had it now. One square mile happened to be all of downtown Minneapolis at the present

time. But they sold this stuff for one buck an acre. Well, we got rid of most of it. It was a disgrace. But I'm sure we had in Minnesota a hundred years ago people exactly the same as you have in Alaska today. They say, come on, local development. You don't want to invest in New York. Local development. You know, there's not a single thing like a railroad between St. Paul and Minneapolis?

So ten companies were formed to build a railroad between St. Paul and Minneapolis. All this money out of the permanent fund. They all got five miles along and quit. So what happened? We had issued some bonds. The defaulted. Minnesota had to default on its credit rating, so some years later it took the whole permanent swamp land fund to pay off the bondholders and that's the thing.

We did exactly what I advised you not to do. We sold every bit of the land from the permanent fund for one buck an acre except some old ranch lands we owned in northern Minnesota that were so worthless we couldn't find any fool that would pay one buck an acre for it. And I'm sure 25 years ago it you had tried to sell a whole area around Prudhoe Bay for a buck an acre, you'd have had trouble. But what happened under those sand hills? That, folks, is the Mesabi Range. You know what happened. Iron ore and the First World War and the Second World War built it up to about $250 million, which was a lot of money in those days.

But then we had everybody working---just like I'm sure you are working here in Alaska today---and during the 1950s they said, let's not build it up, let's spend it now. We have more school problems. So we did decide to use part of the money for school aid, but then of course you've heard what happened in the Mesabi Range. It completely dried up. But that was the beginning of the fund in Minnesota. This $250 million Permanent School Fund which has been stable ever since.

When I took over in the late 1950s---I was negotiating, I took the job in 1960, we had a Permanent School Fund that was not growing, all invested in treasury securities yielding 2 3/4%. With a nice constitutional provision that said this fund must be inviolate and undiminished. And, according to the lawyers, that meant I couldn't sell anything at a loss. So, if interest rates changed and the bottom went down from par to 99, I couldn't sell it. I had to wait until it went down to zero, then I could write it off. Now that's really fine investment management.

Well, we first changed the constitution, so instead of inviolate it said perpetual. And inviolate. But not undiminished. I don't know what perpetual means. I don't know what that phraseology means. Well, we decided that it means that if I build it up I can sell at a loss. So now I sell at a loss every year. I sell these old, old coupon bonds,

but on that new income gradually build it up over a period equal to that of the maturity of the bond. It works out just fine. But how do you explain that one---that I'm not getting rid of the permanent trust fund by selling out those 2½s which I did in the 1960s. At 58¢, 68¢ on the dollar. That works, folks, included talking to the Presbyterian Ladies Aid Society of Minneapolis, to the school boards, the PTAs, all over the state. And I think that's the way you get things done.

I believe you are honestly in the situation where in handling money it's not necessarily ignoring everything. Now I'll just have to admit today that I'm sure the folks behind me know a lot more about finance than I do. But it's also a matter of communicating that knowledge to the citizens of your state who have the votes and are able to tell you what to do or elect you---I don't mean it's all a political thing. I'll admit I spend 99% of my time on politics and one percent on investments if I have time. But still you need that kind of operation with a basic knowledge of investments. And with a staff that's pretty good and that's what I'd like to present this afternoon.

On the first page we have the fund that we have in Minnesota. If you want to talk about budget today, I'm going to leave out all of my chat about economics and what's going to happen because you can hear that from the others. I'm just going to talk about this little department.

When they hired me on the staff, they put up a whole $30,000 for the whole department in 1960. I got $12,500 a year at that time. I took a secretary, an analyst for $5,000, a bookkeeper from the Treasury Department and some used furniture. That was it. Now it's built up until our annual budget is about three quarters of a million dollars. But of course we have to plead for that the whole way through.

Now, the department is not just an investment department, but we've been able to keep ourselves completely independent. For example, the person in the state, the commissioner of finance. I presume I have a job similar to yours. Or the commissioner of revenue. We would tend to argue a little bit. But we want the investment department completely separate because we went to go our own way, so to speak. Still, we want to be very good friends. We must be that. But we find it good to have this separate department, separate apart from everybody and not under the commissioner of finance or the administration.

I have five members on my board: the governor, auditor, treasurer, secretary of state and attorney general. Nobody in the department has civil service. Nobody has any tenure. All 29 of us could be fired in one minute and told to leave. Now that keeps you on your toes. Any three of my five board members could fire all of us at any time. And still we've

existed under all Democrats, all Republicans, all kinds of mixtures. I'll admit that I've had two wanting to fire me most of the time. But, unless I have one or two wanting to fire me, I feel I'm not doing my job. But if three ever want to fire me, wow, that's bad. But you just have to operate that way and have to be willing to explain what you are doing.

You go as far as you can and then you have to cut back a little bit. But that's the way it is. It works out fine. But we have to be able to explain what we're doing and explain in terms that people can understand.

You'll notice on the first page here our permanent trust fund is now $263 million. We can go up to 20% in common stocks there and we have that. We have quite a few corporate bonds and you heard the Ginny Mae mortgages mentioned in the last presentation. We use quite a few of them because we are very dependent upon income here for the schools.

Then you will notice the various retirement funds now total $2 billion, $77 million in Minnesota. Here we have quite a large common stock percentage, 49% which is nearly comparable with the percentage in equities that some of the banks have of 60% and 70% in New York. We are, I suppose, one of the public funds that's the highest in common stock percentages in the nation. Now, many will say, well isn't that dandy. Maybe. I guess we'll have to look into the future. But we have found that

by buying yield stocks recently and buying in the lows of '74 and now---and not trying to beat everybody that's on this growth binge, we've found that we've been able to lower our average costs to the point where as of today I think our common stocks might be even a little bit above, even though we bought a lot the last two or three years at very high levels and then of course in the '72-'73 era at very high levels, we're as---our bonds still show a little of a loss for the simple reason that all of the bonds that we bought in the 1960s still are 5%, 5½%, 6%, 6½% couponed. We've traded out of some of them, but we feel there is a good argument for equities.

Then you'll notice the highway funds, $215 million. These are trust funds for the highways, various departmental funds, $210 million, that includes almost a hundred different funds, by the way, and then the current tax receipts, $398 million. By the way, Minnesota is one of the few states that has a treasury surplus. In other words, our legislature ---they're like you are, they're mostly Democrats, liberals, like to spend, they still can't spend as much money as we take in. You know, that's great. And when we sell a bond issue, you don't know what it is to say, well, now, look, what do you have behind this. We have a $300 million surplus, we have $3 billion investment funds and, of course, Minnesota has a AAA rating. And, I'd like to present that to you, too.

If you're going to be borrowing money for improvements, if you're going to be doing anything to help Alaska generally, a nice, well-managed fund certainly helps. Because they know all these assets are behind it.

Let's turn to the second page. The second page shows what has happened to our little fund in Minnesota. You will notice in 1959 they had only $139 million; now we are over $2 billion. That's in the retirement fund. Now the trust fund is in addition to this and with the invested treasurer's cash we actually have over $3 billion.

The this shows what happens with funds that have growth. If you will notice that first four years, pardon me, two years, it went up 35%. Then by December 31, '65, the growth was an additional 71%. The next four years, 100%. The next four years, 85%; the next four years 74%. We're looking for funds totalling about $3.6 billion by 1981. Then another 80% growth the next four years. So these public funds are just astounding as to their growth and you have to have departments that are able to handle huge amounts of money. In other words, we don't try to piddle around with the small stocks, the tiny companies. It just takes too much time. We must concentrate on the leading stocks, on the bigger ones, that's the only ones worth it.

Now, will you turn to the next page. You'll notice the difference we have between the investments in the private pension

fund and the state and local retirement fund. We are similar here, but you'll notice how fast these funds are becomming. The chart on the left, and this is from the latest Federal Reserve bulletin, shows that the public funds throughout the country are now at about $125 billion. This does not include the Alaskan trust fund or the Minnesota trust fund or New Mexico---and they are about the three that have them, and then, of course, we have Texas with the oil. That would add a comparatively small amount, about $2 billion. But you'll notice the state and local funds total about $125 billion, whereas the private pension funds only $160 billion. So, we're catching up on them right away. This management sometimes is local and sometimes it's with the big banks and mutual fund operations. But you'll note here that the percentage in common stock has gone up very high recently in the public funds as with the private pension funds. Admittedly, we've had some rough stock markets lately. But you'll notice we're still going in there and still have quite a bit of faith.

On page 4, you'll note here we have the asset diversification of the various bonds. First the basic retirement fund. And I do advocate a centralized investment office because the investment work here is so similar and you are able to use the same people for these funds.

In Minnesota, we have separate teacher's retirement fund, public employees, police and fire, state employees, highway patrolmen, judges retirement fund. All with different groups, all with their own executive secretaries; all are great lobbyists, as you know, especially our judges, if I may say so. And they are all going full blast all the time, but they have similar needs. So our job in there is to work with all of them, try to get their funds invested.

Then, of course, we have this adjustable fixed benefit fund. I know what you think, if something is fixed in government and then is adjustable, you know there is something wrong with it, most likely crooked. It isn't really. All this means is all the money for retired people is transferred---all the retirement fund when a guy becomes 65 years old from then on, if the market goes up or the income goes up above 5%, which is the actuarily assumed rate, then they get more than their regular pension.

HAUGEN: Let me interrupt you. In other words, the general fund doesn't build in an inflation factor against this...

BLIXT: No. This isn't the general fund at all. But in Minnesota, we have the employees contributing 4% of their salaries to a retirement fund. The state government contributes 4%. In addition, because the state government has not contributed in previous years, we have another 2% makeup. So, in essence, we

have 10% of everybody's paycheck going into a centralized retirement fund. Well, when that individual becomes 65 years old, then out of the retirement fund, whether there is enough money to fund his benefits in an entirety, the total amount on an actuarily sound basis to fund those benefits at a 5% rate is transferred to this separate fund called the adjustable fixed benefit fund. Then we have to play with the benefits, but we better not do too much playing. But it depends on the two year ratio of stock prices to the cost of the stock; it depends on the bond yield and that type of thing. In the early 1970s, we gave very significant increases, about a 13% increase, in pensions based on this. And then, of course, we had the downswing in 1974. It looks as if we shouldn't have given anything for a while. Now it's coming up again so we're going to give another 4% increase in pensions this coming January and we feel in another couple of years we'll be able to do that. So the purpose of this fund, this adjustable fixed benefit fund of $758 million ---you see it's sizable, three quarters of a billion---is entirely to pay pensions based on market action.

Now we have fallen into trouble here frankly. You can imagine how a 78 year old public employee with cancer who's going to pass away next year says, "Well, I realize I don't get an increase this year when the market went down." Nope,

that's not the way to look at it. They want it every year. So, I think we're going to change this. We find that we can give about a 3% increase in pensions every year and do it on an actuarily sound basis to more or less match the cost of living increase. Not quite, but it is certainly going to satisfy everybody. It looks as if a 3% or 4% increase is possible. But there again this is something---you need a centralized investment department to work with the heads of the various retirement funds, to beat the prices, talk to the Minnesota Educational Association ---I'm sure you have your Alaskan Educational Association or teachers here. We have to talk to the teachers union, we have to talk to legislative groups, again the Kiwanis Club, the Lions Club and everybody else to explain what we are doing to try to get this straightened out.

Then you'll notice we have these supplemental funds. And those are interesting... Yes?

HAUGEN: One question before you get there. Does your employee put into the social security system?

BLIXT: Yes.

HAUGEN: Oh, OK. That's all.

BLIXT: Some do not. Our policemen and firemen do not. And

I think you are aware of that big debate going on throughout the nation.

They want a lot of benefits without it. I don't handle police and fire funds directly except those that have elected to join a state police and fire fund. Otherwise I regret to say we have about 400 independent funds in the state. And my, when the legislature meets to try to control the police and firemen, I don't know how it is here, but they all come with the uniforms and the guns and the night sticks and they say, "Whoopee, don't you dare cut our pension." Well, then what we have been able to do there is help them along in their investment and still let them have their individual police and fire retirment fund. The way we do that is next.

You'll notice the Minnesota supplemental retirement fund---an income share account, growth share account and fixed return account. They're like little mutual funds and anybody who wants to invest there can do so. Now, would you take out this little prospectus here while we're on that. The little white page I use there---we send this out every year and these policemen and firemen, if they want to invest with us, they don't have to. If you tell them they have to then they don't like it. If you say they can if they wish, oh, that's completely different. And they can buy units in this fund. In the late 1960s we set up a growth stock fund which of course is supposed to double every year. You know

what happened. We're lucky---it's worth about what it was in 1970. We're luckier than most. But some people still want it. You'll notice the income share account which has been most popular begins on page 10 of this prospectus. It's 50% in bonds, 50% in stocks. The yield here is about 691 and units of this are purchased by the various police and fire funds and invididuals in deferred income plans.

You see when you have a centralized investment department you can do so many things right there. I don't know if you have that here yet or not, but some legislators for example from the Minnesota legislature---or, for example, we have a man by the name of Pillsbury. I don't know if you ever hear of that name, but his income isn't primarily from his legislative salary. Let's put it that way. And the way we do it with Mr. Pillsbury, he wants it all put away for when he retires. So he gets no salary. He puts it all out in one of these funds. And, of course, the Department of Revenue knows and that's OK and therefore it's not taxed. It's a terrific benefit. And we do all of that through these funds. We use it for police and fire funds, for this deferred income business, anything else.

Then we also have recently a fixed return account. If you turn to page 14 in this prospectus---you know in the last few years nobody likes stocks anymore. Everybody likes bonds. So,

if they want a green suit, we turn on the green light. I don't advocate all bonds, but everybody wants all the bonds. So we said, OK folks, let's do it. So we set up this little bond, the yield is 8.72%. I'm trying to build up reserve ---you'll notice all these AAAs here---you folks in back will have to admit that's pretty good. We don't want risk. So we just want the people here that just want income. They don't like the stock market and out of this 782, we're able to guarantee them about a 8.1 to 8.3% return. And, needless to say, that's good for these funds. But again, it takes somebody locally to explain it, to go out and talk to all these folks and say you have an advantage in working through us and, of course, we print about 10-20-30,000 copies of this little handout every year and it's given to these people and they feel some incentive to work in the schools or the local government or the state, of course, of Minnesota.

Then let's go on here. We have the variable annuity fund. Now that's a concept that came up at exactly the wrong time. But this shows what happens in a state when you do something that you admit is wrong and then have to back out of it. In the late 1960s, everyone realized you didn't need a guaranteed benefit. All you needed was to put money in the hot stocks and, of course we all knew they'd double next year or the year after that. We decided to buy some stocks like

IBM and Minnesota Mining and they're less than I paid for them now. We bought an awful lot of Eastman Kodak and that's the lowest stock in our portfolio now. We bought a little Buckley Meers, which is a local company which is in television screens, and I remember it got up to 44 and I got a call from a teacher at one of our colleges, said, "Blixt, you stupid fool, why are you buying all these big companies. Put it all in Buckley Meers, it's at 44 today and it'll double by next week." Well, I explained that it might be speculative, I think the stock sells at 3 today and has most of the time since. You've got to get the people out of that thing. But still, they wanted the variable annuity. Well, they couldn't understand how that thing went up and down whenever the variable annuity went up, it's because I was lucky. When it was down, it was, "That stupid Blixt." And that was going on all the time. Especially because we had a two year moving average for our variable annuity. We decided it was wrong to take the market price at any one time. So instead we have a two year moving average.

Let me show you the trouble I got into on that one. Turn to page 4 and 5. You know the market really hit the skids in late '74. What they didn't realize was with every two month average we were showing this thing in '75 and '76. And in 1976 some people called me and said, "Blixt, how can you be so stupid?" You showed a minus 0.10% income even though the market went up

last year." I had to say, yeah, but we still have the '74 figures in there. Well then, this last year the market went down quite a ways, but you notice we showed a 15.94% increase. Well, you need just a little book like this to explain.

Well, needless to say the variable annuity concept is not one that is going over. Wisconsin with a $500 million variable annuity is going to eliminate theirs this year. This has been half eliminated. Teachers can only put in half of their salaries. Some still want it. But again there is a lot of hand holding. This is the first time we came up with a separate annual report on this, July 1, '77. We are taking it to the legislature. We expect them to more or less eliminate it from the standpoint of new money this coming year.

But here again, if you need something, explain something. The school teachers were going to the legislators. "What's wrong, why do you have that stupid investment man? Why don't you legislators get good investment laws?" You see how it helps to have something float for a few years. And, of course, I have to speak to the teacher's union; I had to speak to the Minnesota Educational Association, give them copies of this, of all the information so their field representatives could go out to the schools of Minnesota to explain the situation.

This is evidence that my department is partly an invest-

ment department, isn't it? But also a hand holding department, public relations department and really we have to do in a sense what you do in the legislature---it's selling your program. It's selling what you know is right. But it is selling. It is not just doing what you know is right. Or you won't get elected. And when we are in business like we are, we have to look at both sides of it. I don't mean compromise with what is right. I don't mean that at all. But if you want to do a program and if you want to do it true and want to do it the right way, you simply have to be able to get the public behind you and that's the reason for all this stuff. We don't have fancy brochures or anything. We have to do it on green newsprint or white newsprint in state offices. But it works. And we get the message across.

OK, then to this little handout here, Permanent School Fund shows our other investments and we pretty well go through our stock and bond portfolio.

On the next page, page 5, I inserted this for no particular reason except that it is more detail of where we were at the end of October. This is just a little worksheet that is put out in our department every month that we look at, my analyst can see what we have, the money that is coming in, the growth in funds and that type of thing.

And then I'd like you to turn to page 6. This is an exerpt from our new annual report. As you know, people have different ideas as to what makes good investments, depending on what has

happened lately. Four years ago, nobody asked me what the yield was. Nobody asked me. They asked me just one thing. What has your performance been lately? How much has your account grown? How long did it take your account to double? Now nobody asks that. They ask what is the yield. Until it's time to explain that, look the yield is going up, we don't want an 8% yield. If we had an 8% yield on a long term bond; if Carter gets in trouble and has to fire Burns and it goes back to 3% interest rates, give me a few years. The telephone bonds are sure to be refunded right away. They have 5 years. The other corporate bonds will be refunded in 10 years. We're going to have just a 4% or 5% yield again. "I want something more than that." Folks, won't you please go along with me and give me time.

Well, in our annual report we're going to have a chart like this. You'll note it has a sort of gentle movement upward. And when the folks come in and say what's happened to the yield, I say, no, we don't give 8%, we don't give 9%. But please look at the general trend of the chart. Now they are so accusing me of stock market action that you'll notice ---now this is the first draft of my annual report. This is the cover that's going to be on it and then you'll have--- this is the new annual report. The old one is the green book. But this adjustable fixed benefit fund went down so much with

the stock market decline, you don't find a graph of this showing this terrible canyon so to speak right here. But I'm saying that isn't an accurate resume really of what happens to the stocks. We cannot base what we do on the fact that the market goes from 580 to 1050 and back to 800. What I'm interested in are the dividend increases coming through every year. So we keep good track of them this year for example the dividend increases along---that's the little dollar or two, pardon me, cent or two, that comes in per share in addition to what we had before. Those dividend increases might give off $5 million so far this year. I say that's what we want in the growth. So that I want to keep that income coming in.

As you'll notice, from 1956-7, it was 2.9%. Then about 1960 it was just a little over 3%. Now the yield is over 6% in these Permanent Funds. We feel we'll be able to continue this until about 7% with this present portfolio. If we keep in stocks, we aren't going to be able to increase much above that because, of course, stock yields just aren't that high. But many said, "Oh, it went down. That must be when the market crashed." Not at all. It was just the opposite. We put these here to show what happened when the market went up. If you'll notice that peak was reached in '71 and then it went down in '72 because when we started buying stocks at these extremely high priced earnings ratios in 1972, until early '73, the yield went down. So I'm trying to show the folks from the legislature there that this yield we hope to keep

in the general swing upward. But that it will tend to go down a little bit when you have an extremely high market simply because when the Dow Jones is at 150, of course, or 1050 rather, and the yields are 2%, you don't get the current yield in the account.

On the next page, you'll see a little bit about the money we handled. You'll notice we have short term money of $819 million in governments and $250 million in corporate bills. I just have two men handling that. They do a very good job. For a while I think we were the 10th largest short term fund in the country, right under Bank of America. We had over a billion bucks. You know for a while we had a surplus in our treasury of about $600 million in Minnesota. And then we had the $250 million highway fund and we had $150-$200 million in the various retirement accounts. So the short term money debt is just a lot of fun. I have two people handling it; they do a good job. Then you'll notice we keep in equities, common stock, about 32%, fixed income 35%. And then in the big circle on the bottom, you notice our Permanent School Fund is only 8% of our assets. But we're able to use the same department because we have similar types of investments in all of these funds.

Would you turn to the next page. So many of you are asking something that I am sure is very important. What do you have to do to get a department internally? As you know,

my salary and the salaries of all my clerks and everything else are public knowledge, so I just put it on paper here. Some of you ask what does it cost. I don't think you could compare our department with what you need up here. I guess we had folks running around making speeches all the time, some spending their time in the legislature, holding hands as I mentioned with every teacher group and Kiwanis Club, attending meetings of the various retirement associations. We had to work out financing for a national park, we also tried to work out financing for this reserve mining problem there. And it is a sort of overall financial and investment advisory office. It's going up from three people back in 1960, four actual little files, to 29 people at the present time. But this is our budget for this year and I'd like to explain what we're doing. Obviously, I would suggest nothing anywhere near this large for Alaska if you were starting a permanent fund. First you have to get your feet on the ground.

But I'd like to mention two things that are important. You've got to pay salaries to get people that are adequate. I mean, you can't hand somebody $200 million a year and give them $10,000 and a canoe and say you can have all the fishing you want up here, I mean that doesn't work.

Secondly, you've got to give them some travel money. You can sit on the phone and take calls from brokers who say I've got this today, it's a good deal. No. He has got to get to the

financial centers. He would have to get to New York, to Chicago, to Los Angeles, San Francisco and meet some of the people. Meet the people you are dealing with. Meet the correspondents and the bankers, make it to some of the banks there. That I would say is important and our budget is a little weak there. You will notice the general administration of our department, which is 29 people. There is myself, the state pays me $41,000 a year. I might say the wages in Minnesota---I don't know they compare with yours---our governor gets $59,000, our attorney general gets $49,000. We have somebody that seems to be comparable to your position, he's called the commissioner of finance. But it's a political thing.

GALLAGHER: Ed Rymer?

BLIXT: What?

GALLAGHER: Ed Rymer?

BLIXT: No, Rymer is the commissioner of taxation or of revenue. Now he gets $41,000, which is what, about the top 10 of us get. But there is one above that, the commissioner of finance, who works on the budget and he can get thrown out, he will get thrown out, with every governor.

So he gets $45,000, mostly because of that lack of tenure. Rye Murphy is going to stay on because he's a good professional man, our commissioner of administration will stay on, Democrats or Republicans. So there are about 10 of us getting $41,000 a year. We get more than the treasurer or the auditor, they get about $29,000 a year. The other department heads in the state get about from $30 to $34,000. I don't know how that works in Alaska, but you see where we are.

Then I have an assistant executive secretary that gets $35,000; he does most of the portfolio work. The portfolio coordinator is a young lady who seemingly is able to deal with the legislature, brokers, everybody else a lot better than I can and she's a real brain. So you'll notice we pay her quite a bit, $22,000 a year. My main secretary is called an administrative assistant, we pay her $12,800. And the secretary to Art is getting $10,000. Our short term money department: the head man gets $24,000, the, pardon me, $34,000, the second man gets $24,000. Our fixed income group: the department head gets $28,000, we have two analysts getting in the mid-twenties, an accounting coordinator---he's a CPA by the way. He does a real fine job at trying to work out all these accounting problems with bonds. He's a young man, gets $22,000. In the equity department, we have a department head that gets $32,000, five analysts and the treasurer and then in investment operations you'll notice we have a director, transaction supervisor, three accountants, a secretarial staff of five people and

a computer operator. Salary costs to the department are $590,000 this year, with our retirement and group insurance we have $667,000.

Then on the next page---you know for rent space---I don't know what it is in Anchorage---we get our rental for about $5.95 a square foot per year. We rent space because there is not room in the capitol. But then we mostly have a Xerox lease, market information, all this other information here you see where it is---travel. $198,000. Office supplies, equipment purchases, our budget is $875,000. You wouldn't need that here in Alaska to start with by all means. I would say $250,000 would get you a very good investment department at the present time.

Could we turn back to some of the other information. One thing we find it is extremely important to do is to work with the legislature and the people in our work and show them what we are doing, not only from an investment standpoint, but also from a distribution of business standpoint. I know in Minnesota, and I suppose it is the same here, you all have people who say, "But I have an office in Anchorage. You've got to butter me up first. I have an office in Fairbanks."

Or maybe you have something like we have in Minnesota ---they're called local bankers. I have a bank here therefore I need a deposit of so many hundred thousand dollars

or so. That frankly stymied our investment program to begin with until we had a Republican, Bell Bjorenson, the governor, Orville Freeman, maybe you've heard of him, he's the secretary of agriculture, who simply went around to the bankers associations---the two of them---a Republican and a Democrat---in 1960 and said folks, we've had enough. We can't have our deposits in your bank. At that time it was 1% by the way. We can get more. And they still cried and say, "Yeah, but you're doing so much for the state of Minnesota." Well, they say, well then we aren't going to do that for the state of Minnesota, but I am the leading Republican and this guy is the leading Democrat and you bankers better vote socialistic then because we're going to take the deposits out of your bank. We did. And put them in long-term governments and other things that have worked out very well.

But it was bad. The ramifications were tremendous. We had to take the time deposits out over a stage of two years. The bankers literally wouldn't give us our money all at once. We withdrew half of it, two years later we withdrew the rest of it. Then one bank said, "Now about governments, you have to do it through us because we've always had the state accounts." So we always did it through them and found that they always went to New York to one particular investment house because that bank had its chairman of the board on the board of this investment house.

So it took another four years to pass legislation requiring us to go out for bids and offerings every time we traded in governments. We had all kinds of fights until the early 1970s and then we simply went out to the banks with bids and said you will handle this amount for how much. We've taken all the accounts back from the various banks in Minnesota except when we have an analysis made. One bank will handle the investment work. One bank might handle the account for the welfare department. One bank might handle something else but in a general account, a bank, you know, that we caught on to financial management and said you can---we'll do all your work for a zero balance. They didn't realize that that's the way we worked it. The zero balance. We had a previous auditor that meant zero on the books, but of course after you pay school aids, which we do in Minnesota and did last week of $350 million, you know your books can say zero, but really you have $350 million still in the banking system until the mail comes back. And I don't know how you are here, but we always have a superintendent of schools in Minnesota who gets his check for $2½ million and, instead of cashing it and investing it as he should, he puts it in his pocket and goes to Lions Club, "Say you guys, have you ever seen a check for $2½ million?" I mean that's sort of baloney. It takes 2½ weeks until we get the money back. So what we

do now is actually invest that money and keep it entirely invested and the poor bank found they were operation on a zero balance. So they gave up the accounts the last year on a bid basis and now another bank has it. Yes sir?

MALONE: Thank you. Mr. Blixt, what did the banks do with the money when they had it if it was doing so much for the state? Was it invested within the state or was it invested in something else?

BLIXT: Now that's an interesting question and I would hate to say something to you, sir, that---a banker would say I'm a liar. But they always say, "We are investing in Minnesota businesses!" Especially independent bankers of which we have 400 in Minnesota. But when you start looking at their banking statement, their loans to Minnesota people were about 54%. And Poppa would sell the bank to the son or otherwise when he died the son got it. Instead of Minnesota, the son was always in Hawaii in the winter, he was up here shooting big game in the summer. He had half the bank assets in treasury bills and was he really invested in Minnesota? No. Not our independent banks. Northwest Banco and First Bank stock were, yes. But they're the big ones everybody is fighting. But we found that we could put all this money in Minnesota banks and yes, some of it came out, but were they investing in

Minnesota and the answer is no, no sir, they weren't. They were investing in treasury bills and municipal bonds and that type of thing. Admittedly most of the municipal bonds were Minnesota municipal bonds because the bankers got double tax benefits, you see, both on their state income tax and the federal income tax.

But when somebody says you've got to invest in Alaska for Alaskans, mind that you're in the legislature sir, you decide who in Alaska should get the money. Maybe it's somebody that needs relief here or somebody that needs help here. If you believe in the trickle down theory, you give enough to the bankers and after you've given him $10 million, he's apt to let a little trickle down, that's fine. We didn't find it that way in Minnesota, sir. It just didn't work that way.

But we have some very good bankers and I don't mean to criticize the banking community. We found our leading bankers, the folks at Northwest Banco and First Bank Stock Corporation, our First Bank System is called now, are just marvelous. They were asking for account analysis all through these years. They said, "Look, we would like to open a bank in this little town. We would like to serve it better." But of course every time they go before the banking commissioner, there would be five little independent banks in that town. Three of them say, "We're serving this community, don't let the big holding

companies in." Now we have a silly situation. Our governor, Perpich, who, as you know, is quite a rabid Democrat. He's up there advocating the big bank holding companies and some of the others, some of the little independent banks, all the state's assessments are all mixed up at the present time, and of course the leading contributors, the leading politicians on both sides, it's a very delicate question. But folks, you just---because you put idle balances in a bank does not mean that that money will be invested in Alaska. They might be buying treasury bills and other government debts which will pay for all the boats that are on Midway Island and the Battle of Midway that have been down there for 20-30 years. I guess that's where we got our national debt.

But is that for Alaska? No. Treasury obligations, federal loan bank bonds, lots of municipal bonds, maybe from here or somewhere else. I don't mean to get off on banking, you'll notice my temperature goes up. We have those same arguments there and I think you face them here. They're in every state in the nation.

GRUENING: I just want to follow up on that. Are banks selectable for portions and if so how are they selected?

BLIXT: Banks get no balances in Minnesota today on any of these funds. None of the funds I've mentioned to you have a

single time deposit. We don't have one dollar in the time deposits in Minnesota. The state treasurer does have balances in banks, but instead of banks all over---you know in the old days you said every county had to have a local bank for something, recent handle costs, everything. Now we've gone down from 300 banks to less than 100 and we have banks only in areas where we have a state institution, where we actually need that bank. If we have a university or state college, if we have a department of highways office there, we might have a little balance in local banks to handle the payroll. We want to treat them fairly in every way. But our balances have gone down---I think for a while they were a hundred million dollars in the early 1960s. Now the dollar is worth more and we've come down to about $60 million, $40 million, and now you'll find $10-20 million. And that's plenty.

GRUENING: How do you select those banks that do manage the...

BLIXT: On a term basis. We'll let them all come in---we hired a man who knows something about banking. He used to work for the banks. We've been able to do a real good account analysis and analyze did on this type of thing, how much they charged per check, how much per item the whole way

through and we compare the data and give it to them on that basis. We don't care whether the banker is Republican, Democrat, who he supported in the last campaign, that doesn't bother us at all. It's completely open, all the banks can be there, they can all see the figures and they can see what the competition said. And it works marvelously and, frankly, we get on much better terms with the folks at Northwest Banco and First Bank systems since all this happened. It works, it works very, very well the whole way through.

OK. I see I have just a few minutes left. I would like to explain how our board works. My bosses are the five top elected people in the state: governor, auditor, treasurer, secretary of state and attorney general. Obviously, they have changed parties many times, but my position has to be non-political.

We also have an advisory committee of 10 leading people---I didn't mean to talk about bankers---they're going to shoot me. The trust department people, they're wonderful. Trust department people are my best supporters there. You'll notice our advisory committee includes all the bank trust department people, the top managers of money in the Twin Cities, the insurance company people, we're all the very best friends, I must have to say we've got a lot of our advice on bank management, so to speak, if you want to call it that, from these people. These folks meet every two months, under a recent law they're going to meet every month to give advice,

these meetings begin at nine in the morning, all morning, through noon, until two in the afternoon. So it's a long meeting. We go over everything.

And I'd like to show you something more in this annual report. A few people want their palms greased. By the way, I might mention, when banks and brokers get together to fight, it gets a little rough. We had the little attorney general there, he came in in 1962 and wanted to handle this bank thing. And it's the only thing he really lost in his life. Finally it got so bad that he said he was never going to take them on again. Well then luckily, our then governor, a Norwegian by the name of Rolag, appointed him a senatorial job at the time, or I don't think he'd been reelected---you might have heard of him---Fritz Mondale---and he was a dandy board member, but he was trying to solve this stuff and he just couldn't do it. But this is what I'm saying he told me to do---please turn to page 35 in this report, please.

It says give out the business to anyone you want, be he Republican, Democrat or anything else. Just be able to justify it and tell them exactly what you do. So if you'll notice here on page 35, 36, 37, 38 and 39, 40 and 41, we tell just how we distribute the business. Then on page 43, 4, 5, 6, and 7, we have every order mentioned. But we gave it to them. Now there's a fine representative, I am sure he

wouldn't do it here, will come up to me, "Blixt, uh, my brother-in-law works for this corporate shop in Anchorage and, you know, he's having a hard time getting things started. Now I'm sure if you give him an order for a thousand shares now and then, it will work." Hell, I say, you know, fine, you know that'll just work very well. We'll just put a little footnote, "This order placed at the request of Representative Clark Gruening." For some unknown reason, the Clark Gruenings in Minnesota have never asked me to do it. It works beautifully. And we have found that if you just keep everything above board, it works well.

Now we have another senator who wasn't as good as the other. It's the first time we ever had politics enter it. I'm going to show you who that senator is who literally told me that his palm had to be greased. He now heads the retirement commission in Minnesota. It got a little difficult. But what do you do with something like that? Well the way we did it is in our recent report---take out the loose leaf folds here---pass a little bill that says that my council members have to be honest. Well, on page 41, we list why we think our people are honest. If you have a pencil maybe you should underline that a little bit. Then on this next page, halfway down, we list the representatives names who even work for a brokerage house, even if we give them no business. You'll notice the investment department has been informed, I'm talking about this third paragraph down, of only two

members of the legislature who work for brokerage houses that deal with the State of Minnesota and therefore may present an appearance of a conflict of interest. And then we list the two people, one of whom is very innocent and one of whom is guilty as sin. But it says here a senator has no direct benefit from the state account, we have been informed of bla, bla, bla. But by simply putting his name there we don't deal with him by the way, we deal with the firm, but I think it will do a little bit to inform---to keep it that way.

I don't mean this in sarcasm, and I don't mean this in a way in which a bureaucrat is doing something that maybe elected officials wouldn't like. But my top bosses have read through this, that is, the governor, auditor, secretary of state, attorney general, and the man in your position, the commissioner of finance, that says, "Bob, you've got to do it. You've got to do it. If there's anything that pushes you, put it right out in print and then it becomes honest." And folks, that's something else that I think would help you very much here in Alaska. You're going to get pressure from banks, you're going to get pressure from brokerage houses, you're going to get pressure of other things.

I'm leaving copies of both of these. This won't be printed until next week. You'll notice I just have the cover

with some Xerox copies which aren't too good. I'll send you the final copies when they're ready.

But I think we'll point out the things we do to try to inform the people of Minnesota of what we are doing. Obviously these reports are too expensive to send to everybody. We give them to the legislature, we give them to anybody that wants them, the entire borkerage community. By the way, this distribution of business is interesting; we send it to 10 German libraries every year. They want to know just how Minnesota---or how a United States public fund is handled. And we sent it to public funds throughout the country. So we find there is some interest in there.

As far as our operation, I have mentioned that we have a board, we have an advisory council, we have a pension retirement commission made up of 10 legislators, we deal with other legislative groups all the time, so we're under all kinds of controls. We do everything in-house. We have a legislative auditor. I don't know if you have that. You should have an auditor directly under the legislature. Not under the government---if there's some fraud ---I don't mean---the administration. The legislature gets there too. He comes and goes all over our books.

I place all these orders but I'm not allowed to pay for one dime of it. See, I place the orders. And somebody in my staff then writes a memo to the treasurer. The treasurer then gets our memo and then a couple of days later gets billed by the brokerage

house. And it's the treasurer that pays for it. Then, not only do we have that double check on ourselves, but then the legislative auditor comes in. So, I think it's a pretty good check and we have all the various departments.

GRUENING: Is that a---would you list that as one of the prime reasons to separate the revenue and investment functions of government?

BLIXT: I think they should be separated. And I think the investment function should be completely separate. There are so many things there, if taxes go down, or say if oil receipts go down, we want to do something with the investment. And, by the way, I have another suggestion that I want to pass out which may be wrong and maybe you haven't heard before.

Folks, I would cut down your investments in your--- pardon me, in your Permanent Fund portfolio in the oil industry tremendously. We just don't use iron ore stocks in Minnesota. For one reason. Our politicians are always fighting the iron companies. They always want more taxes out of them. They always want this and that. And if I had U. S. Steel and Inland Steel, we'd be going up there fighting them all the time saying we're stockholders, we're going to come to your meeting and everything else. In the paper last night,

they're still disagreeing here about the taxes to be paid on that pipeline. Why in the dickens do you want to get mixed up in the oil industry? Do you realize your investment is so fantastic in the oil industry right now that if somebody discovered you could run an automobile on hot air or steam, if somebody decides to use nuclear power plants entirely, the oil industry might be out of business. I don't expect it. But on the other hand, you are so invested in oil right now that I don't think you should just follow the charts of an average investment portfolio and say, well this percentage in oil is something else. I would cool your oil investments. You're invested up to here right now. Your revenues are so dependent upon the oil industry. Why don't you diversify in other areas? And you're here literally in the center of the world, you folks should be looking at Japanese investments. You're so close to that economy. You could get all kinds of information. You should be looking maybe at British and French investments.

GRUENING: That would be a switch. If we bought up in Japan.

BLIXT: Then next time they declare a war and attack Pearl Harbor, you won't have to worry that they're going to bomb Anchorage next. You'll own half the place.

GRUENING: We'll have a proxy battle and win, huh?

BLIXT: If you have a proxy battle, it'll mean the legislature will be able to appropriate funds and those legislators will go to Tokoyo, you know.

Now, I don't mean to be facetious, gentlemen. But I don't think you should get a double whammy by investing that way. I think there again, I would suggest that you tailor your investments to Alaska. Not just because---oh, Manufacturers does this, First National City Bank does this, First in St. Paul does this, Blixt does this. No. No. What I do isn't right for you. You folks might want a heavier investment in iron ore, a heavier investment in steel. I would cut way down on your oil investments in your portfolio because you are so invested already. Again, I think your portfolio should be handled entirely, as I said, for Alaskans and for a special use here.

I would like to spend just a couple of minutes, and I see that's all I have left, on some of the pressures we've gone through. We've had tremendous pressures from the municipal bond agents and the Twin Cities who let the bonds. They're tax exempt. We've been threatened. We do not buy municipal bonds from any Minnesota municipality or the state or anything else. We keep that out. The state finance agency, a housing agency, wants to buy housing bonds. Of course not. We can sell housing bonds on the tax exempt market. Why

should we use trust funds that we can invest in corporate bonds ---we're getting over 8%, when our housing agency can sell bonds at about 6%. So, therefore, we do it on that basis and, by the way, we're able to get better rates on our state debt because we have the state retirement fund and the state trust fund invested at a higher interest rate.

Also there is always the pressure on us to invest in some local interest. Somebody wanted us to put up a paper plant in northern Minnesota. All I have to say is I don't know how to run a paper plant and we didn't do it. But what we really had in the line of pressure was someone that came to us and said invest in Cedar Riverside and Jonathan and some housing projects. We said no. There were some of these young towns, maybe you've heard of them, they've all gone bankrupt throughout the country, but we waited until we got a U. S. government guarantee. Then we bought it. Sure they've gone bankrupt. But we buy these government guaranteed securities and don't take the risk. We use some government guaranteed shipline bonds, government guaranteed hospitals, government guaranteed Ginny Maes, and it works out very well. But with the state investment here you can work out everything. The banks said they needed help in student loans, so we helped buy student loans in the sense by using student loans rather than government paper. Somebody said you've got to get into the Small Business Administration loan. I don't want to get into that, it's

too political. So we have a bank representing the Minnesota Bankers Association taking these small business loans. The banks will take the 10%; they'll sell to us only the 90% that's fully guaranteed. We buy that at a good market rate and if anything happens the banks handle that for us. So you see, we're able to handle things by being a state department and working through these agencies so very well without taking any risk at all.

MALONE: You were talking about young towns a moment ago. Alaska is in the process---a long drawn out process---of relocating its capitol city. I take it from your remarks you wouldn't advise investing in that.

BLIXT: Not with permanent school money. For the simple reason that you have so much welfare, so much permanent school coming in, I think you should sell bonds on the full faith and credit of Alaska and do it on a municipal bond basis. A tax exempt basis. And the---let the folks in high income brackets, have the banks, have the insurance companies, buy those full faith and credit Alaska bonds, and one thing that will add to that full faith and credit will be a real good investment portfolio in governments, in Ginny Maes, in AAA corporates and some common stock. Now I think that you defeat

your purpose by taking money that can earn 8% and putting into a project where you could get the money at maybe 5%, 5½%---what would a full faith and credit Alaskan bond sell at today?

GRUENING: I don't know. Ask the commissioner

GALLAGHER: 5¼%.

BLIXT: 5¼%? OK. Well, if you can get over 8% and a U.S. government guarantee, why do you put something in a security when you could get the money at 5¼%? You see you can just make 3% on the difference there. By all means...

GRUENING: Unless you want to get around the voters. That's one way. I'm not advocating that.

BLIXT: Why don't you have a local investment man, and a finance man, and a few others go and talk to all those voters at the Presbyterian Church and the Lions Club? You know, the people in Alaska aren't all that stupid. I really feel that way. I think if you can talk to them...

GRUENING: I agree with you.

BLIXT: ... if you have a local base of operations so to speak

and are able to explain it. It's so logical. But you need a little enthusiasm right here. We do in other states. Why don't you do it here? You're not any more stupid than any of the rest of us. We're so much afraid of being Swedes in Minnesota.

GRUENING: We have a couple Norwegians.

BLIXT: Well, they're worse, of course. I say I went to a Norwegian school, I'll have you know. Pay no mind... OK, I think maybe I've said all I needed here except that I would strongly suggest that you resist the pressure for higher yield in a diversified portfolio, review your revenue projection, the loan fund activity that you've already done ---sure---I think it's extremely good. I would of course suggest that second thing down, as you can presume any investment man would suggest, that---the second column---on page---right here? The investment one? I think it's a good ---this is a very good brochure by the way, whoever did it. And be careful with what you do, but keep control here. But have an agency that's working under you so that they can be subject to your ideas and can do studies for you to help your commissioner of finance or the administration and taxation do a better job in that way.

On the last page I have just mentioned a few thoughts which I don't mean to include anything you haven't thought of already. But you'll notice if you hold incoming oil wealth as a permanent investment, it provides a stable source of income, it would contribute toward minimizing future economic problems. And of course it minimizes the amount available for these current purposes, but I point out why that might be a minor disadvantage. If you'll notice the problems involved with using this money for Alaskan development just like in Minnesota is that a loan or guarantee often becomes an outright subsidy. We found that so often in northern Minnesota. Investment risk often becomes confused with political practicalities and pressing current needs become less mandatory when viewed from the future.

I then mention here the tax exempt bonds that could be used for many of your projects. I point out that there are disadvantages from a long-term investment standpoint and that citizens do not often understand why you would put your money in investment and then borrow money. But I think they could be educated.

My conclusion, you'll notice that the last page, is that leaders of all states with trust funds recognize the validity of holding funds for the future under proper investment management. Yet many states have modified or stopped accumulating all funds during periods of low interest rates such as we experienced in the 1940s and the 1950s or when demands to satisfy current needs that seemed paramount. It is logical to hold as much as possible

for future generations, but holding any amount is better than holding nothing.

Legislators may take a course which is politically feasible in order to protect and save whatever possible for future generations of state citizens. To protect a part of the assets is better than to lose everything because of public demands for current expenditures. And I think you people are doing a tremendous job. And these programs here---you're saying we may have to spend a certain amount for current expenditures. We have to build up our government, but on the other hand I think that you're doing a tremendous job in just going through everything and looking at what other states are doing. I have copies here of some of the Minnesota statutes that may interest you.

GRUENING: What all is in here? Is this---cover all the investment statutes?

BLIXT: Our investment statutes, rule like proxy. Let me try to find the one here, I guess this is the one I have. The first page here is just the Minnesota constitution where we have an old Permanent School Fund, the words now perpetual and inviolate that I talked to you about which is interesting there.

The next page, first on page 152, you'll find the Permanent

School Fund investments. A very conservative investment policy as outlined here, 20% in equities, 80% in bonds, and only 40% in corporate bonds. So, in other words a good part of this fund must be in governments. But that includes Ginny Mae mortgages of course and we can get a higher yield there than in many other things. Then you'll notice on the next page, 153, we have a general appropriation language for all the investment programs. On page...

GRUENING: On mortgages, I just want to interject...

BLIXT: We have no mortgages allowed here.

GRUENING: OK.

BLIXT: For a very good reason. You say, why? I don't want to be the guy that kicks a welfare mother and 10 children out on the streets of St. Paul when it's 30 below zero. Everybody all wants us to buy a mortgage. We have more mortgage salesmen in the state than anything else. But I don't want to buy a mortgage unless it's a government guarantee because I don't want to make that decision.

Now, by the way, there are more people in there trying to sell us mortgages in Minnesota than any other kind of

security and they always mention that they gave $100 to the governor's latest fund raiser. They mention that first and then they show us the mortgage. The governor told me not to listen to them. Because if it was a really good mortgage the banks and the insurance companies and others would be in there.

Now at least we could have bought the real estate. And you know real estate has done far better than stocks and bonds. In fact a year ago I talked to the Continental Illinois Bank and they said they were going to set up a little fund of farms in Minnesota, Iowa, Wisconsin and asked if we'd like to buy it. I said, oh, that's just fine. Our secretary of agriculture a few months ago, as you know, and the first thing he did was complain that some vicious corporation was out to buy farms in the upper Midwest. And he didn't realize that it was me and my equivalent in Wisconsin and Iowa and Illinois that were going to do that. So, we haven't been able to get into real estate that way. But I don't want to hold the mortgage unless it's a government guarantee behind it. Ginny Mae, yes. We tried to buy a lot of Ginny Maes of Minnesota mortgages. Do I---yes?

GALLAGHER: How about the PMI? Private Mortgage Insurance?

BLIXT: We have not goine into that yet at all. My legislature has said cool it. We do use Ginny Maes on some hospitals. We buy a few bonds which are really mortgages. Like for example one insurance company, I believe it's Gulf Life in Florida, sold a bond issue a few years ago which really is a mortgage. But they felt they had hot enough analysts that they could buy some secondary securities and they knew they'd get an AA rating so we bought in essense a mortgage on their life insurance building, but it was presented in the form of a bond.

We have no mortgages in Minnesota. The demand has been tremendous, but every time the legislature looks at it and thinks that the state could be in there kicking people out on the streets when it's 10 below zero, that's the argument. They say they just want no part of it because there is enough capital in Minnesota. The banks can always get from correspondent banks in New York or Chicago, the savings and loans are very strong in Minnesota. I realize that it's an individual situation. We may get in there yet. We may have a mortgage committee. It's being talked about all the time, but we don't have a cent in mortgages today except the government guaranteed ones. We feel it is advisable and far less political.

If you want to go through the statutes, we have treasury statutes---I don't want to go into the time for the next people here---on page 155, just about---by bond---then you'll notice the

state bond fund is mentioned on page 156. The retirement system is generally on page 157. That would be our main investment statutes right there. Then we have modifications, for other funds. Like the highway bonds on page 160, the various retirement funds, the supplemental fund is on page 161, we have the income share account, the growth share account, and the fixed return account there.

GRUENING: Is your statutory framework in here, too? The---

BLIXT: Of my department?

GRUENING: Yes.

BLIXT: Yes, How I'm set up is right in these statutes. I regret to say there is not a good order because, I bet it's just like Alaska. You pass a statute this year and it's put on the end of the chapter. And the next statute goes on the end. We really should have a modification. Yes, sir?

MALONE: Thank you, Mr. Chairman. You may have mentioned this, but I didn't hear it, Mr. Blixt. The expenditures of the investment program are appropriated by the legislature

like any other state expenditures?

BLIXT: In great detail. Yes, yes sir. Yes, they question me on everything. Frankly, I disagree with them a little bit. They tend to have more people than I need. I have one or two extra people this time that I'm not going to hire. I don't get what I need for travel.

MALONE: But it is part of the general...

BLIXT: But it's part of the budget. It's a line item, sir.

GRUENING: Does the operation expenses come from the actual investment income or what we call the general fund which is...

BLIXT: It's been coming from the general fund, but we've had a debate there. A few years ago, because the governor wanted to save on the general fund budget, he said, wouldn't it be better to take "x" amount from the highway funds, "x" amount from the invested treasurers cash, a certain amount from each retirement fund ---that would be better. That way you have no general expenditures. You're just out of income. Well, everyone said, well that's fine, but then the treasurer's fund earns more, the highway department earns more, and by the way, we ended up with a bunch of people

like this in the capitol who said, well the highway department does work for this and this, let's transfer money from all the departments to the highway department. And welfare does something for them---let's transfer that in. We decided we'd have to have a floor on the new building just to have accountants transfer money back and forth.

Now the legislature wants to question me and boy do they do it. I'll spend an hour in a session like this with a grilling of---even the subcommittees are composed of about 12 people down there. As you know we have a 200 person legislature. It's a big one. And we really get grilled on everything. But it's a line item budget.

GRUENING: What committees do you report to? Is there a specific oversight committee that you report to? What's your first---how do you go through the gears there?

BLIXT: Well, we have many gears. An appropriations---in the House, appropriations committee, a Senate finance committee. We have subcommittees of both committees that look at my budget in detail.

Then beside that we have a House operations committee and a Senate operations committee which are concerned with general state operations. Now all the pension law, retirement

fund law, must come through the operations committee. They in turn have subcommittees. One is on---well, five persons in the Senate, five in the House that are on legislative subcommittees looking into pension law. Now those five senators and five representatives meet together, which I hear maybe you don't do here so much---I think it would be very good of the Permanent Trust Fund legislation---I enjoy those smiles, but really in Minnesota, some of the time the representatives and senators are on speaking terms, really they are. And they meet together and they've even been known to have meetings together if it's something more or less non-controversial. The five senators will say, "Yeah, I'll move ---let's go with the House members---yeah, OK." So they have one hearing together and then they go through their respective operation committees.

But that's generally the framework. Now, as I described it, I've gone before tax committees, all kinds of committees, rural committees on farming, committees on housing and everything else because when you have a state investment department, you literally end up going to every committee in the legislature talking about something.

But that's generally the framework, but it is a line item budget and we have to send it first to the commissioner of finance, then the finance department, then the staff who works for the legislature and they're rough.

GRUENING: Which legislators and which committees seem to have, if any, the greatest understanding of which your operations takes?

BLIXT: You still have---boy, this is a blunt question you are asking me to criticize my bosses, but I will. I hope there is no members of the press here from Minnesota. There used to be a group of people in the Senate and House on the pension committee which were just fantastic. They were from the banking community, insurance community and wanted to do a better job. And my first 10 years, which was very smooth sailing.

Recently we got some new people and they got in mostly on the basis of telling people they'd increase pensions. So here one of them says they'd double and quadruple pensions without thinking of actuarily accounts and feasibility and then they got in some difficulties. At that point I'd say the really rough question was supervision of me tended to go more toward the finance committee and appropriations committee rather than the pension committee.

And in finance and appropriations we have some people who have spent just enough years listing the people wanting funds, wanting appropriations. So they can just smell out something that's false. I don't know if you have that here. But soon

they can just see a crooked request on paper. Yes, they really question you. And they ask you about these policies. Is it necessary? Do you need people for this. Do you need bond analysts. Do you need stock analysts? Do you need to go to New York and shouldn't you have more of a phone bill? Do you need this subscription? God, they'll be very pointed in their remarks.

But, as you know, I suppose you have it here too, you have a few people become experts---and we also have a few people who think they are experts and they give us a rough time. We have some of those including this one broker who has his hand out and he's giving us a terribly rough time at the moment. But generally we've had very, very good response from the appropriation and finance committees. Now I've taken too long. I've gone into the next deal here. I have a lot of things...

GRUENING: If there are any questions...

BLIXT: I appreciated the opportunity...

HAUGEN: Yes, I just wanted to ask one quick question. What's the total state budget?

BLIXT: It's up in the billions at the moment. I believe it's ---the last legislative budget was about $6 billion. For two years $3 billion.

HAUGEN: Bi-annual? $3 billion a year? Relating it to the number of state employees.

GRUENING: One other thing on the competition of banks for management of these department funds, is that statutory or is that regulation or is that---how does that...?

BLIXT: They set up a new finance department 4 years ago and took this power away from the elected treasurer. The finance department is now under the governor. And yes, now we must do it on a bid basis. Below this will be explained. I'm going to send a copy here to your committee...

GRUENING: Is that including the statutory material--- how the due processes work?

BLIXT: No. But I could send it to you. That is under the executive council, under the treasurer and the commissioner of finance. It's not in investment board statutes. By the way, a little bit of how we operate, I'm just going to send--- these are copies of my latest annual---or my latest board meeting. You'll notice tab runs here of every purchase, of every treasury bill, including who we bought it from and the commission. And this was given to the Minneapolis Star,

the Tribune, the Pioneer Press, Associated Press every time. I'm going to---yes?

MALONE: Mr. Blixt, how often is that generated?

BLIXT: This board meeting is every two months. And that's a board meeting there. We also have a meeting of our advisory committee every two months and my analysts turn out this material on every stock we have which is similar to what the big bank trust departments have---we don't pretend to be in detail---like you have heard this afternoon, but I want my analyst to keep track of it. If you just want to send this around too, it shows some of that material.

I have some other information, but---oh, yes, and when my advisory committee meets, they want to know generally what's in the fund. We have a marvelous computer system so if the market is closed today, in another hour or two I can have a run of every asset I have in all the accounts. The computer is right in our office, including tonight's prices on the New York Stock Exchange, the dividends, the yields and everything brought up to date. And we give this to our advisory committee. Also, this is not real recent, it's November 4th, it's not real late either, but this is from our last committee. It's what we used there in managing funds and I think the main story we have there is we simply...

GRUENING: Is this the advisory committee?

BLIXT: The advisory committee is 10. Ten people chosen by the State Board of Investment, the leading institutional people.

GRUENING: And they're per diem---they're not full time?

BLIXT: No per diem, they get no expenses. It started a volunteer committee, one man comes from Duluth, one from Rochester, we try to give them the equivalent of a train fare. Except there is no longer a train there. They don't get much. They are on their own entirely and they've done a tremendous job. We feel it's in the interest of these financial institutions to try to keep the state in good financial order. We've never had any problems getting the best advisors in the state.

I appreciate so much the opportunity to appear here. As I say, I still don't know why I was asked. I have nothing to sell and I assure you Minnesota doesn't want to take over the Alaskan funds. I've had a lot of fun. We've had a lot of fun being here, I've talked to folks all over the nation on this. There is about 10 of us that manage state funds throughout the country that like to speak with others.

I guess you might say we're missionaries in a sense because I think we are able to accomplish quite a bit by just dealing with people. By being available to talk to legislative committees. By being available for the church groups and the Lions Clubs as I mentioned. Because whenever you have a program like this it's so important to have the citizens of the state realize that it's better to put the money away for the future generations than to spend it on them so they can buy booze tonight. And you know that's a very difficult thing to get across. Thank you very much.

GRUENING: Thank you very much. Mr. Speaker.

MALONE: Mr. Chairman, Mr. Blixt, I'd like to thank you for a very articulate presentation.

BLIXT: Thank you. It was a lot of fun being here.

GRUENING: Are you headed back to your home state or what? What are your plans?

BLIXT: I'll be honest. I'm a tourist. I get up to Alaska so seldom that when you folks were nice enough to pay a plane fare, I'm going to stay here a couple of days and see what Anchorage is like.

GRUENING: Well, welcome to Anchorage. Terry Magrath has been waiting patiently in the back and it's running a little late. Terry would you like to...?

I should say a little bit about the hospitality Terry gave me in Boston. I came up the day and he showed me around the place and he talked to me a little bit about their operation and he represents a management group that is not---it sounds pretty progressive and I would like to maybe just relax a second. Those that want to get coffee can go get it. And we'll start in just a second. Terry?

MAGRATH: Ready to begin? Well, as Clark mentioned, the reason I am here is that he came to visit Fidelity in Boston and mainly to ask us to describe to him more or less the state of the art of large institutional investing to give him a framework and his people a framework so that as you go down the line in setting up legislation for your opportunities here, you would at least see sort of what is happening.

Fidelity is a money management organization. Manufacturers Hanover---one of their functions is money management, but Fidelity's sole function is money management---that's all we do. One portion of Fidelity manages about a billion dollars in assets for a large corporate pension funds as such. The part I'm responsible for is---manages international assets for this same type of client.

Now, I'm not here really representing Fidelity. There is nothing really we can do for you at this point. If at some point down the line you are interested in seeking outside management for a particular function or something, we would be glad to participate or compete just like Manufacturers Hanover, or anything.

All I'm really here to do is to respond to Clark's and Beldon's request to more or less lay out the general framework of institutional investing more or less so you can see some of the problems, some of the structures you're going to have to face as you set this up. As I mentioned, Mr. Blixt has pretty much covered most of what I wanted to say and I'd like to cordially invite him to come talk to the Massachusetts Legislature and see if he can bring some of his efforts to bear at our zero credit rating state.

One other point, Clark did say that when he was down there that he would like me to come up and talk to you people and that if I came up here he would show me a polar bear. He promised to show me a polar bear. He then suggested that I stay at the Captain Cook Hotel and after I got to the lobby and saw that stuffed polar bear I realized why he had asked me to stay there. Actually I do want to say---this is an incredible state and I'm very personally pleased to have been asked to come up here. I think you people have a wonderful state and it looks like the way you are going you will be able to keep it that way.

About asset management, I was going to cover a little bit of the history which Manufacturers Havover has already covered. Some

of the current state of the art. And some of the trends in force in institutional investing. And I think this is an important point. You saw a lot of investment verbage today, some of the ins and outs, some of the particularly professional things that go on in institutional investment. Seventy percent of the market today is institutional investors. You people coming in with what---$2 to $8 billion---are going to be a very key factor in this market.

One major point I want to leave with you is that you---this is a profession. It is just as difficult a profession as the legal profession, dentistry, lawyering, medicine, etc. You're going to have to get professional management to run these funds. There are lots of ways to structure this. You can hire it out, you can contract with an organization or you can go in-house as Mr. Blixt has done.

The second point is the trends are such that it's not so much the individual day-to-day investing that's making the key difference. What's making the difference is the policy. Setting up the basic policy under which the funds will be managed. By policy, this could be a debt-equity structure, constraints on the funds. In setting policy you are really setting the primary deterrents of how these funds will be managed. These are big bucks. A little bit of difference can make an awful lot of investment difference down the road.

In setting policy, I understand you have a legislative problem that is facing you right now. Arbitrarily limiting the investments for political reasons may be a necessity, but the penalties can be enormous. If there is any plea I would like to leave with you, it is you set the policy structure or mechanism so that you can change it somehow as conditions change.

You heard a presentation from Manufacturers Hanover which, if there is any one theme that was constant in what they said, is that investments change. There is a time for growth stocks, there is a time for this, there is a time for that. Mr. Blixt showed how he had to change his portfolio to bring it up to date from when he had the 2½% bonds. I know it's a difficult task, but I do know that if you structure the investment policy by limiting your investments, there will be a point down the road that you will really wish you hadn't.

Alright, from this point, let me go on to just lay out a little bit of the function you're going to set up. Now I'm talking about an investment management function. You can think of a little company over here---Fidelity is a company that runs investments. We have a department for fixed income, a department for equities, my department is in international securities, one group runs nothing but pension funds, etc. The components of this organization or the organization you are going to have to set up as Mr. Blixt has, or the organization you may hire out, has to have administration. Now the administration means control, the review, the

handling of the funds, the accounting of the funds.

The second major component is a planning function. And here I alluded to it---it's one thing to execute the investments. It's another to be able to plan the policies or constraints under which the investments are going to be made. Now, there are tools that are available and that are becomming available that makes the planning function a lot easier. Makes it a lot more "scientific", if you will. Access to these tools I think would be critical so that you can more or less have some independent way to oversee the evolving and planning of the fund.

And the last function in asset management is the investment management function itself. This is the staff that Mr. Blixt has or, if you hired an outside manager, this would be the actual staff---the staff that he has.

Now in today's market---and I won't spend much time because it's quite late---in today's industry, investment industry, there are two polar types of investments. Two polar types of investment organizations or ways to invest money. There are shades of gray in between. You have a particular problem. You may want to take a shade of gray. The two poles are the following: One is totally in-house. Hire a staff, hire a set of professionals. Run them, control them entirely in-house so to speak. This is the way Minnesota does it; this is the way the U. S. Steel pension fund does it. I used to be an

investment manager with the U. S. Steel pension fund. There were nine of us. We managed $4 billion, which is in your ballpark. We ran it---we were effectively a subsidiary of the steel corporation doing nothing but managing these pension assets for U. S. Steel.

GRUENING: Excuse me, Terry. Doesn't Mr. Blixt, if I understood it, contract some of the equity out? I may be wrong, I just had the impression that there were some people being contracted by your department.

BLIXT: No. In one case we buy... It's just for information. And from brokerage houses all over the country we get all the information.

MAGRATH: In generating the information for their internal investment decisions, they will use what is known as soft dollars, commission dollars to pay brokerage houses to get research to help them in their decisions. In that extent they are.

GRUENING: It's still considered...

MAGRATH: It is still considered in-house. We at Fidelity do the same thing. We have a large in-house staff of investment analysts, but we also will use brokers to buy investment research in

certain areas that we want to have special advice on.

The other pole is the multi-manager approach. Now, this is the, by far and away, the mainstream or the current way that very large pools of money are being handled. The multi-manager approach means that you hire outside managers, usually quite a number of them, depending on the size of the fund and the purpose of the fund. You hire the outside managers to run particular portions of the fund in accordance with how you want it done. This is American Telephone, for instance. Out of the top 200 corporations, I believe there is only 10 to 12 that run it inside. All the rest use the outside management approach.

I'll go over just briefly the pros and cons of both and how they might apply to Alaska because, while Mr. Blixt's solution seems good at first blush, you may have some particular problems up here being where you are and also with the growth of the assets you may not be able to gear yourself up quite readily. As Mr. Blixt may confirm, to build an organization requires a good long period of time. You have to get the right people, pay them the right amount and give them the incentive to do this.

Alright, first off, the multi-manager approach. As I say, this is by far and away the way that is done more so than any other way. What you require here to do this would be a central administrative staff. And these must be high quality

people, people like Mr. Blixt, and a good core than understand Alaska's problems, work for Alaska, that's controlled by the limitations, etc., imposed on them---on him by you. The central administrative staff hires managers, sets policy according to the guidelines that you set, measures performance and effectively manages the managers. The managers report to them.

Say Fidelity or Keystone or Manufacturers Hanover, whoever it may be, would report to this central administrative staff, the ongoing progress of the funds. The advantages of this approach is low overhead---low direct overhead. You have a lot of flexibility. Hiring somebody is a commitment to somebody's career. If you've hired the wrong person, you have hurt yourself and the person. So it's a way to more or less rent somebody until you may get yourself better situated into knowing how you want to go. You provide competition between managers and also you can select specialized managers. Manufacturers Hanover showed you some of the areas where they are special in. There are other organizations that provide, say, real estate investment advice may be one thing. If ever you want to go international, I can show you some of the things that we do. Different managers can specialize and, as I said earlier, this is a profession you are dealing with and just as doctors can specialize in certain areas, so you will find investment managers that can specialize and do a lot better job than a generalist.

The disadvantages of this type of approach---there is a very high service cost. Investment management, just like lawyering and

doctoring, does not come cheap. You're more or less duplicating your cost in the sense that if you want to run $4 million, they can do it with a staff, but if you're going to run 10 pieces of $400 million, you are more or less funding each of the ten managers. Their fees are on an asset basis or a funding basis.

Administration is complex. Ford Motor Company has 25 managers. They have a staff of three people. And when we go to talk to Ford Motor Company, they give us a presentation. They tell us where we are, where their objectives are, what we have to do to hit certain objectives. It's gotten to be a very sophisticated business, the idea of matching the investment manager to the ongoing needs of the fund in itself.

And the other disadvantage is the central staff is fairly critical. If you can hire Mr. Blixt to do it, as a matter of fact, that really may solve your problem for you.

The other side is internal management. Which has already been well covered by Mr. Blixt. You are really here setting up a separate company, just like an entire investment company, except you don't have a marketing department. This company is working for you, for the state of Alaska, just like the central staff of the multi-manager approach. Here you have a staff that is doing nothing but worrying about the investments of Alaska. You have relatively low cost. Some of the advantages of this---relatively low cost. But now you've got to weigh

the cost of investment management with the difference in return. Think of a 1%---if you could increase the investment return by 1% on your $8 billion by spending more money on investment management, I think you will find that you can pay your investment managers an awful lot of money. So cost, when you are talking investment management, really has to be subjugated to the benefit that you are getting. You really have to look at the benefits or the incremental return that you can get from buying very good management.

GRUENING: Yield or net return, is that what you are talking about?

MAGRATH: Total return. We deal in total return. You can look at it in yield for capital appreciation, but just think of a 1% increase in return on your portfolio of $8 billion is one year's worth: $800 million? $80 million? This---when you look at some of the return figures and differences of yield, you apply that to $8 billion and you are talki g about a lot of money. So it may behoove---forgetting the governor's salary, forgetting a lot of things, it may behoove you to spend well to set up good investment advice. Because it will pay for itself if it is done correctly.

GRUENING: How do you go about analyzing the state of the art as you say in terms of comparing Mr. Blixt's performance to your

performance in some areas. It becomes all very subjective to me.

MAGRATH: There are very objective ways to measure investment performance. We didn't touch---Mr. Blixt didn't touch on it, but---the performance of the funds. There is all sorts of ways. You can look at this---there are services that do this. And it would behoove you, in any case by the way, whether you set it up entirely or whether you buy multi-managers, it would behoove you to have independent investment management service to look at how well they are doing. Almost an ombudsman for the state.

GRUENING: It's complicated because your time frame is important. As Mr. Blixt pointed out that things are very faddish. Somebody will say why aren't you in the stock market, look I could get this and that. And I can realize that. So are the analyses, are they sophisticated enough to give...?

MAGRATH: It's tied into policy, Clark. You have the luxury---with the amount of assets you have and the long time frame which you have---you have the luxury of being able to look longer to set up your structure or your investment policy so that you can have a better chance of maximizing your longer-term returns.

GRUENING: One of the problems we have in terms of analyzing that is that we haven't determined yet what we are going to do with the income. The constitution provides that it is reinjected in the general fund, so technically right now, all it's doing is use[illegible] operating expenses. The committee will consider tomorrow, I think, just some general thoughts on what to do with it. One suggestion might be reinject it into the fund. Use some of it maybe to meet current needs, whether that's to leverage additional funds I don't know yet. It's very complicated. The governor had Alaska, Inc. So we don't have that as a criteria to measure investment policy. It's the one odd thing about this. Maybe you have a comment on that.

BLIXT: I have a comment. We have three outside firms measuring our performance. We do just as you do many different ways. One way is simply to compare us with the IDS fund and with the banks in the Twin Cities. If they fire me and went locally or went to places that they've got to hire, would they do better or worse? Then we take these overall services in which they compare us to others. Merrill, Lynch has it, Hamilton has it, Becker has it, we deal with local organizations besides.

GRUENING: Is that mandated in your statutes?

BLIXT: No. But we feel it is mandated individually because

somebody that's against our department is going to come in all the time and ask what it is. We want three different records on hand all the time.

GRUENING: Thank you. Go ahead, Terry.

MAGRATH: It is important to have an investment performance management and it can be done. And it can be done in the context of the risk levels that you have set or the ---once again the policy level which you have set.

GRUENING: Sterling, do you have a comment?

GALLAGHER: We use Becker's Services.

MAGRATH: The other particular problem you may have---and this has already been touched on---in setting up an internally managed fund that you could solve easily and it would behoove you to do so. One is that your location, while it is absolutely one of the most beautiful locations I have ever seen, is a desert as far as an investment professional is concerned. It would be difficult to have a team of good investment professionals up here. Your time frame---you have to be up and going when the markets are up and going, which is five hours different from the central market here in the United States.

You have to be in day-to-day contact with other investment professionals and have a good communication network. So, if you do go internally, you may even want to consider not having it located here. For instance, with U. S. Steel, when I was investment manager with the U. S. Steel pension fund, the corporate headquarters was in Pittsburgh, but the pension fund was on Wall Street. And it was quite important to be able to do that.

The second we have already touched on is the fees---the salaries you'll have to be paying for a good qualified staff. I was quite---I congratulate you, sir, I was quite surprised at the fees Minnesota pays. I don't know what the turnover is, they must be quite high quality people looking at the result. To get that quality of person, I think you are going to have to pay at least a few of them more than the governor. Just like you have to pay a doctor more than the governor if you had a full-time doctor on your staff.

So these two factors may prove a problem for you. I'm not sure. The other disadvantages is you have little flexibility. If you get the wrong person or the wrong team, you've made a career commitment to these people and you cannot turn them over at the drop of a hat. You build a staff---you build a business like this slowly, carefully, and make sure you have the right people and you must make sure they can work together.

The second is, I understand your asset basis will then be growing quite rapidly. That means you're going to have to be

gearing up and doing something quite rapidly. I don't know how fast you can set up an internal staff.

There is some middle ground. One way---Yale University did some years back---and that is to contract their large funds. They went to an organization and contracted out setting up their fund to be managed. In other words, the other---it wasn't Yale, it was another organization, I'm sorry. Yale did something else. But this organization went to a money management organization and effectively---the money management organization set up a separate company if you will, affiliate, that could draw on the money management organization's capability and feed this capability in as the assets grew. In other words, you really set up a joint venture. And here you have a lot of the advantages. You have a group that would be doing nothing but managing Alaska's money. You could be drawing on the substantial capability. You heard from Manufacturers Hanover just some of the capability you need to run a big amount of money. Well, this organization had that capability, so this one management organization had that capability, so that the endowment fund came---set up a joint venture and, as the assets grew and were funnelled in, the money management organization could draw from its capability to apply it to the running of these funds. It's flexible. You can terminate the deal whenever you start to build your own organization. You are not committed to people. It is relatively low cost

compared to your multi-manager approach.

That's essentially the three options I thought you had. At least the two polar options and the various shades of gray in-between. If there are any other questions. I just want to summarize by saying a couple of things.

No matter how you do it, you've got to get good professionals working only for the state of Alaska.

Number two, they have to be independent. You don't---they shouldn't be turned over, they shouldn't be under political pressure ---at least minimized as much as possible. As Clark knows when he first came to us, we won't even talk to states. With one exception the State of Oregon, which is a very well run organization. But normally, if a public fund came to us and wanted us to talk about managing, we wouldn't talk to them. Mainly because of the turnover of the personnel of a political nature. What you people are doing ---I commend what Minnesota is doing, I commend you in Oregon. Maybe it has something to do with cold air, I don't know, but you seem to be doing it quite well.

GRUENING: A mixture of hot air and cold air.

MAGRATH: The third thing I want to leave you with is that planning is getting to be a very important function. And that you ought to have some of these tools at your access to help you meld your end use of the funds, the cash outflows if you will with

the investments you have so that the two can be put on--- am I making myself clear on that? OK.

It's a bit of a digression, but there are computer models available which you can more or less model the future. Set up a lot of circumstances. What if you wanted the fund to amortize over "x" number of years? What if you wanted it to stay at a certain level or to grow? What are the cash flow buildups going to be in this fund? That's more or less your asset side. Your liabilities. What are you going to be paying out? How do you want these things to be done? Well, given these two, you can then see what the implication of various debt-equity ratios would be. What if you went all equities? What are the probalities of getting this return "x" number of years out? What if you went all debt? What are you giving up by doing all debt or all short term cash? You'll find it will be substantial.

But no single---no two funds are the same. And what I'm suggesting to you is that there are vehicles available. Fidelity does not have one of these, by the way. There are independent consultants that have them. But there are vehicles available that would enable you to better plan the constraints that you are going to be putting on these funds.

The last point I want to make is that if at all possible, try not to put fixed constraints. If you go back in any point in history the constraints that you would have put on at

some point would have been wrong at a later point.

GRUENING: Thank you, Terry. Aren't there some constraints--- I mean, literally, you could open it up to any kind of investment. I mean, obviously, there are some constraints. Are you meaning like percentages on equity investments or what do you mean by constraints?

MAGRATH: Alright. Let's say you put in a constraint of 15% ---no more than 15% equities. Alright. Right now that might be a very politically advantageous thing to do. If you put it into a statute like that, there may be some point down the road that you may find that this has seriously curbed or impaired your investment performance substantially.

Let me give you one example that happens to be the area that I'm involved in. Most U. S. corporate pension funds have a constraint of no foreign securities. It was an arbitrary constraint put in way back when they thought it was a bad thing to do, to go into international markets. There has been a vast amount of work done that shows that a small amount of international diversification of your portfolio has a lot of bang for the buck. It reduces the risk substantially. It spreads the risk on markets outside the country. So now instead of having a highly volatile returns, you have some of it balanced in the Japanese market, the German market, and it smooths them. It smooths the return substantially. And this adds substan-

tially to the potential for your return. These are fairly technical things which I don't want to spend---I don't want into too much here, but it has now become clear that a small amount of foreign assets makes a lot of sense. As a result a number of corporations are going back and having to go through the agony of amending their trust agreements, which is a difficult thing, to allow this type of investment.

So, all I'm trying to say is if you minimize the arbitrary constraints and more or less focus on the mechanism to set policy and let that be your controlling guide, I think you'd be a lot better off.

GALLAGHER: You talked about foreign investments. Do you think it's appropriate for public funds to have this option?

MAGRATH: Would there be an emotional bias against it? You mean to buy options or underwrite options? A lot of U. S. corporate pension funds are indeed underwriting options. Yes. Now five years ago that would have been an anathema. There may be a place for options. There may be a place for private placements. I don't know. But at certain times this may make sense. Markets change. The options market was not available to pensions five years ago because there was no options market. Now there is a viable options market and some of them are good.

I'm not saying it's appropriate. We don't do it. But some are seeing it as an appropriate investment.

GRUENING: Doesn't the rule of diversification---it's a principal that comes up---require limitations in these areas anyway? As long as you are stating---maybe restating the rule of diversification ---it may have some political value. And it may not hurt. There must be some point where you are violating the investment policy to put a lot of money in the stock market. I mean a high percentage. Especially if it's money that has to turn over. Now, there probably is a bias in this state even though pension funds are invested in the stock market. But I'm wondering---isn't there the rule of diversification requires some limitation anyway? Even though it isn't stated statutorily?

MAGRATH: No. The rule of diversification almost implies the opposite. If you really truly wanted to diversify, say in equities, you would have 60% in the United States market and 40% outside the United States.

GRUENING: OK. Does diversification cut across investment categories?

MAGRATH: In other words, here you are looking at two different things. If you want to buy, let's say 20% you want to be in bonds,

80% in equities. OK. That's a policy decision. And inside these two classes of securities, you want to diversify. For instance, you wouldn't want to buy one bond.

GRUENING: No. I understand that. But does good investment policy---doesn't it demand in terms of classes or types or kinds of investments that only a certain percentage go into it? I mean, I can see you can diversify your equity holdings, but if they are all in equities, they are not very diverse within categories.

MAGRATH: One way to handle this is to put outer limits and allow a shift. You saw Mr. Blixt's presentation. You saw a big change in the various mixes as he went through time.

GRUENING: That's what I was talking about. No more than a certain percentage now. What is the outer limit?

MAGRATH: Here is briefly just a Xerox just in case. This is how we have allocated assets around the world over the last two years.

HARGEN: Let me ask a question right now. Are you saying that you don't---I may not understand you---are you saying that the legislature shouldn't put a straight jacket on the way the

fund managers operate? There ought to be some---I can agree with that. But sometimes I think I'm by myself. Everyone's got different ideas. You get the emotional problems and everything built in to---that's talking---just like here you would say why don't you invest in capital markets. I'll just use myself as an example. I spent four years and eight months fighting the Japanese. I'm not that inflexible but now I did feel that way.

MAGRATH: This chart shows how we have invested assets around the world over the last two years. The basis chart is in color. I'm sorry I couldn't get it reproduced that way. On the left and right columns you'll see a neutral position. Insteas of a constraint, we have a neutral position here. In other words, that's a preferred position. We can deviate from that position. As you travel through here you will see the international situation very clearly. You can see the Japanese---we've moved above a neutral position in Japan and then in the late---late '76 there was a major run up in the Japanese market which we participated in. You can---backing up you can see France. You can see the political problems that developed in France and we pulled out of France. Certainly you wouldn't want to have any constraints that says you couldn't be in France. Because if ---you'd be sitting there with the potential of having all the money abscounded by the Communists so to speak. Then the political situation changed and over here on the

right we start to build a French position. What I'm trying to say is, instead of setting constraints on our international policy, the same things goes for our domestic policy, we set a neutral or preferred position and then can deviate within bounds. We'll go maybe twice a weighting in any one particular country. But by setting bounds you are allowing a manager flexibility to work within a framework.

GALLAGHER: Do you usually go in U. S. dollar denominations securities or...?

MAGRATH: Oh no, these are yen and duetchmarks or whatever. These are the investment capsules. We have a staff in Japan, a staff in London, etc. But this is just---I'm not suggesting international securities for you at all. This is just an example of...

GALLAGHER: If we allow under our statutes that maybe U. S. dollar demoninations...

MAGRATH: Well that's not really---Canada follows very closely to the U. S. and we are really not diversifying very well. The Canadian market and the U. S. market are very highly correlated. We are much better off to go in Japan than in Canada. That's another issue. Once again, I'm just doing the

international thing just as an example of something way out in left field to show that if you set constraints you may wish you hadn't at some point down the road. That's all I have unless there are some more questions.

GRUENING: OK. Are there any questions? Terry, thanks a lot. Thank you everybody for going through there and bearing out this room. It's rather stuffy and hot. We'll be in adjournment until 9:00 o'clock tomorrow sharp and we'll start on the---recess until 9:00 o'clock---and take up a piece of draft legislation.

Proceedings

of

The House Special Committee on the Permanent Fund

MINUTES TO MEETINGS

Anchorage--July 16, 1977

Kotzebue--September 17, 1977

Juneau--October 20, 1977
(Public Hearing)

Juneau--October 21, 1977

Anchorage--November 19, 1977

Anchorage--December 12 & 13, 1977

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Russ Meekins, Bill Miles, members.

Mr. Dick Haggart presented long- and short-term revenue projections (July 7 and July 14). He also spoke on the tariff.

Mr. Jim Edenso gave a report on investment of permanent fund. At this time it is in excess of $4 million. There are treasury notes invested in $3 million plus and the savings account has $928,259.21.

There was a discussion and suggestions on the brochure. A wide distribution and summary of two reports were suggested. Committee members were advised to bring comments, suggestions, and changes to the staff's attention the first of the week so the booklet can be sent in to be printed.

Rep. Terry Gardiner gave a short account of renewable resource development.

The budget's allocation for consultants' fees was discussed. When a contract is proposed, it will be circulated to members of the committee.

The budget will be discussed in greater detail at the next meeting.

Tentative meeting schedule was approved.

It was suggested and agreed to that members send monthly budget reports.

Mr. Jim Edenso discussed the A. D. Little contract. Any concerns regarding this contract, let him know and he'll revise it.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Russ Meekins, Ernie Haugen, Rick Urion, members; Senator Pat Rodey, Senate Permanent Fund Committee Vice Chairman.

The meeting convened at 10:00 a.m. The first order of business was public testimony.

Mr. Ed Bohnert, counselor with the University of Alaska Extension Center, testified on sources of energy for the Kotzebue area, including a windmill being installed at the Extension Center. His testimony pointed to the high cost of petroleum-based fuels in the Kotzebue region and the potential benefit of developing alternative energy sources in that region.

Mr. Marty Straus, environmental planner for Mauneluk also testified on alternative energy sources, including a pilot windmill at Kivalina, steam generation at Kobuk and geothermal potential at Kotzebue. In answer to a question from Rep. Gruening, Mr. Straus gave a brief outline of fisheries potential in the Kotzebue region.

Mr. Charlie Edwardson, Washington representative of the North Slope Borough, testified on management structure and investment goals of the Permanent Fund. A transcript of Mr. Edwardson's testimony is attached.

Following a lunch break, Mr. John Schaeffer, president of NANA, testified on his corporation's experience and investments it had made within the region. The main investments had been

in a hotel, wildlife museum, and jade processing operation in Kotzebue. These, Mr. Schaeffer said, had been subsidized by the corporation's profits from other investments outside the region.

Rep. Gardiner presented the Renewable Resources Development Fund subcommittee's first interim report and discussed the "leading edge" theory and the subcommittee's work plan.

Dr. Belden Daniels, committee consultant, presented his paper Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability. Discussion followed, during which Dr. Daniels pointed to the latter portion of the report which detailed accountability problems of existing development banking structures.

Rep. Gruening then moved that he would direct the committee staff to begin preparation of draft legislation structuring the permanent fund. The motion passed with unanimous consent. There followed discussion of the committee's schedule.

The meeting adjourned at 4:45 p.m.

EDWARDSON: The basic point of development in Alaska or any other place in the world is that somebody has always had to finance it--wherever, that's where it came from. All the way through the development of man, especially Western man, the only thing which did not change even when you went to war was the financial arrangements that were made at the time that war had commenced. The victor always had the financial institutions with him.

What does this have to do with state of Alaska? It has a lot to do with it. For the simple fact that prior accumulation had, prior savings had, vested in certain individuals in Alaska, whether we like it or not.

The opportunity here that the state of Alaska has is not so much who is going to be a manager of this portfolio, but how is the citizen going to have a role in the financial infrastructure of his citizenship? This basically means what types of access will the citizen have?

Although the standard of care and the standard of conduct for according and recording, I feel at this time, is quite sufficient, the thing that I would recommend very heavily is the simplicity of a financial statement, not its complexity.

When the history repeats itself more than once and it has its own weight and its own inertia, and when you look at society, it says who does the public take care of? In the past, our history of our welfare program in this country emerged from

communities--that it was communities that took care of a few marginary cautions, and the cities and then they find the way to a state program. The most important thing and the potential that the state of Alaska has is are we at the political development in time when capitalism can be a birthright? Or are we going to selectively, through regulation, discriminate and create a social elitist managerial class in this state?

The dynamics of a corporation as a tool are, and still is, probably the most creative tool that is available to man at this time. The success allowed capital venture in the state of Alaska will depend upon acceptability--acceptability to the citizens.

How does one arrive at this point--the state legislature at this time is responsible for the administration of the public good to all of its citizens. What is the meaning of public good? The meaning of public good means that you have a public manager. Although the public manager may be at fault in realignment of the economy by the political process, best friends and best relatives, is how our political economy in America has been social.

Today that is no longer an acceptable mode. The gap in America--although we have recognized that there is poverty--is how one gets into that state of mind, that state of consciousness, which is totally intolerant. The way that it has arrived in the past is that in an arrogant,

organized society that those that have the ability to be organized, to get organized, always come into par with the rest of society.

Not only do we see poverty of the mind in rural Alaska but poverty of organization. The state of Alaska, at this time, is one hell of an underdeveloped organization. We are charged with very little responsibility and obligation, yet we fail to give to our citizens the basic desires, basic needs.

How does this affect our citizens? The thing that is most pronounced is a very archaic administration. Very few groups of people in Alaska regulating the conduct of enterprise, and not only do we have constitutional problems, but in order for our citizens to be fully endowed, this endowment must come from the constitutional genesis of the people in Alaska. The current wealth in the state of Alaska is being handled haphazardly in the eyes of the public good that if a corporation can lease 'X' areas of land that the loss, significant loss, has already occurred, when ownership of the citizens gets wasted to few friendly corporations.

In order for the Permanent Fund, I feel, to be successful in Alaska the citizens that it's supposed to serve must have a propriety relationship to the fund. Not only must the governor be accountable, but all of its managers must be accountable to all of its citizens, not just an elitist managerial class who are able to shuffle the paper and foster more intolerable situations called corporate fascism in this state.

The responsibility and the opportunity is to develop a portfolio of citizens with a capitalistic class, capitalistic mode. What we have done 200 years ago means no longer self-sufficient, that we must then accept this greater right to capital--to all of our citizens. It's the total portfolio of this thing that whatever gets appropriated in the name of the public good must also have a proprietary class meaning. Direct ownership to that community, to that citizen at that village of Anchorage so that the citizen of Alaska will have a direct law of acquiring capital even though it may be an improvement in the community. How does one create enough administration for this? The first form of creativity--America is quite ruralist in its capital financing development.

We have had not had a change because the only experience that one follows throughout the world has been a multi-national bank. The banking model, I feel, is so tyrannical that it leaves us very bad, leaves humanity in great masses behind. Therefore, it is very hard to fill the American image elsewhere--throughout the world.

The Permanent Fund in Alaska must have a character of a community; the community not feel elitist managers who are saying, 'we will now do it for you.' And this growth and this evolution, if you take a total fabric of the community in Alaska, the highest cost of any administration in Alaska is energy development. If we worry about what we are going to do about our natural resources, when is the state

legislature or a would-be governor going to treat its citizens as a producer not as a payer. Not until we are able to give a hope to all of our citizens in relationship to capital producing instruments by a constitutional convention. The present underclass society, the other class, whether it's black, white, Native is still growing at a rapid rate. We still mean that there is some fraudulence in our structure, in our system, which we can no longer shelter and leave it for the banks and the corporate directors. The same conduct and the same potential for insider information of the insider run away with this type of portfolio are still too great, thus leaving the citizen back in his original deplorable state.

When you impose a limitation, such as to own and acquire portfolio to those capital producing infrastructures, that tells me that we are going to have that fault. That means that the very country, very state who is probably incongruous with its natural resources and had lost its managerial decision because Alaska has lost its lease hold does now have a different manager called Exxon Corporation or Standard Oil of Sohio who is not interested in how your community infrastructure gets developed. But whose vested interest is to ensure the political weakness of the capital producing infrastructure? And the experience of this model is done already in the North Slope Borough. We should make conditions upon the state leases,

that no oil company, no U.S. corporation or any other corporation go after the taxing authority of this municipality. Otherwise those that have ability to be organized make a policy mobilized field and thus leaves a great gap of poverty in Alaska. Although it was done in a fashion of public good. The greatest weakness of our annual appropriations and the fallacy is that under the designs of public good, those that always have the access to further reach the benefits.

So the nature of the plan, unlike any other state, the state of Alaska need not to lease these resources. But it can buy back at least other land. The Permanent Fund, as I view it at this time, can be that holding company that the state of Alaska has for all of its citizens in a proprietary class, making all of its citizens capitalists to gaining those benefits which the federal government is going to lease the land anyway.

So the state of Alaska is in the business. The grand public fraud that has been committed by the public officials is self-denial while the state of Alaska is in the business. We are in the business of oil and gas. Why have we denied an appropriate conduct of our...and the necessary standard of care and conduct? When the state legislature must have a proprietary relationship to all of the wealth that state of Alaska has and the biggest problem of the past that the state of Alaska has failed to realize is that we can escape to the biggest bandit in town,

the Commissioner of Natural Resources, who has the necessary technical infrastructure to give the resource away at the cheapest cost possible and therefore create a thing for your people and class who already have.

It therefore makes socialism for the few possible and makes capitalism for the masses impossible. And how does one view its citizenship or is that no longer a sacred thing? Have we substituted a managerial class and put our citizens at the back door--I feel this is very dangerous.

There are controls and unless Alaska defines its communities, what type of community we are to have and who lives in that community, we are going to fail, and still have this type of greater population, dislocation. Once we develop an infrastructure where a citizen can always benefit, not in lieu of service, but in capital formation. I feel that the time has come where we must look at basic definitions and see if community-owned citizens' banks, infrastructures can be developed. Then the chances for fraud, when one has inherited equal rights, diminish. Where accountability is too fine. When you are equal on paper, on statute or in the constitution, that the chances to find a basic violator are higher than the present format, that is you are administering the public good, which you can get away with and rationalize that under the prior proposal that the Tesoro had the best proposal, although it was bad, but it was still the

best proposal, therefore, we had accepted a bad portfolio to start out with, with all the structural problems and because that something has made, therefore, that this type of a public trust because socially respectable and correctable.

The only way, I feel, is that the state legislature must have a greater control on the proprietary of this public resource and not making it into a class of public good where anybody in the governor's office, the governor. And the chief executive of Alaska, at this time, is the largest single one-armed bandit in the state of Alaska. In this light I would not seek to give higher sanction to the governor.

I would highly recommend to the state legislature that they would vest a veto power in those classes of proprietorship of the management of all of the citizens' portfolio. The biggest problem that we have in this state is our chief executive does not know how to administer, not only that but we also have a place for the strongest tyrant in a democratic process to exist in Alaska is governorship of Alaska. That there is no governor in all the 50 states that has the powers that our governor has. It is amazing that practitioners of that office have not totally given our state to be tapped by others, but it is, and I hear sounds that you must be of stock to come in and manage, that the best experience is from the biggest voice, which I don't feel is the case. The best experience I know of and have always vested in the people

that the proprietary of the fund must go directly back to the people not to any managerial groups and that none of the commissioners or the investors of this fund should not serve in any other capacity but for the fund to manage the portfolio of the citizens of this state. The chances of insider information, I'd say, is too high, too great. The concept of the Alaskan Native community must be clearly defined, otherwise that instead of--I see if your procedure becomes in the technocrats' hands, such as an investment portfolio from our biggest threat, apathy, that the chances of that experience are equally great.

So, therefore, I do not think that the exception of a rule just because the guide was successful in managing a portfolio in Peru creating corporate fascism. I feel the same advisor is equally dangerous to the state of Alaska, Milton Friedman. His experience is a classical one that one must not forget, that corporate fascism and corporate capitalism are the same when you have a very strong managerial chief running the portfolio.

I would suggest a permanent committee in the state legislature whereby the legislature and the governor achieve parity. Without that, that the fund will still go to those few and friendly few unless that the populace have a majority and have the control. I would not, I would have a majority of the citizens versus majority of man. I do not trust managers. That the conduct for legal managing has--is in

the books--has always been slammed. And while limiting to capital-producing infrastructures in the state of Alaska that means that Alaskans arbitrarily have cut their noses off and say that I am, now that Alaskan wealth has changed managers overnight--that it is no longer the Permanent Fund; it is now back to the top 500.

The state of Alaska will be buying back, must buy back, and must invest its wealth on federal lands in the state of Alaska. The Permanent Fund must be prepared to find more oil in the outer continental shelf. It must make funds available, necessary so that all of the citizens can grow with the development of our country. If we cannot make--the state of Alaska, as you well know, we've got the coastline. But the coastline has been auctioned off to the largest multi-national corporations already. It is because that the citizen has lost a proprietary relationship for that resource. It is because that the color is under public good, therefore, that the citizens do not have a direct relationship, a primary relationship to that resource. If we develop a proprietary class for its citizens for state of Alaska in whatever development or investment at this time that I see chances of saving ourselves to the maximum benefit of all of our citizens, not just those who have the ability to be organized.

I am for controls. If the controls are to exclude citizens, as far as I am concerned, that is an unconstitutional

assault, a very direct violation. The citizens' access to this resource, I would say, and the state legislature proprietary control--not the governor. I would vest the proprietary of the fund in the state legislature and go fight the governor. Thus it would make administration checks and balances a lot easier then. I would feel safer if Ernie would have more a say-so on the Permanent Fund than Hammond himself.

GRUENING: So would I. Charlie, thank you; can we ask a question or two?

EDWARDSON: Sure.

GRUENING: You mentioned the Alaska community having problems with the corporations. How do we define community in a way that includes everyone? Should it include everyone in the world?

EDWARDSON: The most significant development in defining community that is occurring throughout this world has occurred in Norway. The Norwegian government, at the time of development of the North Sea, the Norwegian government took the lowest denomination of sovereignty in Norway and examined it, lowest denominator of sovereignty and the best unit,

administering unit, known to Western man has been family. I would say it is high time in state of Alaska that we attempt to actualize in ourselves what is construction and maintenance of Alaskan family and what it means. I see a chance for the first time to develop an actuarian analysis of what constitutes an Alaskan family in this state and to arrive at parity. If state of Alaska is to remain intact, its citizens must have parity and the citizens of state of Alaska should only accept parity, not dislocation.

This means parity in construction, parity in service, which means it may cost more. It may appear to cost more, but in the long run, if you have parity, it has a high survival rate. The basic needs and the basic expenditures which we are going to have is still going to be energy. We already know what those basic components of a community are.

This is 1977 and all of those charges and all of those assumptions of responsibility have not been met, therefore, leaving the state very vulnerable to internal attack.

And although it is beneficial to another segment of the community called lawyers, that the dislocation of its parity of services still is intolerable and with equal access and to arrive at parity, then I say that if this type of dislocation occurs, further occurs, that I see a disintegration of Alaskan society. Not just Native but total disintegration of heavy regionalism. Regionalism occurs structurally because of numbers, because of the nature of administration of public

good gets executed in that fashion because there is no proprietary relationship. If you have proprietary relationship in equity, you will have justice.

RODEY: Charlie, what sort of intervention do you think is appropriate in the economy of the Northwest by the Permanent Fund?

EDWARDSON: I cannot speak for the Northwest. I can speak for what we see in the Arctic. I see the chances of international development in Alaska. Not because of Alaskan resources. State of Alaska has underexamined its strategic location in the universe. State of Alaska is in probably the best location and let's examine strategic positioning of international trade and put Alaska in the Arctic Ocean. If we are to, say, I would propose for the sake of conversation, I am now going into a submarine transportation business, nuclear subs with very large capacity. Maybe all I need is one or two. The 21-day savings, 21-day transportation costs are closing the gap in the Pacific Ocean. The value of Alaska's position in international commerce and the lack of facilitating the hook-up. What happened to Alaska in 1951 has revolutionized the whole commerce of the world? What happened to Alaska in 1951 was the first SAS trans-polar flight occurred. Overnight that, say 22 hours of flying time all over the world that instead of 26 at that time, they made it to 11 hours.

When you put this, state of Alaska is already in the transportation business. When you take a look at the marine development, our potential, as I see it in Alaska is not so much the land but the estuaries. The greatest breadbasket in the world, if we were to keep our estuaries halfway clean, halfway decent, is Alaska in the protein business. And the scale, the present archaic scale of how we used to view Alaska and how it is presently viewed at this time is totally unacceptable.

We must develop a psychology for who we are, where we are from, and state of Alaska, as I see it at this time, can get into an international commerce, international trade of not going through Panama, not crossing Atlantic Ocean, not crossing Pacific Ocean, not crossing Indian Ocean, but crossing our own ocean where it cuts down traffic as long as 23 days. This 23-day savings is sufficient capital saving to go into that type of development but in terms of our community that the citizens in the street must become an owner to a community based infrastructure.

I feel that by getting these numbers--you know, we play number games--we all have a bad habit of that, and it has limitations and what state of Alaska needs at this time is an actuarian analysis of its citizens. With an actuarian analysis, we will learn from this incidence of disease, standard of care where our community vulnerabilities are.

If you have healthy people, we also will have healthy economy. If your people are sick, if your citizens are sick, your economy will also be sick. There are two financing models which I feel should be looked at--is amazingly well is Hydro Quebec. Hydro Quebec is the world's largest utility company. I would like to see state of Alaska come into that class of proprietorship--selling power to the world. Hydro Quebec is so successful that it can finance the government. It is the only situation chat I know signs the bonds of a government--than the government signing a bond for Hydro Quebec. So when a state that is already in the business, if they really want to become experienced, the Hydro Quebec model is very good. On our oil and gas activity, a KOBO leasing model is very good. That is a financing technique where investors pool--like you and I pool our monies together and get an outer continental shelf lease. It is a little more complicated than that, but it is a direct line where a non-technical development can get into oil and gas business without buying unnecessary overhead.

HAUGEN: Where do you have access to the two models you are suggesting--Hydro Quebec and KOBO?

EDWARDSON: I can make them available to the committee. I don't have them here with me. I got them at Washington, so I will be going back probably around the 24th.

HAUGEN: Will our staff be able to acquire them through you?

EDWARDSON: Sure. And the other model that is quite interesting is U.S. Steel in Ontario. Why that is interesting is U.S. Steel provides the coal and Ontario provides power to U.S. Steel. It is a very interesting model in terms of financing large scale industrial activities and also financing power so Ontario and U.S. Steel financing techniques have lots of flexibilities. It warrants attention. Ontario and U.S. Steel are in the power business. It may work very well in this state because there are some areas where there is a lot of coal and mining industry, as we all know, is well. One of the things, one of the bad policies we got a lot of bad habits in our government. We have even had to become practitioners of bad habit especially in large scale energy development.

We have a psychological problem that we must take something to the community and the best type of development, as I see it, is at the resources and not taking the community and, which I was happy to hear, it was realized by Fairbanks that the community infrastructure, the social governmental capital to provide sewer and water was more expensive than all of the total, that the secondary community infrastructure got work and it still will be burdensome. The state legislature will still have to pump in more sewer and water. This is why that

I always suspect portfolio managers and always suspect bankers. So if I was in the state legislature, man, I would go after the power that the governor has and vest it in the people, vest it in the state legislature, that is probably the most significant fact that the permanent fund committee can have to have a portfolio run by citizens who do not have loyalties to prior practice, that the chances of an investment banker being loyal and his chances of loyalty will not change but will have an expeditious intercourse with that prior practice. I feel it in Alaska has proven itself to be continuing practice and have not seen to exist but now that I see instead of what used to be for people now.

GRUENING: Thank you, Charlie.

PRESENT: Clark Gruening, Chairman; Russ Meekins, Bill Miles, members.

After a break for lunch, two letters were read and public testimony was heard.

The American Association of University Women delivered a letter asking for consideration for allocating part of the income derived from the permanent fund for the support of cultural facilities.

The Juneau Lyric Opera Association also presented a letter. They request priority consideration and affirmative action in funding cultural activities for municipalities.

Ms. Shirley Rediker, state coordinator of the Cultural Facilities Development Committee, suggested that income from the permanent fund be used for cultural facilities. Ms. Rediker stated that the state had a great need for places for performances, art exhibits, artifacts. She gave an account of several communities' needs for the facilities and offered to furnish the committee with more information if desired.

Mr. Eric Hanson spoke of Alaska's need for education on such things as aquaculture, arctic health, arctic research, mountaineering, skiing, general aviation, fishery science, and hatchery science. Mr. Hanson suggested that institutes be established in the above areas with educators with excellent qualifications--that could draw

international interest. Loans to students with minimum interest charged was also suggested by Mr. Hanson.

He encouraged flow of information to the public as the permanent fund committee progresses.

After a short break Ms. Allison Horton, representing the Audubon Society, stated that the society is more in favor of shifting the money to out-of-state investment than they are of a development bank. They believe that saving it for a future resource is the best.

Ms. Horton did suggest research be done on energy, technology research, alternative sources of energy, establishment of a state office of technology, recycling, and transportation alternatives.

Mr. Doug Pope and Mr. Bill Berrier discussed separation of powers--Bradner vs. Hammond.

Mr. E. O. Brackins, development specialist for minerals in the Division of Economic Enterprise believes there is too much emphasis on renewable vs. non-renewable resources. He thinks that mineral resources are renewable--renewable the same way a farmer's field is renewable. As you go in depth, the resource expands. Mr. Brackins suggested investing with a resource company (using Quebec as an example).

The meeting adjourned at approximately 3:00 p.m.

PRESENT: Clark Gruening, Chairman; Russ Meekins, Bill Miles, Leo Schaeffer, members.

The meeting convened at 9:00 a.m. The first order of business was White Weld's report.

Mr. Robert Greeley gave the recitation for White Weld on a study relating to descriptions of principals and management of trust funds, principals of various types of trusts. The study includes Wisconsin and Minnesota, as well as a series of investment funds. Also included in the report are the following: organization in management structure, description of different types of corporate securities, money market instruments, investment performance, and a listing of different criteria.

Dr. Belden Daniels discussed the development bank and existing loan funds with the committee.

It was agreed that the draft include a finding--there should be no duplication of already existing loan funds.

It was agreed to capitalize the development bank out of the permanent fund.

A separate paper of alternative approaches to accompany the bill was agreed upon.

The proposal was made and approved to raise the contribution rate to 30%, taking 1/6 of that to capitalize the development bank. The remaining 5/6 would be used to capitalize the investment function.

To keep the three commissioners on the Alaska Enterprise Investment Fund Policy Board was ratified.

The meeting adjourned at 5:30 p.m.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Ernie Haugen, Bill Miles, Leo Schaeffer, members; Hugh Malone, Speaker of the House; Alvin Osterback.

The meeting convened at 9:00 a.m.

The committee agreed to adopt the bill which was presented as a working draft. The bill creates the permanent fund as a separate trust investment whose sole function is a high grade investment money-making vehicle. It also creates an Alaska Enterprise Investment Fund to invest in financially-sound medium and small scale enterprises.

A note was made of the Alaska Enterprise Investment Fund inadvertently called the Alaska Development Bank in several sections of the draft. The changes will be made.

The following changes in the draft were made by the committee:

To drop the words "in the Department of Revenue" in Sec. 37.13.010.

To change Finding 2 to read: "the primary goal of the fund should be to maximize total return while maintaining safety of principal;"

It was decided to define capital gains as return to capital and not as earnings and to add language allowing the trust fund managers to spread gains and losses over a five-year period.

Finding 4 was deleted.

Rep. Gruening suggested that something be drafted for use of the income of the fund. His suggestion was to re-inject 50% of earnings back into the permanent fund; and use the remaining 50% to finance alternate energy development--hydro and other non-fossil--to be used to secure a lever of private financing with capital gains returned to principal. It was agreed that the committee members would consider this suggestion.

After a short break, the following changes were made:

For the next meeting, the three-man board of trustees is retained. Staff to draft language putting operation into effect when a total of $50 million accumulates in trust fund.

Page 8, line 19 to be amended to general language to chose persons to perform services.

Language to be added to 37.13.160 to show performance based on goals and objectives.

Section (f) on page 8 to be rewritten by staff and advisors to allow broad manager discretion.

Operating budget on page 9, lines 13 and 14 to come from general fund.

Language to be added to page 8, lines 5 and on to compare trust fund performance to institutions of similar size.

After a break for lunch, the following changes were made in the draft:

Section 44.55.010(b) will be changed to be consistent with permanent fund heading (Sec. 37.13.010).

Finding 3 under Alaska Enterprise Investment Fund be re-written so that it is not limited from working with federal agencies.

Finding 2 under Alaska Enterprise Investment Fund be written to modify enterprises, small and medium scale, productive, private and community development enterprises. (The same language will be used each time "enterprises" appears.)

The Finding and Purpose sections will be broadened from the limitation of private sector and will allow the community development sector in both.

The commissioners are removed from the Alaska Enterprise Investment Fund Policy Board and one member from the executive branch is added. Also in that section the language will be changed to "six public members appointed by the governor with due regard to geographic location within the state--two of which have broad investment financial background and two have broad experience in community and regional development." There will be one governor's appointee (a voting member) who will be responsible for coordination with other funds. In total the board will have 7 voting members. The terms will be four-year staggered terms.

"The chairman of the governing body of the renewable resources development fund serves as chairman of the policy board but is not a voting member" is deleted and that section will state that the board elect a chairman.

In the section dealing with the quorum of the board,

the sentence "decisions of the board shall be taken by a majority vote, including not less than a majority of the appointed members" the sentence will now end after "vote."

The monetary amount board members receive will be blank.

The section on the investment committee is to remain the same until the next meeting.

Operating budget will be specified in the section pertaining to the investment fund's budget.

The investment fund has the power to borrow up to 150% of its paid-in capital--changed from 50%.

The investment fund may not undertake any new investments till its paid-in capital reaches $50 million.

The permanent trust fund will invest the idle cash balances, of the investment fund as a separate account, in such a manner that it will meet the cash needs projections of the investment fund.

"Purchase currently sound evidence of indebtedness from the tourism fund, the agricultural revolving loan fund and the small business development loan fund if the loan was made after the effective date of this Act and if the loan meets the criteria of sec. 120 of this chapter" will be eliminated.

The membership of the State Investment Oversight Committee be changed to the President of the Senate, Speaker of the House, and six other legislators, two of whom must be minority.

The meeting adjourned at 4:45 p.m.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Ernie Haugen, Russ Meekins, Bill Miles, members.

The meeting convened at 1:30 p.m. The first order of business was a report from the Institute of Social and Economic Research.

Mr. Lee Gorsuch and Mr. Scott Goldsmith presented a summary of findings from research over the past three months. Included in the report were the following four points:

1. Looking at effects of varying contribution levels of the fund.
2. Looking at uses of the fund.
3. Examining alternative types of investments of the fund.
4. Looking at what happened to in-state placement of the $900 million bonus monies received in 1969.

Mr. Bill Berrier reviewed changes in the draft bill from the last meeting.

The meeting adjourned at 5:00 p.m. and reconvened at 9:00 a.m. the following day, December 13, 1977.

The following changes were made in the draft bill:

To drop the word "state" from State Investment Oversight Committee.

Rearrange subsection (f) so that the first sentence is a separate subsection; re-letter subsections following. (Page 8, lines 24 -25).

Add word "surplus" to sentence deposit surplus funds, or invest surplus funds through the permanent fund in such obligations as it may determine; (page 16, line 19).

Change language in subsection (3) to read, "review periodic reports from all other agencies of the state performing lending, borrowing and investment functions." And in (4) to read, "present a complete report of all other agencies of the state performing lending, borrowing, and investment functions."

Draft a findings and purposes section for the Investment Oversight Committee.

Under staff of the Investment Oversight Committee add Legislative Finance Division and in the same section add "or contract for services" after "the committee may hire."

Add "financial and economic planning" on page 2, line 22 after the word "fiscal."

In the duties section the language will be altered to give overview of long range fiscal planning, prescribe procedures.

Finding 3 (page 5) changed to "the permanent fund should be used as a savings device managed to allow the maximum use of disposable income from the fund as needed for purposes designated by law."

On line 8, page 5 add "with respect to fund established in this chapter."

The term of office of the members of the board changed from three years to four years.

Section dealing with qualifications of trustees in (c) remove words "be knowledgeable" and substitute "have recognized competence and wide experience."

Changes in removal and vacancies to be consistent with salaries, etc. Pay is $250 as an honorarium.

State $250 per meeting day in compensation of trustees.

Change language in section 37.13.040 to "ALASKA PERMANENT FUND CORPORATION BOARD OF TRUSTEES. There is established the Alaska Permanent Fund Corporation Board of Trustees. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with the guidelines established in this chapter."

The Alaska Enterprise Investment Fund Investment Committee changed to Corporation Investment Committee.

On page 8, beginning with line 15 (f) is changed to (b) and the lettering altered to read, "(b) The corporation assets shall be used only for income-producing investments. (c) The board shall seek to maintain a reasonable diversification in its investments unless under the circumstances it

is clearly prudent not to do so. (d) The board shall submit long-range and quarterly investment reports to the Investment Oversight Committee. (e) The corporation may not borrow funds or guarantee the obligations of others. (f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the fund except it may not contract with agencies of the state."

On page 8, line 8, changed to read, "fund assets. The prudent man rule with respect to making investments means the board shall exercise" and continue with the rest of language.

On page 8, line 29 add the word "full" before "faith."

On page 9, line 5 delete after "used" to the word "nor" after the semicolon on line 7.

On page 9 delete from line 15 through line 4 on page 10.

Insert new section on averaging income to read "the board shall establish and from time to time as needed modify guidelines for the corporation's assets. Prior to adoption of any guidelines the guidelines shall be reported to the Investment Oversight Committee for review and comment."

On page 9 delete section (2) and insert language limiting investments to no more than 30% in stocks.

In the section concerning audits (page 10) the Legislative Budget and Audit Committee is changed to Oversight Committee. Language for outside audits in all three funds is added.

Under the section concerning reports and publications the financial statements will be audited by an outside CPA in lieu of the Legislative Budget and Audit Committee. Also in the same section the time frame for reports requirement is changed to 90 days after the end of the fiscal year.

In section 37.13.010 add language to have money paid in at least monthly.

A transition must be added for transfer to permanent fund of monies now held by the Department of Revenue.

New language for conflicts of interest will be written to state a member or employee acquiring a conflicting interest shall disclose the interest but does not have to disqualify himself.

Add transition section for both corporations.

Add language to use earnings up to 25% of outstanding loans in guarantee account.

Salary language changed to read, "members of the investment committee other than the president receive an annual salary within Range 30 in the salary schedule for state employees established by AS 39.27.011."

Remove the Commissioner of Revenue from the audit committee.

Add section on president's staff of 298 to this bill.

Add investment requirements.

Page 16, line 13--49% changed to 25%.

Page 17, line 19--$1,500,000 changed to $2,500,000.

Page 15, line 24--maximum of one (changed from one half).

The renewable resources draft bill was discussed and several changes made.

The meeting adjourned at 10:30 p.m.

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

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

Gentlemen:

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

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

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

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

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

Yours very truly,

(Mrs.) Katherine D. Nordale

November 28, 1977

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

Dear Katherine:

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

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

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

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

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

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

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

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

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

Cordially,

Clark

Rep. Clark Gruening
Chairman

October 20, 1977

Legislative Affairs Agency
Pouch G
Mail Stop 3101
Juneau, Alaska 99801

RE: Permanent Fund Committee allocations

Gentlemen:

The Juneau Lyric Opera Association respectfully requests your priority consideration & affirmative action in funding cultural activities for municipalities.

You can help us!

Thank you for your kind attention to this request.

Sincerely,
Karen Hansen
President
Juneau Lyric Opera Association
307 Behrends Avenue
Juneau, Alaska 99801

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

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

Dear Representative Gruening:

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

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

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

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

Sincerely,

Alison Farnan

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

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

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

Gentlemen:

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

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

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

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

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

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

Very truly yours,

Olof K. Hellen

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
(907) 276-3433
528 W. 5TH, SUITE 270
ANCHORAGE, AK. 99501
[POUCH V, JUNEAU, AK. 99811]
(907) 465-3873

MEMBERS
REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
REP. RICK URION

House of Representatives

September 12, 1977

Olof K. Hellen
3228 Illiamna
Anchorage, AK 99503

Dear Olof:

Your written testimony is very much appreciated and will be made part of the record which will accompany this Committee's recommendations to the full legislature

After thinking a good number of hours about basic goals for the Permanent Fund, I have come to the same conclusion that Permanent Fund investment policy ought to emphasize preservation of capital and income production. To the extent the Permanent Fund becomes actively involved in "developmental loans" in Alaska, the problem of equitably distributing the loans and any subsidies inherent in those loans becomes greater.

While I do not believe the legislature ought to be involved in the administering or making loans, the legislature should be involved with the public in policy debates surrounding state financing of a large hydroelectric project or pipeline, for example.

The use of the state's general fund to supply capital to special purpose loan funds--as is done presently--is wiser than attempting to place every special purpose in-state loan program into the Permanent Fund.

Nevertheless, present Alaskans may wish to see some more immediate benefit from the use of the income earned by the Fund, and we are exploring some possible ways to distribute Permanent Fund income directly to "Alaskans"--the problem is how to define "Alaskans" equitably and constitutionally.

Thank you, Olof, for your perceptive comments.

Cordially,

Clark Gruening

Rep. Clark Gruening.
Chairman

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

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

Gentlemen:

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

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

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

Very truly yours,

Olof K. Hellen

TO: ALASKA STATE CHAMBER OF COMMERCE

DATE: FRIDAY, SEPTEMBER 30, 1977

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Proceedings

of

The House Special Committee on the Permanent Fund

MINUTES TO MEETINGS

Anchorage--July 16, 1977

Kotzebue--September 17, 1977

Juneau--October 20, 1977
(Public Hearing)

Juneau--October 21, 1977

Anchorage--November 19, 1977

Anchorage--December 12 & 13, 1977

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Russ Meekins, Bill Miles, members.

Mr. Dick Haggart presented long- and short-term revenue projections (July 7 and July 14). He also spoke on the tariff.

Mr. Jim Edenso gave a report on investment of permanent fund. At this time it is in excess of $4 million. There are treasury notes invested in $3 million plus and the savings account has $928,259.21.

There was a discussion and suggestions on the brochure. A wide distribution and summary of two reports were suggested. Committee members were advised to bring comments, suggestions, and changes to the staff's attention the first of the week so the booklet can be sent in to be printed.

Rep. Terry Gardiner gave a short account of renewable resource development.

The budget's allocation for consultants' fees was discussed. When a contract is proposed, it will be circulated to members of the committee.

The budget will be discussed in greater detail at the next meeting.

Tentative meeting schedule was approved.

It was suggested and agreed to that members send monthly budget reports.

Mr. Jim Edenso discussed the A. D. Little contract. Any concerns regarding this contract, let him know and he'll revise it.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Russ Meekins, Ernie Haugen, Rick Urion, members; Senator Pat Rodey, Senate Permanent Fund Committee Vice Chairman.

The meeting convened at 10:00 a.m. The first order of business was public testimony.

Mr. Ed Bohnert, counselor with the University of Alaska Extension Center, testified on sources of energy for the Kotzebue area, including a windmill being installed at the Extension Center. His testimony pointed to the high cost of petroleum-based fuels in the Kotzebue region and the potential benefit of developing alternative energy sources in that region.

Mr. Mart, Straus, environmental planner for Mauneluk also testified on alternative energy sources, including a pilot windmill at Kivalina, steam generation at Kobuk and geothermal potential at Kotzebue. In answer to a question from Rep. Gruening, Mr. Straus gave a brief outline of fisheries potential in the Kotzebue region.

Mr. Charlie Edwardson, Washington representative of the North Slope Borough, testified on management structure and investment goals of the Permanent Fund. A transcript of Mr. Edwardson's testimony is attached.

Following a lunch break, Mr. John Schaeffer, president of NANA, testified on his corporation's experience and investments it had made within the region. The main investments had been

in a hotel, wildlife museum, and jade processing operation in Kotzebue. These, Mr. Schaeffer said, had been subsidized by the corporation's profits from other investments outside the region.

Rep. Gardiner presented the Renewable Resources Development Fund subcommittee's first interim report and discussed the "leading edge" theory and the subcommittee's work plan.

Dr. Belden Daniels, committee consultant, presented his paper Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability. Discussion followed, during which Dr. Daniels pointed to the latter portion of the report which detailed accountability problems of existing development banking structures.

Rep. Gruening then moved that he would direct the committee staff to begin preparation of draft legislation structuring the permanent fund. The motion passed with unanimous consent. There followed discussion of the committee's schedule.

The meeting adjourned at 4:45 p.m.

EDWARDSON: The basic point of development in Alaska or any other place in the world is that somebody has always had to finance it--wherever, that's where it came from. All the way through the development of man, especially Western man, the only thing which did not change even when you went to war was the financial arrangements that were made at the time that war had commenced. The victor always had the financial institutions with him.

What does this have to do with state of Alaska? It has a lot to do with it. For the simple fact that prior accumulation had, prior savings had, vested in certain individuals in Alaska, whether we like it or not.

The opportunity here that the state of Alaska has is not so much who is going to be a manager of this portfolio, but how is the citizen going to have a role in the financial infrastructure of his citizenship? This basically means what types of access will the citizen have?

Although the standard of care and the standard of conduct for according and recording, I feel at this time, is quite sufficient, the thing that I would recommend very heavily is the simplicity of a financial statement, not its complexity.

When the history repeats itself more than once and it has its own weight and its own inertia, and when you look at society, it says who does the public take care of? In the past, our history of our welfare program in this country emerged from

communities--that it was communities that took care of a few marginary cautions, and the cities and then they find the way to a state program. The most important thing and the potential that the state of Alaska has is are we at the political development in time when capitalism can be a birthright? Or are we going to selectively, through regulation, discriminate and create a social elitist managerial class in this state?

The dynamics of a corporation as a tool are, and still is, probably the most creative tool that is available to man at this time. The success allowed capital venture in the state of Alaska will depend upon acceptability--acceptability to the citizens.

How does one arrive at this point--the state legislature at this time is responsible for the administration of the public good to all of its citizens. What is the meaning of public good? The meaning of public good means that you have a public manager. Although the public manager may be at fault in realignment of the economy by the political process, best friends and best relatives, is how our political economy in America has been social.

Today that is no longer an acceptable mode. The gap in America--although we have recognized that there is poverty--is how one gets into that state of mind, that state of consciousness, which is totally intolerant. The way that it has arrived in the past is that in an arrogant,

organized society that those that have the ability to be organized, to get organized, always come into par with the rest of society.

Not only do we see poverty of the mind in rural Alaska but poverty of organization. The state of Alaska, at this time, is one hell of an underdeveloped organization. We are charged with very little responsibility and obligation, yet we fail to give to our citizens the basic desires, basic needs.

How does this affect our citizens? The thing that is most pronounced is a very archaic administration. Very few groups of people in Alaska regulating the conduct of enterprise, and not only do we have constitutional problems, but in order for our citizens to be fully endowed, this endowment must come from the constitutional genesis of the people in Alaska. The current wealth in the state of Alaska is being handled haphazardly in the eyes of the public good that if a corporation can lease 'X' areas of land that the loss, significant loss, has already occurred, when ownership of the citizens gets wasted to few friendly corporations.

In order for the Permanent Fund, I feel, to be successful in Alaska the citizens that it's supposed to serve must have a propriety relationship to the fund. Not only must the governor be accountable, but all of its managers must be accountable to all of its citizens, not just an elitist managerial class who are able to shuffle the paper and foster more intolerable situations called corporate fascism in this state.

The responsibility and the opportunity is to develop a portfolio of citizens with a capitalistic class, capitalistic mode. What we have done 200 years ago means no longer self-sufficient, that we must then accept this greater right to capital--to all of our citizens. It's the total portfolio of this thing that whatever gets appropriated in the name of the public good must also have a proprietary class meaning. Direct ownership to that community, to that citizen at that village of Anchorage so that the citizen of Alaska will have a direct law of acquiring capital even though it may be an improvement in the community. How does one create enough administration for this? The first form of creativity--America is quite ruralist in its capital financing development.

We have had not had a change because the only experience that one follows throughout the world has been a multi-national bank. The banking model, I feel, is so tyrannical that it leaves us very bad, leaves humanity in great masses behind. Therefore, it is very hard to fill the American image elsewhere--throughout the world.

The Permanent Fund in Alaska must have a character of a community; the community not feel elitist managers who are saying, 'we will now do it for you.' And this growth and this evolution, if you take a total fabric of the community in Alaska, the highest cost of any administration in Alaska is energy development. If we worry about what we are going to do about our natural resources, when is the state

legislature or a would-be governor going to treat its citizens as a producer not as a payer. Not until we are able to give a hope to all of our citizens in relationship to capital producing instruments by a constitutional convention. The present underclass society, the other class, whether it's black, white, Native is still growing at a rapid rate. We still mean that there is some fraudulence in our structure, in our system, which we can no longer shelter and leave it for the banks and the corporate directors. The same conduct and the same potential for insider information of the insider run away with this type of portfolio are still too great, thus leaving the citizen back in his original deplorable state.

When you impose a limitation, such as to own and acquire portfolio to those capital producing infrastructures, that tells me that we are going to have that fault. That means that the very country, very state who is probably incongruous with its natural resources and had lost its managerial decision because Alaska has lost its lease hold does now have a different manager called Exxon Corporation or Standard Oil of Sohio who is not interested in how your community infrastructure gets developed. But whose vested interest is to ensure the political weakness of the capital producing infrastructure? And the experience of this model is done already in the North Slope Borough. We should make conditions upon the state leases,

that no oil company, no U.S. corporation or any other corporation go after the taxing authority of this municipality. Otherwise those that have ability to be organized make a policy mobilized field and thus leaves a great gap of poverty in Alaska. Although it was done in a fashion of public good. The greatest weakness of our annual appropriations and the fallacy is that under the designs of public good, those that always have the access to further reach the benefits.

So the nature of the plan, unlike any other state, the state of Alaska need not to lease these resources. But it can buy back at least other land. The Permanent Fund, as I view it at this time, can be that holding company that the state of Alaska has for all of its citizens in a proprietary class, making all of its citizens capitalists to gaining those benefits which the federal government is going to lease the land anyway.

So the state of Alaska is in the business. The grand public fraud that has been committed by the public officials is self-denial while the state of Alaska is in the business. We are in the business of oil and gas. Why have we denied an appropriate conduct of our...and the necessary standard of care and conduct? When the state legislature must have a proprietary relationship to all of the wealth that state of Alaska has and the biggest problem of the past that the state of Alaska has failed to realize is that we can escape to the biggest bandit in town,

the Commissioner of Natural Resources, who has the necessary technical infrastructure to give the resource away at the cheapest cost possible and therefore create a thing for your people and class who already have.

It therefore makes socialism for the few possible and makes capitalism for the masses impossible. And how does one view its citizenship or is that no longer a sacred thing? Have we substituted a managerial class and put our citizens at the back door--I feel this is very dangerous.

There are controls and unless Alaska defines its communities, what type of community we are to have and who lives in that community, we are going to fail, and still have this type of greater population, dislocation. Once we develop an infrastructure where a citizen can always benefit, not in lieu of service, but in capital formation. I feel that the time has come where we must look at basic definitions and see if community-owned citizens' banks, infrastructures can be developed. Then the chances for fraud, when one has inherited equal rights, diminish. Where accountability is too fine. When you are equal on paper, on statute or in the constitution, that the chances to find a basic violator are higher than the present format, that is you are administering the public good, which you can get away with and rationalize that under the prior proposal that the Tesoro had the best proposal, although it was bad, but it was still the

best proposal, therefore, we had accepted a bad portfolio to start out with, with all the structural problems and because that something has made, therefore, that this type of a public trust because socially respectable and correctable.

The only way, I feel, is that the state legislature must have a greater control on the proprietary of this public resource and not making it into a class of public good where anybody in the governor's office, the governor. And the chief executive of Alaska, at this time, is the largest single one-armed bandit in the state of Alaska. In this light I would not seek to give higher sanction to the governor.

I would highly recommend to the state legislature that they would vest a veto power in those classes of proprietorship of the management of all of the citizens' portfolio. The biggest problem that we have in this state is our chief executive does not know how to administer, not only that but we also have a place for the strongest tyrant in a democratic process to exist in Alaska is governorship of Alaska. That there is no governor in all the 50 states that has the powers that our governor has. It is amazing that practitioners of that office have not totally given our state to be tapped by others, but it is, and I hear sounds that you must be of stock to come in and manage, that the best experience is from the biggest voice, which I don't feel is the case. The best experience I know of and have always vested in the people

that the proprietary of the fund must go directly back to the people not to any managerial groups and that none of the commissioners or the investors of this fund should not serve in any other capacity but for the fund to manage the portfolio of the citizens of this state. The chances of insider information, I'd say, is too high, too great. The concept of the Alaskan Native community must be clearly defined, otherwise that instead of--I see if your procedure becomes in the technocrats' hands, such as an investment portfolio from our biggest threat, apathy, that the chances of that experience are equally great.

So, therefore, I do not think that the exception of a rule just because the guide was successful in managing a portfolio in Peru creating corporate fascism. I feel the same advisor is equally dangerous to the state of Alaska, Milton Friedman. His experience is a classic 1 one that one must not forget, that corporate fascism and corporate capitalism are the same when you have a very strong managerial chief running the portfolio.

I would suggest a permanent committee in the state legislature whereby the legislature and the governor achieve parity. Without that, that the fund will still go to those few and friendly few unless that the populace have a majority and have the control. I would not, I would have a majority of the citizens versus majority of man. I do not trust managers. That the conduct for legal managing has--is in

the books--has always been slammed. And while limiting to capital-producing infrastructures in the state of Alaska that means that Alaskans arbitrarily have cut their noses off and say that I am, now that Alaskan wealth has changed managers overnight--that it is no longer the Permanent Fund; it is now back to the top 500.

The state of Alaska will be buying back, must buy back, and must invest its wealth on federal lands in the state of Alaska. The Permanent Fund must be prepared to find more oil in the outer continental shelf. It must make funds available, necessary so that all of the citizens can grow with the development of our country. If we cannot make--the state of Alaska, as you well know, we've got the coastline. But the coastline has been auctioned off to the largest multi-national corporations already. It is because that the citizen has lost a proprietary relationship for that resource. It is because that the color is under public good, therefore, that the citizens do not have a direct relationship, a primary relationship to that resource. If we develop a proprietary class for its citizens for state of Alaska in whatever development or investment at this time that I see chances of saving ourselves to the maximum benefit of all of our citizens, not just those who have the ability to be organized.

I am for controls. If the controls are to exclude citizens, as far as I am concerned, that is an unconstitutional

assault, a very direct violation. The citizens' access to this resource would say, and the state legislature proprietary control--not the governor. I would vest the proprietary of the fund in the state legislature and go fight the governor. Thus it would make administration checks and balances a lot easier then. I would feel safer if Ernie would have more a say-so on the Permanent Fund than Hammond himself.

GRUENING: So would I. Charlie, thank you; can we ask a question or two?

EDWARDSON: Sure.

GRUENING: You mentioned the Alaska community having problems with the corporations. How do we define community in a way that includes everyone? Should it include everyone in the world?

EDWARDSON: The most significant development in defining community that is occurring throughout this world has occurred in Norway. The Norwegian government, at the time of development of the North Sea, the Norwegian government took the lowest denomination of sovereignty in Norway and examined it, lowest denominator of sovereignty and the best unit,

administering unit, known to Western man has been family. I would say it is high time in state of Alaska that we attempt to actualize in ourselves what is construction and maintenance of Alaskan family and what it means. I see a chance for the first time to develop an actuarian analysis of what constitutes an Alaskan family in this state and to arrive at parity. If state of Alaska is to remain intact, its citizens must have parity and the citizens of state of Alaska should only accept parity, not dislocation.

This means parity in construction, parity in service, which means it may cost more. It may appear to cost more, but in the long run, if you have parity, it has a high survival rate. The basic needs and the basic expenditures which we are going to have is still going to be energy. We already know what those basic components of a community are.

This is 1977 and all of those charges and all of those assumptions of responsibility have not been met, therefore, leaving the state very vulnerable to internal attack.

And although it is beneficial to another segment of the community called lawyers, that the dislocation of its parity of services still is intolerable and with equal access and to arrive at parity, then I say that if this type of dislocation occurs, further occurs, that I see a disintegration of Alaskan society. Not just Native but total disintegration of heavy regionalism. Regionalism occurs structurally because of numbers, because of the nature of administration of public

good gets executed in that fashion because there is no proprietary relationship. If you have proprietary relationship in equity, you will have justice.

RODEY: Charlie, what sort of intervention do you think is appropriate in the economy of the Northwest by the Permanent Fund?

EDWARDSON: I cannot speak for the Northwest. I can speak for what we see in the Arctic. I see the chances of international development in Alaska. Not because of Alaskan resources. State of Alaska has underexamined its strategic location in the universe. State of Alaska is in probably the best location and let's examine strategic positioning of international trade and put Alaska in the Arctic Ocean. If we are to, say, I would propose for the sake of conversation, I am now going into a submarine transportation business, nuclear subs with very large capacity. Maybe all I need is one or two. The 21-day savings, 21-day transportation costs are closing the gap in the Pacific Ocean. The value of Alaska's position in international commerce and the lack of facilitating the hook-up. What happened to Alaska in 1951 has revolutionized the whole commerce of the world? What happened to Alaska in 1951 was the first SAS trans-polar flight occurred. Overnight that, say 22 hours of flying time all over the world that instead of 26 at that time, they made it to 11 hours.

When you put this, state of Alaska is already in the transportation business. When you take a look at the marine development, our potential, as I see it in Alaska is not so much the land but the estuaries. The greatest breadbasket in the world, if we were to keep our estuaries halfway clean, halfway decent, is Alaska in the protein business. And the scale, the present archaic scale of how we used to view Alaska and how it is presently viewed at this time is totally unacceptable.

We must develop a psychology for who we are, where we are from, and state of Alaska, as I see it at this time, can get into an international commerce, international trade of not going through Panama, not crossing Atlantic Ocean, not crossing Pacific Ocean, not crossing Indian Ocean, but crossing our own ocean where it cuts down traffic as long as 23 days. This 23-day savings is sufficient capital saving to go into that type of development but in terms of our community that the citizens in the street must become an owner to a community based infrastructure.

I feel that by getting these numbers--you know, we play number games--we all have a bad habit of that, and it has limitations and what state of Alaska needs at this time is an actuarian analysis of its citizens. With an actuarian analysis, we will learn from this incidence of disease, standard of care where our community vulnerabilities are.

If you have healthy people, we also will have healthy economy. If your people are sick, if your citizens are sick, your economy will also be sick. There are two financing models which I feel should be looked at--is amazingly well is Hydro Quebec. Hydro Quebec is the world's largest utility company. I would like to see state of Alaska come into that class of proprietorship--selling power to the world. Hydro Quebec is so successful that it can finance the government. It is the only situation that I know signs the bonds of a government--than the government signing a bond for Hydro Quebec. So when a state that is already in the business, if they really want to become experienced, the Hydro Quebec model is very good. On our oil and gas activity, a KOBO leasing model is very good. That is a financing technique where investors pool--like you and I pool our monies together and get an outer continental shelf lease. It is a little more complicated than that, but it is a direct line where a non-technical development can get into oil and gas business without buying unnecessary overhead.

HAUGEN: Where do you have access to the two models you are suggesting--Hydro Quebec and KOBO?

EDWARDSON: I can make them available to the committee. I don't have them here with me. I got them at Washington, so I will be going back probably around the 24th.

HAUGEN: Will our staff be able to acquire them through you?

EDWARDSON: Sure. And the other model that is quite interesting is U.S. Steel in Ontario. Why that is interesting is U.S. Steel provides the coal and Ontario provides power to U.S. Steel. It is a very interesting model in terms of financing large scale industrial activities and also financing power so Ontario and U.S. Steel financing techniques have lots of flexibilities. It warrants attention. Ontario and U.S. Steel are in the power business. It may work very well in this state because there are some areas where there is a lot of coal and mining industry, as we all know, is well. One of the things, one of the bad policies we got a lot of bad habits in our government. We have even had to become practitioners of bad habit especially in large scale energy development.

We have a psychological problem that we must take something to the community and the best type of development, as I see it, is at the resources and not taking the community and, which I was happy to hear, it was realized by Fairbanks that the community infrastructure, the social governmental capital to provide sewer and water was more expensive than all of the total, that the secondary community infrastructure got work and it still will be burdensome. The state legislature will still have to pump in more sewer and water. This is why that

I always suspect portfolio managers and always suspect bankers. So if I was in the state legislature, man, I would go after the power that the governor has and vest it in the people, vest it in the state legislature, that is probably the most significant fact that the permanent fund committee can have to have a portfolio run by citizens who do not have loyalties to prior practice, that the chances of an investment banker being loyal and his chances of loyalty will not change but will have an expeditious intercourse with that prior practice. I feel it in Alaska has proven itself to be continuing practice and have not seen to exist but now that I see instead of what used to be for people now.

GRUENING: Thank you, Charlie.

PRESENT: Clark Gruening, Chairman; Russ Meekins, Bill Miles, members.

After a break for lunch, two letters were read and public testimony was heard.

The American Association of University Women delivered a letter asking for consideration for allocating part of the income derived from the permanent fund for the support of cultural facilities.

The Juneau Lyric Opera Association also presented a letter. They request priority consideration and affirmative action in funding cultural activities for municipalities.

Ms. Shirley Rediker, state coordinator of the Cultural Facilities Development Committee, suggested that income from the permanent fund be used for cultural facilities. Ms. Rediker stated that the state had a great need for places for performances, art exhibits, artifacts. She gave an account of several communities' needs for the facilities and offered to furnish the committee with more information if desired.

Mr. Eric Hanson spoke of Alaska's need for education on such things as aquaculture, arctic health, arctic research, mountaineering, skiing, general aviation, fishery science, and hatchery science. Mr. Hanson suggested that institutes be established in the above areas with educators with excellent qualifications--that could draw

international interest. Loans to students with minimum interest charged was also suggested by Mr. Hanson.

He encouraged flow of information to the public as the permanent fund committee progresses.

After a short break Ms. Allison Horton, representing the Audubon Society, stated that the society is more in favor of shifting the money to out-of-state investment than they are of a development bank. They believe that saving it for a future resource is the best.

Ms. Horton did suggest research be done on energy, technology research, alternative sources of energy, establishment of a state office of technology, recycling, and transportation alternatives.

Mr. Doug Pope and Mr. Bill Berrier discussed separation of powers--Bradner vs. Hammond.

Mr. E. O. Brackins, development specialist for minerals in the Division of Economic Enterprise believes there is too much emphasis on renewable vs. non-renewable resources. He thinks that mineral resources are renewable--renewable the same way a farmer's field is renewable. As you go in depth, the resource expands. Mr. Brackins suggested investing with a resource company (using Quebec as an example).

The meeting adjourned at approximately 3:00 p.m.

PRESENT: Clark Gruening, Chairman; Russ Meekins, Bill Miles, Leo Schaeffer, members.

The meeting convened at 9:00 a.m. The first order of business was White Weld's report.

Mr. Robert Greeley gave the recitation for White Weld on a study relating to descriptions of principals and management of trust funds, principals of various types of trusts. The study includes Wisconsin and Minnesota, as well as a series of investment funds. Also included in the report are the following: organization in management structure, description of different types of corporate securities, money market instruments, investment performance, and a listing of different criteria.

Dr. Belden Daniels discussed the development bank and existing loan funds with the committee.

It was agreed that the draft include a finding--there should be no duplication of already existing loan funds.

It was agreed to capitalize the development bank out of the permanent fund.

A separate paper of alternative approaches to accompany the bill was agreed upon.

The proposal was made and approved to raise the contribution rate to 30%, taking 1/6 of that to capitalize the development bank. The remaining 5/6 would be used to capitalize the investment function.

To keep the three commissioners on the Alaska Enterprise Investment Fund Policy Board was ratified.

The meeting adjourned at 5:30 p.m.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Ernie Haugen, Bill Miles, Leo Schaeffer, members; Hugh Malone, Speaker of the House; Alvin Osterback.

The meeting convened at 9:00 a.m.

The committee agreed to adopt the bill which was presented as a working draft. The bill creates the permanent fund as a separate trust investment whose sole function is a high grade investment money-making vehicle. It also creates an Alaska Enterprise Investment Fund to invest in financially-sound medium and small scale enterprises.

A note was made of the Alaska Enterprise Investment Fund inadvertently called the Alaska Development Bank in several sections of the draft. The changes will be made.

The following changes in the draft were made by the committee:

To drop the words "in the Department of Revenue" in Sec. 37.13.010.

To change Finding 2 to read: "the primary goal of the fund should be to maximize total return while maintaining safety of principal;"

It was decided to define capital gains as return to capital and not as earnings and to add language allowing the trust fund managers to spread gains and losses over a five-year period.

Finding 4 was deleted.

Rep. Gruening suggested that something be drafted for use of the income of the fund. His suggestion was to re-inject 50% of earnings back into the permanent fund; and use the remaining 50% to finance alternate energy development--hydro and other non-fossil--to be used to secure a lever of private financing with capital gains returned to principal. It was agreed that the committee members would consider this suggestion.

After a short break, the following changes were made:

For the next meeting, the three-man board of trustees is retained. Staff to draft language putting operation into effect when a total of $50 million accumulates in trust fund.

Page 8, line 19 to be amended to general language to chose persons to perform services.

Language to be added to 37.13.160 to show performance based on goals and objectives.

Section (f) on page 8 to be rewritten by staff and advisors to allow broad manager discretion.

Operating budget on page 9, lines 13 and 14 to come from general fund.

Language to be added to page 8, lines 5 and on to compare trust fund performance to institutions of similar size.

After a break for lunch, the following changes were made in the draft:

Section 44.55.010(b) will be changed to be consistent with permanent fund heading (Sec. 37.13.010).

Finding 3 under Alaska Enterprise Investment Fund be re-written so that it is not limited from working with federal agencies.

Finding 2 under Alaska Enterprise Investment Fund be written to modify enterprises, small and medium scale, productive, private and community development enterprises. (The same language will be used each time "enterprises" appears.)

The Finding and Purpose sections will be broadened from the limitation of private sector and will allow the community development sector in both.

The commissioners are removed from the Alaska Enterprise Investment Fund Policy Board and one member from the executive branch is added. Also in that section the language will be changed to "six public members appointed by the governor with due regard to geographic location within the state--two of which have broad investment financial background and two have broad experience in community and regional development." There will be one governor's appointee (a voting member) who will be responsible for coordination with other funds. In total the board will have 7 voting members. The terms will be four-year staggered terms.

"The chairman of the governing body of the renewable resources development fund serves as chairman of the policy board but is not a voting member" is deleted and that section will state that the board elect a chairman.

In the section dealing with the quorum of the board,

the sentence "decisions of the board shall be taken by a majority vote, including not less than a majority of the appointed members" the sentence will now end after "vote."

The monetary amount board members receive will be blank.

The section on the investment committee is to remain the same until the next meeting.

Operating budget will be specified in the section pertaining to the investment fund's budget.

The investment fund has the power to borrow up to 150% of its paid-in capital--changed from 50%.

The investment fund may not undertake any new investments till its paid-in capital reaches $50 million.

The permanent trust fund will invest the idle cash balances, of the investment fund as a separate account, in such a manner that it will meet the cash needs projections of the investment fund.

"Purchase currently sound evidence of indebtedness from the tourism fund, the agricultural revolving loan fund and the small business development loan fund if the loan was made after the effective date of this Act and if the loan meets the criteria of sec. 120 of this chapter" will be eliminated.

The membership of the State Investment Oversight Committee be changed to the President of the Senate, Speaker of the House, and six other legislators, two of whom must be minority.

The meeting adjourned at 4:45 p.m.

PRESENT: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Ernie Haugen, Russ Meekins, Bill Miles, members.

The meeting convened at 1:30 p.m. The first order of business was a report from the Institute of Social and Economic Research.

Mr. Lee Gorsuch and Mr. Scott Goldsmith presented a summary of findings from research over the past three months. Included in the report were the following four points:

1. Looking at effects of varying contribution levels of the fund.
2. Looking at uses of the fund.
3. Examining alternative types of investments of the fund.
4. Looking at what happened to in-state placement of the $900 million bonus monies received in 1969.

Mr. Bill Berrier reviewed changes in the draft bill from the last meeting.

The meeting adjourned at 5:00 p.m. and reconvened at 9:00 a.m. the following day, December 13, 1977.

The following changes were made in the draft bill:

To drop the word "state" from State Investment Oversight Committee.

Rearrange subsection (f) so that the first sentence is a separate subsection; re-letter subsections following. (Page 8, lines 24 -25).

Add word "surplus" to sentence deposit surplus funds, or invest surplus funds through the permanent fund in such obligations as it may determine; (page 16, line 19).

Change language in subsection (3) to read, "review periodic reports from all other agencies of the state performing lending, borrowing and investment functions." And in (4) to read, "present a complete report of all other agencies of the state performing lending, borrowing, and investment functions."

Draft a findings and purposes section for the Investment Oversight Committee.

Under staff of the Investment Oversight Committee add Legislative Finance Division and in the same section add "or contract for services" after "the committee may hire."

Add "financial and economic planning" on page 2, line 22 after the word "fiscal."

In the duties section the language will be altered to give overview of long range fiscal planning, prescribe procedures.

Finding 3 (page 5) changed to "the permanent fund should be used as a savings device managed to allow the maximum use of disposable income from the fund as needed for purposes designated by law."

On line 8, page 5 add "with respect to fund established in this chapter."

The term of office of the members of the board changed from three years to four years.

Section dealing with qualifications of trustees in (c) remove words "be knowledgeable" and substitute "have recognized competence and wide experience."

Changes in removal and vacancies to be consistent with salaries, etc. Pay is $250 as an honorarium.

State $250 per meeting day in compensation of trustees.

Change language in section 37.13.040 to "ALASKA PERMANENT FUND CORPORATION BOARD OF TRUSTEES. There is established the Alaska Permanent Fund Corporation Board of Trustees. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with the guidelines established in this chapter."

The Alaska Enterprise Investment Fund Investment Committee changed to Corporation Investment Committee.

On page 8, beginning with line 15 (f) is changed to (b) and the lettering altered to read, "(b) The corporation assets shall be used only for income-producing investments. (c) The board shall seek to maintain a reasonable diversification in its investments unless under the circumstances it

is clearly prudent not to do so. (d) The board shall submit long-range and quarterly investment reports to the Investment Oversight Committee. (e) The corporation may not borrow funds or guarantee the obligations of others. (f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the fund except it may not contract with agencies of the state."

On page 8, line 8, changed to read, "fund assets. The prudent man rule with respect to making investments means the board shall exercise" and continue with the rest of language.

On page 8, line 29 add the word "full" before "faith."

On page 9, line 5 delete after "used" to the word "nor" after the semicolon on line 7.

On page 9 delete from line 15 through line 4 on page 10.

Insert new section on averaging income to read "the board shall establish and from time to time as needed modify guidelines for the corporation's assets. Prior to adoption of any guidelines the guidelines shall be reported to the Investment Oversight Committee for review and comment."

On page 9 delete section (2) and insert language limiting investments to no more than 30% in stocks.

In the section concerning audits (page 10) the Legislative Budget and Audit Committee is changed to Oversight Committee. Language for outside audits in all three funds is added.

Under the section concerning reports and publications the financial statements will be audited by an outside CPA in lieu of the Legislative Budget and Audit Committee. Also in the same section the time frame for reports requirement is changed to 90 days after the end of the fiscal year.

In section 37.13.010 add language to have money paid in at least monthly.

A transition must be added for transfer to permanent fund of monies now held by the Department of Revenue.

New language for conflicts of interest will be written to state a member or employee acquiring a conflicting interest shall disclose the interest but does not have to disqualify himself.

Add transition section for both corporations.

Add language to use earnings up to 25% of outstanding loans in guarantee account.

Salary language changed to read, "members of the investment committee other than the president receive an annual salary within Range 30 in the salary schedule for state employees established by AS 39.27.011."

Remove the Commissioner of Revenue from the audit committee.

Add section on president's staff of 298 to this bill.

Add investment requirements.

Page 16, line 13--49% changed to 25%.

Page 17, line 19--$1,500,000 changed to $2,500,000.

Page 15, line 24--maximum of one (changed from one half).

The renewable resources draft bill was discussed and several changes made.

The meeting adjourned at 10:30 p.m.

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

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

Gentlemen:

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

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

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

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

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

Yours very truly,

(Mrs.) Katherine D. Nordale

November 28, 1977

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

Dear Katherine:

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

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

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

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

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

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

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

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

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

Cordially,

Clark

Rep. Clark Gruening
Chairman

October 20, 1977

Legislative Affairs Agency
Pouch J
Mail Stop 3101
Juneau, Alaska 99801

RE: Permanent Fund Committee allocations

Gentlemen:

The Juneau Lyric Opera Association respectfully requests your priority consideration & affirmative action in funding cultural activities for municipalities.

You can help us!

Thank you for your kind attention to this request.

Sincerely,
Karen Hansen
President
Juneau Lyric Opera Association
207 Behrends Avenue
Juneau, Alaska 99801

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

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

Dear Representative Gruening:

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

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

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

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

Sincerely,

Alison Farnan

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

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

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

Gentlemen:

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

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

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

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

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

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

Very truly yours,

Olof K. Hellen

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
(907) 276-3433
528 W. 5TH, SUITE 270
ANCHORAGE, AK. 99501
[POUCH V, JUNEAU, AK. 99811]
(907) 465-3873

MEMBERS
REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
REP. RICK URION

House of Representatives

September 12, 1977

Olof K. Hellen
3228 Illiamna
Anchorage, AK 99503

Dear Olof:

Your written testimony is very much appreciated and will be made part of the record which will accompany this Committee's recommendations to the full legislature.

After thinking a good number of hours about basic goals for the Permanent Fund, I have come to the same conclusion that Permanent Fund investment policy ought to emphasize preservation of capital and income production. To the extent the Permanent Fund becomes actively involved in "developmental loans" in Alaska, the problem of equitably distributing the loans and any subsidies inherent in those loans becomes greater.

While I do not believe the legislature ought to be involved in the administering or making loans, the legislature should be involved with the public in policy debates surrounding state financing of a large hydroelectric project or pipeline, for example.

The use of the state's general fund to supply capital to special purpose loan funds--as is done presently--is wiser than attempting to place every special purpose in-state loan program into the Permanent Fund.

Nevertheless, present Alaskans may wish to see some more immediate benefit from the use of the income earned by the Fund, and we are exploring some possible ways to distribute Permanent Fund income directly to "Alaskans"--the problem is how to define "Alaskans" equitably and constitutionally.

Thank you, Olof, for your perceptive comments.

Cordially,

Clark Gruening

Rep. Clark Gruening,
Chairman

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

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

Gentlemen:

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

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

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

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

Very truly yours,

Olof K. Hellen

TO: ALASKA STATE CHAMBER OF COMMERCE

DATE: FRIDAY, SEPTEMBER 30, 1977

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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SCOMM

#18:15

Introduced: 2/22/79
Referred: Special Permanent Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT FUND COMMITTEE

HOUSE BILL NO. 282

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Enterprise Investment Corporation; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37 is amended by adding a new chapter to read:

CHAPTER 09. THE ALASKA ENTERPRISE INVESTMENT CORPORATION.

Sec. 37.09.010. CREATION OF CORPORATION; FUNDING. (a) There is created the Alaska Enterprise Investment Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue but has legal existence independent of and separate from the state. The exercise by the corporation of the powers conferred by this chapter is considered an essential governmental function of the state.

(b) One-sixth of the receipts of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses allocated to the Alaska permanent fund shall be paid directly into the Alaska Enterprise Investment Corporation until a total of $100,000,000 has been paid in. The amount paid into the Alaska Enterprise Investment Corporation under this subsection is the paid-in capital of the corporation.

Sec. 37.09.020. FINDINGS. The legislature finds

(1) that investment in financially sound small and medium scale (A) productive private enterprises and (B) community development projects in the state, for which sufficient capital is not available from other sources on reasonable terms, is of benefit to the citizens of the state;

(2) there is a shortage of investment capital available from other sources on reasonable terms for financially sound small and medium scale productive private enterprise and community development projects;

(3) that the corporation working with private financial institutions to supplement but not supplant their services can help to alleviate this shortage.

Sec. 37.09.030. PURPOSE. The purpose of the corporation is to provide capital at market rates and terms which are not available from other sources on reasonable terms for small and medium scale productive private enterprises and community development projects.

Sec. 37.09.040. ALASKA ENTERPRISE INVESTMENT CORPORATION POLICY BOARD. (a) There is established the Alaska Enterprise Investment Corporation Policy Board consisting of a person employed in the executive branch of state government appointed by the governor and six public members appointed by the governor with due regard for geographical representation and confirmed by a majority of the members of the legislature in joint session. At least two of the public members shall have recognized competency and wide experience in investment and finance. No public member may be appointed to the board who has not been a resident of the state for at least three years. The board shall elect one of the public members as chairman and other officers they determine desirable.

(b) The six public members shall serve for four-year terms, and they may be reappointed. Terms shall be staggered. Initial terms shall be two members serving for two years, two members serving for three years, and two members serving for four years. A member continues to serve until his successor is appointed and confirmed.

(c) A majority of the policy board members constitutes a quorum for the transaction of business by the board. Decisions of the board shall be taken by a majority vote. The board shall hold at least one

public meeting each year.

(d) Public members of the policy board receive an honorarium of $250 for each meeting day if they attend the meeting and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.09.050. REMOVAL AND VACANCIES ON BOARD. (a) The governor may remove a policy board member from office by and with the consent of a majority of the members of the legislature in joint session. The joint session shall be held within 10 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the member was suspended. If the legislature is not in session, the governor may suspend a member of the policy board for cause. Upon suspension, a vacancy is not created but a board member may not participate in policy board business and may not be counted for purposes of establishing a quorum. If the legislature refuses to consent to his removal, the member shall be reinstated to his position.

(b) A vacancy arising on the policy board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers of a permanent board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

(c) A vacancy on the policy board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.09.060. DUTIES OF THE POLICY BOARD. The policy board shall

(1) select and appoint the president and other members of the Investment Committee established in AS 37.09.080;

(2) annually review and approve long-range operating plans, the budget for the forthcoming year, and the financial plan for the following years;

(3) have responsibility on behalf of the corporation for relations with the general public, legislature, executive branch, local communities, and interest groups concerning all things excepting only those matters that are the responsibility of the Investment Committee;

(4) review quarterly reports from the Investment Committee concerning investment decisions and investment supervision, but the board may not impose an investment decision upon, or override an investment decision of, the Investment Committee;

(5) review, consider and approve policies;

(6) establish an audit committee which shall select independent outside auditors, and receive all audit reports.

Sec. 37.09.070. PRESIDENT. The president of the corporation is appointed by the policy board for a term of four years, may be reappointed, and serves at the pleasure of the policy board. The salary of the president is set at the discretion of the policy board, but may not be set below that of the highest paid member of the Investment Committee. The president shall

(1) have sole responsibility for presenting investment proposals to the Investment Committee;

(2) be responsible for the ordinary business of the corporation and the organization, appointment, dismissal, and remuneration of the officers and staff;

(3) be responsible for making investments in investment grade

securities, subject to review by the Investment Committee;

(4) establish and maintain adequate and appropriate organizational, operating and financial controls.

Sec. 37.09.080. INVESTMENT COMMITTEE. (a) There is established the Investment Committee, consisting of the president and four members appointed by the policy board. No member of the policy board may be a member of the committee. Members of the committee shall be persons of recognized competence and wide experience in investments, finance, and other business management-related fields. No member may be appointed to the committee who has not been a resident of the state for at least three years. A member may be reappointed and continue to serve until his successor is appointed. The president and members shall serve for four-year terms. Terms shall be staggered. Initial terms shall be one member serving for one year, one member serving for two years, one member serving for three years, and one member and the president serving for four years.

(b) Three members of the committee constitute a quorum. Decisions of the committee shall be taken by majority vote.

(c) Members of the committee other than the president receive an annual salary in the amount set by the policy board.

Sec. 37.09.090. DUTIES OF THE COMMITTEE. The committee has sole responsibility to approve all investment proposals regarding productive private enterprises and community development projects in the state, and review all investments in investment grade securities.

Sec. 37.09.100. BUDGET. The corporation operating budget is from the general fund and is subject to the provisions of the Executive Budget Act (AS 37.07).

Sec. 37.09.110. PERSONNEL OF CORPORATION. Policy board members, committee members, and officers and staff of the corporation are in the

exempt service under AS 39.25.

Sec. 37.09.120. POWERS OF THE CORPORATION. (a) In carrying out the corporate purposes of the corporation, the policy board has power to

(1) adopt, alter and use a corporate seal;

(2) prescribe, adopt, amend, and repeal bylaws;

(3) sue and be sued in the name of the corporation;

(4) borrow funds, and in that connection furnish such collateral or other security as it determines, except that corporation borrowing may not exceed its paid-in capital;

(5) guarantee obligations of another corporation or legal entity in order to facilitate their sale;

(6) enter into agreements necessary or convenient in the exercise of its powers and functions;

(7) acquire, hold, use, lease, sell or otherwise dispose of property of any kind, real, personal or mixed, or any interest in it;

(8) contract with state, federal and other agencies to develop needed information and analyses;

(9) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

(b) In carrying out the corporate purposes of the corporation, the committee has the power to

(1) invest, as it considers appropriate, by purchasing the capital stock of, or lending money to, projects, except that any investment in the capital stock of or other ownership interest in a project may not exceed 25 per cent of the capital stock of, or other ownership interest in, the project, and no loan or other investment in the project by the corporation may exceed 90 per cent of the cost of the project unless, in the judgment of the committee, additional amounts must be loaned to protect the interests of the investment fund;

(2) deposit or invest surplus funds in such obligations as the committee may determine;

(3) buy and sell securities the corporation has issued or guaranteed or in which it has invested;

(4) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

Sec. 37.09.125. INVESTMENTS. (a) In making investments, the committee and staff shall exercise the judgment and care under the circumstances then prevailing which a person of ordinary prudence, discretion, and intelligence exercises in the management of his own affairs taking into consideration the probable income from the investments as well as probable safety of principal.

(b) The committee may invest not more than 50 per cent of the resources of the corporation to provide a reasonable proportion of longer-term investment capital for financing the establishment, improvement, and expansion of financially sound small and medium scale productive private enterprises which will benefit Alaskans, and for which sufficient capital is not available from other sources on reasonable terms. These investments may take the form of equity, debt, or debt guarantees.

(c) The committee may invest not more than 50 per cent of the resources of the corporation in financing a reasonable proportion of the longer-term investment capital needs for financially sound small and medium scale community development projects of municipalities and public corporate entities and private dwellings in the state for which sufficient financing is not available from other sources on reasonable terms. These investments may take the form of equity, debt, or debt guarantees.

(d) The committee may not invest or guarantee obligations totaling

more than five per cent of the assets of the corporation or $5,000,000, whichever is less, in a single project unless the legislature has approved the investment by concurrent resolution.

(e) The committee may not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms.

(f) The committee may not assume responsibility for managing any enterprise or project in which it has invested and may not exercise voting rights for that purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control.

(g) The committee shall only undertake its financing on terms and conditions which it considers appropriate, taking into account the terms and conditions normally obtained by private investors for similar financing, the requirements of the enterprise or project, the risks being undertaken by the corporation, and the participation of other investors unless the legislature has appropriated funds for subsidizing investments which in the opinion of the corporation are of such high priority that special terms and conditions are appropriate.

(h) The committee may seek to revolve the corporation's money by selling its investments to other investors whenever it can appropriately do so on satisfactory terms.

(i) The committee shall seek to maintain a reasonable diversification in its investments.

(j) The committee shall only consider investment proposals after the applicant for an investment has submitted a detailed proposal to the committee's staff and the staff has prepared a written report recommending the investment after a study of its merits.

(k) The committee shall analyze the economic and other effects of an investment decision, including the effects on employment, income

distribution, environment, health, social and other factors. The committee shall be sensitive to the views of affected local communities.

(l) The committee may guarantee qualifying loans made by financial intermediaries in order to facilitate investment by the intermediaries in specific enterprises or projects.

(m) The committee shall provide for operational and performance evaluations (post-audits) of its investments and investment programs and report the results to the policy board.

(n) Nothing in this section prevents the committee, in the event of actual or threatened default on any of its investments, actual or threatened insolvency of the enterprise in which the investment has been made, or other situations which, in the opinion of the committee, threaten to jeopardize the investment, from taking such action and exercising such rights as it may consider necessary for the protection of its interests.

Sec. 37.09.140. INITIAL DETERMINATIONS. Before beginning its financing operations, the policy board shall render a detailed report to the legislature which shall

(1) define the sectors which need financing for expansion of existing projects or the development of new projects;

(2) define the size and nature of projects which are feasible for corporation financing;

(3) determine specific projects which are feasible for corporation and private financing;

(4) determine the availability of private investment capital for the projects it determines are feasible;

(5) forecast the capital requirements of the corporation for the first three years of its operations.

Sec. 37.09.150. REPORTS AND PUBLICATIONS. The policy board shall

publish an annual report in easily understandable language to the governor, legislature and the public. Each report shall include financial statements audited by independent outside auditors, a statement of the amount of money received by the corporation from each source during the period covered, a statement of corporation investments, a description of corporation investment activity during the period covered by the report, an analysis of economic and other effects of investment decisions including, but not limited to, the effects on employment, income distribution, environment, health, social and other factors, and any other information the policy board believes would be of interest to the governor, the legislature and the public. The corporation may also publish such other reports as it considers desirable to carry out its purpose.

Sec. 37.09.160. CONFLICT OF INTEREST. (a) Members of the policy board and the committee are subject to the provisions of AS 39.50.

(b) Members of the policy board and the committee shall disclose their financial interest in an investment proposal and disqualify themselves from voting on any investment proposal in which they have a financial interest.

Sec. 37.09.170. POLITICAL ACTIVITIES. The members of the policy board and the committee and officers and staff of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 37.09.180. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is

required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.09.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.09.200. DEFINITIONS. In this chapter

(1) "board" or "policy board" means the Alaska Enterprise Investment Corporation Policy Board established by AS 37.09.020;

(2) "business enterprise" means a private corporation, firm, partnership or sole proprietorship;

(3) "committee" means the Investment Committee established by AS 37.09.060;

(4) "corporation" means the Alaska Enterprise Investment Corporation.

* Sec. 2. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the policy board and Investment Committee, and the president, officers, and staff of the Alaska Enterprise Investment Corporation.

* Sec. 3. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Alaska Enterprise Investment Corporation Policy Board and Investment Committee.

* Sec. 4. TRANSITION. (a) The commissioner of revenue shall transfer one-sixth of the funds of the Alaska permanent fund to the Alaska Enterprise Investment Corporation established by this Act after request for transfer is made by the policy board of the corporation.

(b) The Alaska Enterprise Investment Corporation may not expend funds

for any purpose other than normal operating expenses of the corporation until the paid-in capital of the corporation reaches $50,000,000. Other funds of the corporation including the funds received under AS 37.09.010 in sec. 1 of this Act shall be invested as surplus funds under AS 37.09.120(b)(2) in sec. 1 of this Act until the paid-in capital reaches $50,000,000.

* Sec. 5. Section 4 of this Act takes effect upon transfer of one-sixth of the funds of the Alaska permanent fund to the Alaska Enterprise Investment Corporation as provided in sec. 4(a) of this Act. The remainder of this Act takes effect immediately in accordance with AS 01.10.070(c).

SCOMM

#18:16

Funding Information	
General Fund	$115,500,000
Other Funds	9,000,000
Total	$124,500,000

Introduced: 3/15/79
Referred: Special Permanent Fund Committee and Finance

IN THE HOUSE

BY MALONE AND ROGERS

HOUSE BILL NO. 400

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making special appropriations to the Department of Transportation and Public Facilities, the power project revolving fund, the Alaska Renewable Resources Corporation, the mental health fund, and the public school fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $90,100,000 is appropriated from the reserve for capital outlay account in the general fund (AS 37.05.157) to the Department of Transportation and Public Facilities for capital projects.

* Sec. 2. The sum of $18,000,000 is appropriated from the reserve for energy facilities development account in the general fund (AS 37.05.158) to the power project revolving fund (AS 44.56.170) for loans to projects approved under AS 44.56.170(b).

* Sec. 3. The sum of $9,000,000 is appropriated from the Alaska renewable resources development fund (AS 37.11.010) to the Alaska Renewable Resources Corporation for financial assistance to projects approved under AS 37.12.080.

* Sec. 4. The sum of $5,400,000 or a sum equal to one and one-half per cent of the total revenue derived during fiscal year 1980 from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses, whichever is greater, is appropriated from the general fund to the mental health fund (AS 37.14.010).

* Sec. 5. The sum of $1,800,000 or a sum equal to one-half of one per

cent of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses, whichever is greater, is appropriated from the general fund to the public school fund (AS 37.14.110).

* Sec. 6. If 25 per cent of the total receipts paid the state during fiscal year 1980 from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land falls short of the estimate appropriated in sec. 1 of this Act, the appropriation made in sec. 1 of this Act is reduced by the amount of the shortfall.

* Sec. 7. If five per cent of the total receipts paid the state during fiscal year 1980 from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land falls short of the estimate appropriated in sec. 2 of this Act, the appropriation made in sec. 2 of this Act is reduced by the amount of the shortfall.

* Sec. 8. If 50 per cent of five per cent of the total receipts paid the state during fiscal year 1980 from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land falls short of the estimate appropriated in sec. 3 of this Act, the appropriation made in sec. 3 of this Act is reduced by the amount of the shortfall.

* Sec. 9. The unexpended and unobligated portion of the appropriation made in sec. 1 of this Act lapses into the renewable resources development fund (AS 37.11.010) on June 30, 1980.

* Sec. 10. This Act takes effect July 1, 1979.

subdivision of the state; however, the authority may make payments in place of taxes in amounts equal to the real and personal property taxes which would be assessed on its real and personal property by each political subdivision in which its property is located to the same extent as if that property were private property and the authority were a non-public corporation. All bonds issued under this chapter are issued by a body corporate and public of this state and for an essential public and governmental purpose and the bonds and the interest and income on and from the bonds and all income of the authority are exempt from taxation except for transfer, inheritance and estate taxes. (§ 1 ch 278 SLA 1976; am § 15 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment, effective July 13, 1978, added the language beginning "however, the authority may make payments" to the end of the first sentence.

Article 4. Power Project Revolving Fund.

Section
170. Power project fund

Sec. 44.56.170. Power project fund. (a) There is established as a separate fund the power project revolving fund which shall be administered by the authority as a trust fund separate and distinct from any other money or funds of the authority, and which shall be composed of appropriated funds and interest earned on loans by the fund.

(b) The authority may make loans from the fund to electric utilities, regional electric authorities, cities, boroughs, regional and village corporations, village councils, and nonprofit marketing cooperatives to pay the costs of

(1) feasibility studies, preconstruction engineering, and design of any power projects;

(2) constructing, equipping, modifying, and expanding small-scale power production facilities or conservation facilities, limited to fossil fuel, wind power, tidal, geothermal, hydroelectric, or solar energy production and waste energy conservation facilities; and

(3) reconnaissance studies, preconstruction engineering, design, construction, equipping, modification, and expansion of potable water supply including surface storage and groundwater sources and transmission of water from surface storage to existing distribution systems.

(c) Before making any loans, except loans made under (f) of this section, from the power project revolving fund, the authority shall by regulation specify the standards for those loans with respect to the following:

(1) criteria regarding the eligibility of borrowers and of types of projects;

(2) standards regarding the technical and economic viability and revenue self-sufficiency of eligible projects;

(3) interest rates and other terms and conditions, and collateral or any other security required for loans; and

(4) other relevant criteria, standards, or procedures.

(d) Any loan made by the authority must be made according to the standards, criteria, and procedures established by regulation under this section.

(e) Repayment of the loans shall be secured in such manner as the authority determines is feasible to assure prompt repayment under a loan agreement entered into with the borrower. The authority may forgive repayment of loans made for reconnaissance studies if the study shows that a project is not feasible. Under a loan agreement, repayment may be deferred for 10 years or until the project for which the loan is made has achieved earnings from its operations sufficient to pay the loan, whichever is earlier.

(f) Projects for which loans are outstanding from the water resources revolving loan fund (AS 45.86) on July 13, 1978 may receive additional funding from the power project revolving loan fund for a term not exceeding 50 years and at an interest rate of not less than three nor more than five per cent a year on the unpaid balance. Repayment of loan principal and interest shall commence on the date of commercial operation of the project funded by the loan or 10 years from the date the loan is granted, whichever is earlier. (§ 1 ch 278 SLA 1976; am § 16 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment, effective July 13, 1978, added the language beginning "and which shall be composed" to the end of subsection (a), rewrote subsections (b) and (c), redesignated subsection (d) as subsection (e), added present subsection (d), added the present second sentence of present subsection (e), and in the present third sentence of subsection (e), inserted "for 10 years or", substituted "for which the loan is made" for "with respect to which a loan is made," and added "whichever is earlier" to the end. The amendment also deleted former subsection (e), which defined "eligible borrower," and added subsection (f).

Article 5. General Provisions.

Section		Section	
180.	Assessment, proposal, and construction of projects	224.	Long-term plan
210.	Appropriations and reports	230.	Definitions

Sec. 44.56.180. Assessment, proposal, and construction of projects. (a) The authority shall, for each new project, determine the most appropriate means by which to finance a project which may include, but is not limited to,

(1) the issuance of revenue bonds;

(2) a guarantee of indebtedness by the Alaska Permanent Fund Corporation in accordance with AS 37.13.200;

(3) an appropriation from the general fund; or

(4) any combination of (1), (2), and (3) of this subsection.

(b) Upon completion of the reconnaissance study, the authority shall submit to the governor and the legislature a statement of its recommendations for financing each new project. The financing plan may include a recommendation for a guarantee of indebtedness or a general fund appropriation only when necessary to supplement private financing in order to make a project financially feasible. If the recommended financing for the project includes a guarantee of indebtedness by the permanent fund or an appropriation from the general fund, the legislature must first give its approval by joint resolution before the authority may proceed with the engineering or design phase of the project. The legislative approval required in tnis subsection may not be considered the approval required under AS 37.13.230 for granting of a permanent fund guarantee.

(c) The authority shall submit a statement outlining the general design, demonstration of financial feasibility, and maximum amount of bonds and appropriations estimated to be necessary for each new project to the governor and the legislature, together with a statement that the authority intends to design, acquire, construct or finance the project itself or that it intends that the project be designed, acquired, constructed or financed by the United States or another person under agreement with the authority which may provide for ownership of all or a portion of the project by the authority or of a right to the capacity of it. If the legislature adopts a joint resolution approving the general design and maximum amount of bonds, the authority shall, in accordance with the terms of the joint resolution, (1) proceed to design, acquire and construct the new project, or (2) agree with the United States or other person for design, acquisition and construction of the project by the United States, for payments to the United States or other person for such design, acquisition and construction, reimbursement by the United States or other person in certain events, and otherwise on the terms and conditions as may be set out in such agreement.

(d) If the new project is to be designed, acquired and constructed by the authority, it shall be designed, acquired and constructed as a public work of the state. For the purpose of this section a new project does not include (1) an addition or modification to an existing project if the total cost of the addition or modification does not exceed $1,000,000; (2) any repair or reconstruction of a project; or (3) any design, acquisition or construction necessary to complete a project for which bonds previously authorized by the legislature have been issued. Any such addition, modification, repair, reconstruction, design, acquisition or construction may be undertaken by the authority without any of the approvals necessary for a new project.

(e) Any power project proposal requiring approval by the legislature under this chapter, except on projects with a complete reconnaissance study on July 13, 1978, together with supporting data, analyses, and

findings of the authority, shall be submitted to the governor for review. The governor shall make an evaluation of the proposal which shall include, but not be limited to, an analysis of the balance of benefits and costs to Alaska, including environmental and social costs, and the ability of the project to generate sufficient revenues to be self-supporting. The governor shall submit the results of the evaluation, his recommendations, if any, and a statement as to whether the project is consistent with the long-term plan to the legislature. (§ 1 ch 278 SLA 1976; am §§ 17, 18 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment, effective July 13, 1978, designated the former first and second sentences as subsection (c) and the former third through fifth sentences as subsection (d), added subsections (a) and (b), and in the first sentence of subsection (c), inserted "and appropriations" and substituted "the governor and the legislature" for "the legislature and the commissioner of commerce and economic development," "construct or finance" for "and construct," "constructed or financed" for "or constructed," and "which may provide" for "providing." In subsection (d), the amendment also deleted "except that public bidding shall not be required, if the authority so determines on projects in excess of $50,000,000" from the end of the first sentence, added the item designations in the second sentence, and deleted "to" preceding "any repair" in item (2) and preceding "any design" in item (3), in the second sentence. The amendment also added subsection (e).

Editor's note. — Section 24, ch. 156, SLA 1978, effective July 13, 1978, provides: "The requirements of AS 44.56.180(e), enacted in § 18 of this Act, do not apply to any project which the authority has determined to finance and in which it will not maintain an ownership interest upon completion and for which the Tenth Legislature has adopted a joint resolution of approval."

Sec. 44.56.210. Appropriations and reports. (a) Notwithstanding any other provision in this chapter, the authority is subject to the provisions of the Executive Budget Act (AS 37.07).

(b) The authority shall, by the 15th day of each regular legislative session, present to the legislature a report detailing project status, original costs and projected costs, particularly highlighting any costs in excess of the original cost estimates submitted for each project when that project was originally approved by the legislature. (§ 1 ch 278 SLA 1976; am § 19 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment, effective July 13, 1978, rewrote this section.

Sec. 44.56.224. Long-term plan. The Department of Commerce and Economic Development, assisted by the authority, shall prepare, after public hearings, and, as appropriate, revise a long-term electrical power development plan for meeting projected electrical energy demand in Alaska at the lowest reasonable cost, including environmental and social costs, consistent with acceptable standards of reliability. The plan must include, but is not limited to, considerations specified in § 180(e) of this chapter. The plan and any revision of it shall be submitted to the governor for his approval and shall be reviewed by all appropriate state

agencies. After approval by the governor the plan shall be submitted to the legislature. (§ 20 ch 156 SLA 1978)

Effective date. — Section 25, ch. 156, SLA 1978, makes this section effective July 13, 1978, in accordance with AS 01.10.070(c).

Sec. 44.56.230. Definitions. In this chapter, unless the context requires otherwise,

(4) "power project" or "project" means a plant, works, system, facility, water rights, fuel deposits or sources, and real estate and personal property of any nature whatsoever, together with all facilities and appurtenances related to them or necessary for the purposes of them used or useful in power production limited to fossil fuel, wind power, tidal, geothermal, hydroelectric, or solar energy production and waste energy conservation and the transmission, purchase, sale, exchange and interchange of power, and shall include any interest in them, whether divided or undivided, or any right to the capacity of them;

(6) "person" includes a public agency in addition to the entities set out in AS 01.10.060(7);

(7) "reconnaissance study" means a study conducted for the purpose of establishing, with reasonable certainty, the economic merit of developing a certain project and includes, without relying on costly data collection, an environmental assessment so as to insure that no adverse environmental impacts exist of such magnitude as to render the project inadvisable, an assessment of a community's present economy and power needs, an estimate of the community's future economy and power needs, a determination of alternative energy costs, and an estimate of the project cost.

(am §§ 21, 22 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment, effective July 13, 1978, in paragraph (4), substituted the language beginning "power production limited" and ending "and waste energy conservation" for "the generation by means of water or fossil fuel of electric power" and deleted "production" preceding "transmission, purchase" and "electric" preceding "power, and shall include." The amendment also added paragraphs (6) and (7).

As the rest of the section was not affected by the amendment, it is not set out.

Chapter 57. Alaska Toll Bridge Authority.

Editor's note. — Section 9, Executive Order No. 39 (1977), effective July 1, 1977, provides: "(a) The Department of Transportation and Public Facilities is vested with the duties and powers formerly held by the Department of Public Works relating to planning, construction, maintenance and operation of transportation facilities, including state ferries, airports and water and harbor facilities, and for design and construction of buildings and appurtenant structures, and specifically including all powers and duties formerly held by the Department of Public Works under AS 02, AS 30.05, AS 30.15, AS 35, AS 41.20 and AS 44.65.

"(b) The Department of Transportation and Public Facilities is vested with the duties and powers formerly held by the Department of Highways relating to planning, construction, maintenance and operation of state transportation facilities

ALLOCATIONS OF PROJECTED OIL & GAS ROYALTIES
($ millions)

Fiscal Year	Oil & Gas Royalty 1/	Permanent Fund 25%	Renewable Resources 2/ Development Fund 2-1/2%	Renewable Resources 2/ Investment Fund 2-1/2%	Reserve for Energy Facilities 5%	Reserve for Capital Outlay 25%	Native 3/ Claims 10%	Mental Health Trust 1-1/2%	University Trust 1/2%	Public School Fund 1/2%	Unallocated Balance
'79	297.6	74.4	7.4	7.4	14.9	74.4	47.6	4.5	1.5	1.5	63.9
'80	360.3	90.1	9.0	9.0	18.0	90.1	57.6	5.4	1.8	1.8	77.5
'81	425.7	106.4	10.6	10.6	21.3	106.4	68.1	6.4	2.1	2.1	91.6
'82	476.4	119.1	11.9	11.9	23.8	119.1	76.2	7.1	2.4	2.4	102.4
'83	529.7	132.4	13.2	13.2	26.5	132.4	84.7	7.9	2.6	2.6	113.9
'84	587.3	146.8	14.7	14.7	29.4	146.8	94.0	8.8	2.9	2.9	126.3
'85	648.1	162.0	16.2	16.2	32.4	162.0	46.6	9.7	3.2	3.2	196.6
'86	713.6	178.4	17.8	17.8	35.7	178.4		10.7	3.6	3.6	267.5
'87	783.4	195.8	19.6	19.6	39.2	195.8		11.7	3.9	3.9	293.7
'88	858.1	214.5	21.4	21.4	42.9	214.5		12.9	4.3	4.3	321.7
'89	937.6	234.4	23.4	23.4	46.8	234.4		14.0	4.7	4.7	351.5
'90	1022.3	255.5	25.5	25.5	51.1	255.5		15.3	5.1	5.1	383.3
TOTAL CONTRIBUTIONS:		1909.8	190.7	190.7	382.0	1909.8	474.8	114.4	38.1	38.1	2389.9
FY 78 BALANCE:		54.5					25.2				
FY 90 BALANCE:		1964.3					500.0				

FOOTNOTES:

1. Based on assumptions of no gas line, Sadlerochit production at 1.16 million barrels per day, 6.5% annual increase in oil prices, and no new fields produced, and no lease bonuses.
2. Allocations to both Renewable Resources Funds cease when the Investment Fund reaches $250,000,000.
3. Payments cease when $500,000,000 has been paid.

PREPARED BY:

LEGISLATIVE FINANCE
March 8, 1979

Article 1. Alaska Renewable Resources Development Fund.

Section
10. Alaska renewable resources development fund
20. Fund authorization level
30. Fund utilization
40. Fund balances

Sec. 37.11.010. Alaska renewable resources development fund. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by § 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.020. Fund authorization level. Not less than five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the Alaska renewable resources development fund. These deposits shall be invested in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.030. Fund utilization. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.040. Fund balances. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be transferred

to the Alaska renewable resources investment fund. (§ 1 ch 130 SLA 1974; am § 4 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" at the end of the section.

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Article 2. Alaska Renewable Resources Permanent Fund.

Section
50. Alaska renewable resources investment fund
60. Fund principal
70. Utilization of fund income
80. Protection of principal
90. Investments

Cross reference. — As to the Alaska Renewable Resources Corporation, see AS 37.12.

Sec. 37.11.050. Alaska renewable resources investment fund. There is established as a separate fund the Alaska renewable resources investment fund. Funds apportioned by § 60 of this chapter for deposit in the investment fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans. (§ 1 ch 130 SLA 1974; am § 5 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" in the first and second sentences.

Sec. 37.11.060. Fund principal. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the investment fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with § 90 of this chapter. (§ 1 ch 130 SLA 1974; am § 6 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" at the end of the first sentence and "§ 90 of this chapter" for "AS 37.10.070 (investment of surplus state funds)" at the end of the second sentence.

Sec. 37.11.070. Utilization of fund income. (a) Income received from investment of investment fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable

resources programs. The primary purpose of the programs shall be to restore the renewable resources of the state for common beneficial uses.

(b) Plans for expenditures from fund income shall be prepared in detail by the cooperative efforts of the Departments of Natural Resources, Fish and Game, Environmental Conservation, and Commerce and Economic Development, and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. Not less than 80 per cent of the total plan submitted each year shall be apportioned for direct capital expenditures or investments (§ 1 ch 130 SLA 1974; am § 7 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment designated provisions of this section as subsection (a), substituted "investment fund" for "permanent fund" in the first sentence of subsection (a), rewrote the second sentence of subsection (a), and added subsection (b).

Sec. 37.11.080. Protection of principal. A transaction involving investment fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended. (§ 1 ch 130 SLA 1974; am § 8 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund."

Sec. 37.11.090. Investments. Investment responsibility for the Alaska renewable resources investment fund shall reside with the treasury division of the Department of Revenue. The treasury division may invest the Alaska renewable resources investment fund in any investments authorized in AS 39.35.110 so long as its investment policy is consistent with the prudent-man rule. (§ 9 ch 179 SLA 1978)

Article 3. Alaska Economic Disaster Impact Fund.

Section
100. Alaska economic disaster impact fund

Sec. 37.11.100. Alaska economic disaster impact fund. (a) There is established a separate fund known as the Alaska economic disaster impact fund which shall be administered by the Department of Commerce and Economic Development. Funds designated in this section and apportioned by statute for deposit in the Alaska economic disaster impact fund are for grants or loans to assist economically impacted communities within areas designated by a proclamation under AS 44.33.285. The Department of Community and Regional Affairs, in

Sec. 37.12.020. Allocation. (a) There shall be allocated to the corporation from the receipts described in AS 37.11.020 five per cent of the total receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land. Payments of the amount allocated by this section shall be made to the corporation by the Department of Revenue on a monthly basis.

(b) Fifty per cent of all actual receipts of the corporation, from whatever source except receipts from the corporation's investments, shall be deposited into the renewable resources investment fund (AS 37.11.050). (§ 3 ch 179 SLA 1978)

Sec. 37.12.025. Board of trustees. A board of trustees of the corporation is established as its governing body. (§ 3 ch 179 SLA 1978)

Sec. 37.12.030. Composition of the board of trustees. The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session. The board shall annually elect a chairman from among its members. A chairman may not succeed himself. (§ 3 ch 179 SLA 1978)

Sec. 37.12.035. Term of office. The members of the board of trustees shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. The initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years. (§ 3 ch 179 SLA 1978)

Sec. 37.12.040. Removal and vacancies. (a) The governor may remove a board member from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a board member may not participate in board business and may not be counted for the purpose of establishing a quorum. A suspended member shall continue to receive his salary as a board member until the legislature in joint session consents to his removal. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of members of the legislature in joint session. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

Sec. 37.05.150. Funds and accounts. The accounting system shall be in accordance with accepted principles of governmental (fund) accounting and shall include both budgetary and property accounts. The system shall provide records showing at all times by funds, accounts, and other pertinent classifications the amounts appropriated, the estimated revenues, actual revenues or receipts, the amounts available for expenditure, the total expenditures, the unliquidated obligations, actual balances on hand, and the unencumbered balances of appropriations for each state agency. (§ 3 art III ch 82 SLA 1955; am § 5 ch 186 SLA 1957)

Sec. 37.05.155. Special funds. (a) The following funds shall be treated for accounting purposes as accounts in the general fund:

(1) FICA administration fund (AS 39.30.050);

(2) special revolving fund — surplus property (AS 44.71.030(c));

(3) Repealed by § 49 ch 32 SLA 1971.

(4) second injury fund (AS 23.30.040);

(5) the vocational rehabilitation small business enterprises revolving fund (AS 23.15.130);

(6) fishermen's fund (AS 23.35.060).

(b) There shall be created in the general fund for each of the funds designated in (a) of this section a reserve equal to the excess of revenues received by each fund over expenditures made from that fund. (§ 1 ch 5 SLA 1968; am § 49 ch 32 SLA 1971)

Legislative committee report. — For report on ch. 32, SLA 1971 (HB 111 am), see 1971 House Journal, p. 138.

"General fund". — The general fund is not specifically created by statute. Its existence is noted in this section which provides that certain enumerated funds shall be treated for accounting purposes as accounts in the general fund. 1969 Op. Att'y Gen., No. 5.

The general fund in Alaska consists of money received from state taxes and licenses and money received from non-tax or license sources, such as oil and gas royalty payments. 1969 Op. Att'y Gen., No. 5.

All public moneys and revenue coming into the state treasury constitute the general fund of the state. 1969 Op. Att'y Gen., No. 5.

Quoted in Thomas v. Rosen, Sup. Ct. Op. No. 1504 (File No. 3073), 569 P.2d 793 (1977).

Sec. 37.05.157. General fund; "reserve for capital outlay" account. (a) There is created within the general fund the "reserve for capital outlay" account.

(b) Twenty-five per cent of the annual receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be allocated to the reserve for capital outlay account.

(c) The proceeds of the reserve for capital outlay account are subject to annual appropriation by the general appropriation act. (§ 10 ch 168 SLA 1978)

Revisor's note (1978). — Both § 4, ch. 181, SLA 1978 and § 4, ch. 182, SLA 1978 enacted chapters designated AS 37.14 establishing a mental health fund. As chapter 182, SLA 1978 is both the later enacted law and contains additional material and more comprehensive treatment of trust funds, the chapter contained in § 4, ch. 182, SLA 1978 has been treated as superceding the one contained in § 4, ch. 181, SLA 1978.

Effective date of chapter. — Section 27, ch. 182, SLA 1978, makes article 2 effective on the date that the Board of Regents votes to approve the matters under consideration as provided in § 24 of the act. Section 28 of ch. 182, makes articles 1, 3, and 4 effective July 1, 1978.

Editor's note. — Section 24, ch. 182, SLA 1978, effective July 19, 1978, provides: "ELECTION BY BOARD OF REGENTS. The Board of Regents shall hold a special meeting not later than September 1, 1978 to determine whether it is in the best interests of the University of Alaska to relinquish the authority to approve of the management and disposal of university land by the Department of Natural Resources, and to accept the benefits of the university fund established in AS 37.14.060 — 37.14.100 contained in sec. 4 of this Act. The Act of approval or disapproval shall be recorded by resolution of the Board of Regents. A majority of the whole board shall determine whether the matter under consideration is approved or disapproved."

Article 1. Mental Health Fund.

Section
10. Mental health fund established
20. Mental health fund advisory board created
30. Powers and duties of board
40. Fund utilization
50. Contributions

Effective date. — See effective date note following the chapter analysis.

Sec. 37.14.010. Mental health fund established. (a) There is established as a separate fund the mental health fund.

(b) The principal of the fund established in (a) of this section consists of sums transferred under § 50 of this chapter.

(c) The income of the fund established in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.020. Mental Health Fund Advisory Board created. (a) There is created in the Department of Revenue the Mental Health Fund Advisory Board composed of the director of the division of mental health, the chairman of the Mental Health Advisory Council, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of that board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.030. Powers and duties of board. The board created in § 20 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the total principal and income of the fund established in § 10 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 10 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.040. Fund utilization. The principal of the fund established in § 10 of this chapter shall be retained in that fund for investment as specified in § 170 of this chapter. The income of the fund may not be appropriated for a purpose other than the support of the state mental health program. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.050. Contributions. During each fiscal year, subject to legislative appropriation of sufficient funds, the commissioner of the Department of Revenue shall transfer to the fund established in § 10 of this chapter a sum equal to one and one-half per cent of the total revenue derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Article 2. University Fund.

Section		Section	
60.	University fund established	80.	Powers and duties of board
70.	University fund advisory board created	90.	Fund utilization
		100.	Contributions

Effective date of article. — Section 27, ch. 182, SLA 1978, makes article 2 effective on the date that the Board of Regents votes to approve the matters under consideration as provided in § 24 of the act.

Editor's note. — See editor's note following chapter analysis.

Sec. 37.14.060. University fund established. (a) There is established as a separate fund the university fund.

(b) The principal of the fund established in (a) of this section consists of

(1) the balance of the trust fund established in AS 14.40.400 on July 1, 1978; and

(2) sums transferred under § 100 of this chapter.

(c) The income of the fund established in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.070. University Fund Advisory Board created. (a) There is created in the Department of Revenue the University Fund Advisory Board composed of two members appointed by the Board of Regents of the University of Alaska from the membership of the Board of Regents, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of that board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.080. Powers and duties of board. The board created in § 70 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the total principal and income of the fund established in § 60 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 60 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.090. Fund utilization. (a) The principal of the fund established in § 60 of this chapter shall be retained in the fund for investment as specified in § 170 of this chapter.

(b) The income from the fund established in § 60 of this chapter may not be appropriated for a purpose other than the support of programs of the University of Alaska.

(c) No part of the principal and income of the fund established in § 60 of this chapter may be used for the support of a sectarian or denominational college or school. (§ 4 ch 182 SLA 1978)

Sec. 37.14.100. Contributions. During each fiscal year the commissioner of the Department of Revenue shall transfer to the fund created in § 60 of this chapter a sum equal to one-half of one per cent of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 182 SLA 1978)

Article 3. Public School Fund.

Section	Section
110. Public school fund established	130. Powers and duties of board
120. Public school fund advisory board created	140. Fund utilization
	150. Contributions

Effective date. — See effective date note following chapter analysis.

Sec. 37.14.110. Public school fund established. (a) There is established as a separate fund the public school fund.

(b) The principal of the fund established in (a) of this section consists of

(1) the balance of the public school permanent fund on July 1, 1978; and

(2) sums transferred under § 150 of this chapter.

(c) The income of the fund created in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.120. Public School Fund Advisory Board created. (a) There is created in the Department of Revenue the Public School Fund Advisory Board composed of the commissioner of the Department of Education, three members elected by the Board of Education from among its membership, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of the board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 182 SLA 1978)

Sec. 37.14.130. Powers and duties of board. The board created in § 120 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the principal and income of the fund established in § 110 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 110 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.140. Fund utilization. The principal of the fund established in § 110 of this chapter shall be retained in the fund for investment as specified in § 170 of this chapter. The income of the fund may not be appropriated for a purpose other than for the support of public education programs. (§ 4 ch 182 SLA 1978)

Sec. 37.14.150. Contributions. During each fiscal year the commissioner of the Department of Revenue shall transfer to the fund created in § 110 of this chapter a sum equal to one-half of one per cent of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds,

and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 182 SLA 1978)

Article 4. Custody and Investment of Trust Funds.

Section
160. Duties of commissioner of revenue
170. Investments

Effective date. — See effective date note following chapter analysis.

Sec. 37.14.160. Duties of commissioner of revenue. The commissioner of revenue is the treasurer of the funds created in §§ 10, 60, and 110 of this chapter and shall

(1) act as official custodian of the cash and securities belonging to those funds and provide adequate safe deposit facilities for each of them;

(2) receive cash belonging to those funds;

(3) collect the principal on securities acquired for each fund established under §§ 10, 60, and 110 of this chapter and credit each fund accordingly;

(4) collect interest and dividends earned on investments of the funds established under §§ 10, 60, and 110 of this chapter and credit the income reserve account of each fund accordingly;

(5) invest and reinvest the principal of each fund in accordance with § 170 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.170. Investments. (a) The commissioner of revenue, with the approval of each advisory board created in §§ 20, 70, and 120 of this chapter, may invest the principal of the funds created in §§ 10, 60, and 110 of this chapter in the same manner as specified for the investment of surplus pension funds under AS 39.35.110.

(b) The commissioner of revenue may

(1) invest and reinvest the principal of the funds;

(2) sell, exchange, convey, transfer, or otherwise dispose of investments of the funds by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the funds;

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU 99801

TO: Honorable Bill Miles
Co-Chairman
House Resources Committee

DATE: February 14, 1979

FROM: Milt Barker MB
Fiscal Analyst

SUBJECT: Reserve for Energy Facilities

Chapter 168 SLA 1978, which created the reserve for energy facilities took effect on October 15, 1978.

The Department of Natural Resources is following a practice of making monthly deposits. They made their first deposit on October 30, 1978 of September royalties. On this basis the reserve is estimated to total $11.3 million on June 30, 1979. It totaled $3.5 million on January 31, 1979.

However, because the wording, now codified as AS 37.05.158(b), identifies the reserve as "five per cent of the annual receipts from mineral lease bonuses and rentals for state land and royalties", one could argue that an allocation should be made to the account on June 30, 1978 of 5% of the total receipts for the fiscal year. On this basis, the account would total $15.1 million on June 30, 1979. In any event, the FY 80 allocation is estimated at $18.2 million, these estimates being based on the Department of Revenue's "Revenue Sources" booklet.

There is no mention of the reserve for energy facilities in the Governor's budget. The Governor has chosen not to comply with AS 37.05.158(c) (attached) which says "plans for expenditures from the account shall be submitted by the Governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation." His reasons for not doing so seem to be:

1) The state can't spare the funds. The administration points out that the FY 79 and 80 allocations for capital outlay would be $75 and 91 million and that for energy facilities $15 and 18 million. Yet according to AS 37.05.157(c) (attached) there is no requirement for the executive to include the capital outlay account in his budget, only the energy facilities.

The Governor has submitted a capital budget request that includes $3 million for the power project revolving loan fund from general funds. Certainly this could have been funded from the energy facilities account, as well as the proposed Susitna special appropriation of $8,178,000 and possibly other items, without affecting the state's general fund balance;

2) The account is not a dedication of funds which would be unconstitutional if it were. See page 3 of attached memo of July 12 and related comments in attached memo of October 12; and

3) The Legislature can't tell the Governor how to submit his budget. See page 2, paragraph 3 of July 12 memo which seems to relate.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99811

July 12, 1978

The Honorable Jay S. Hammond
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Re: FCCS SCS HB 222 (e. date failed)
(planning and funding of capital construction projects)
Our File: J-88-164-78

Dear Governor Hammond:

We have as you requested reviewed the subject bill. It presents several problems. The first is with its title.

The constitution requires that every bill be confined to one subject and that the subject be expressed in the title. Alaska Const., art. II, sec. 13. While a stringent application of the first part of this rule has been obviated by the Alaska Supreme Court in Gellert v. State, 522 P.2d 1120 (Alaska 1974), it may yet retain some vitality.

The bill at hand is an amalgam of three bills: HB 222 (Malone and Gardiner), the subject of which was "public scrutiny of the budget formulation process"; SB 510 (Senate Special Permanent Fund Committee), the subject of which was "the state budget and state bonding"; and SB 539 (Senate Special Permanent Fund Committee), the subject of which was the "eligible costs for state grants for capital improvement projects."

As it now stands, the bill is in possible violation of both the single-subject and descriptive-title rule.

On the one hand, the bill is not confined to one subject but rather pertains to at least two and possibly three distinct subjects. Nevertheless, the bill's subjects are sufficiently related to meet the rather loose standards set in Gellert.

On the other hand, by not referring in the slightest to the many substantive provisions of the bill which relate to matters not indicated by the term "planning and funding of capital construction projects", the bill's title fails to express its subject. We are inclined to the view that this failing is not an indication of sloppy drafting, but rather a confession that the bill is not confined to one subject; i.e., if the three subjects covered by the bill were expressed in the title, it would be obvious that the bill is not confined to one subject. To avoid this, the bill's title is made about as vague and all-inclusive as is possible while still retaining some reference to the subject matter.

The better reasoned opinion is that, as a general rule, the interrelated requirements of confining bills to a single subject and expressing that subject in the title are reasonable and prudent safeguards against the abuse of power by legislative committees or blocs which piggyback unrelated or loosely related subject matter onto other bills to secure their enactment. Where, as here, the practice is not guarded against, there is no opportunity for determining whether a given measure on a subject would have been adopted on its own merits and, had it been so adopted, in what form it might have emerged from the legislative process. The package either goes or it does not. No one questions the legitimacy of legislative packages on a single subject. It is the packages which mix diverse subjects which offend the constitutional restriction. We do not believe that this bill will be the vehicle for the court's overruling Gellert, but certainty of prediction is not possible.

The bill provides for a number of capital budgeting and capital planning procedures which we are inclined to believe are impracticable, if not impossible. It provides in great detail how these matters will be accomplished and makes those details mandatory. In doing so, the bill appears to tread upon the executive's plenary power over the preparation of the state budget. Alaska Const., art. IX, sec. 12. For the most part, it should not have the effect of impairing that power, but to the extent that it may have that effect, it should be unconstitutional. In other words, the legislature cannot so hamstring the executive's preparation of the budget that it is no longer his but rather another's budget. The constitution places both the authority and the responsibility for the budget's preparation on one person, the chief executive.

The bill sets up special "accounts" for capital improvements and energy development, utilizing mineral-resource revenues for funding. No dedication is made of the money. It is merely accounted for and is available for appropriation for those purposes and for any other purpose. Accordingly, there is no violation of the prohibition against dedicated funds on the face of the bill. Alaska Const., art. IX, sec. 7. As a practical matter, if the actual effect of the bill were to result in a dedication, then it would likely be held to be unconstitutional. That is, if succeeding legislatures never used the money for other purposes and used it only for capital improvements and energy facilities, even though the funds held a surplus and other needs were going unmet, then there would be, in effect, a prohibited dedication.

The most ambitious -- probably overly ambitious -- part of the bill relates to the "State Public Facilities Plan." Sec. 14, pp. 7-9. It makes it mandatory for the commissioner of the Department of Transportation and Public Facilities to "develop and annually revise a statewide comprehensive facility procurement plan for public facilities of the state and its municipalities." It then goes on to detail how this "shall" be done. One is reminded of Mort Sahl's well known, late 1950's dictum on government: "If they didn't know what they were doing, they wouldn't be in Washington [pause], and they're not there." There is also the lesser known Rod Pegues-Joe Matyi dictum from the same era on borough government in Alaska: "We have seen the future [pause], and that doesn't work either." Both seem appropriate here.

It is possible that the proposed new system will work. It is its mandatory nature which concerns us. If the commissioner is under a duty to perform as prescribed, our court will likely find that his duty runs to some member of the public and that any significant failure on his part to perform that duty will allow the person to whom the duty runs to block any governmental action until the duty has been performed. That is the underlying rule in United States Smelting Ref. & Mining Co. v. Local Boundary Comm., 489 P.2d 140 (Alaska 1971); State v. Aleut Corp., 541 P.2d 730 (Alaska 1975); and State v. Lewis, 559 P.2d 630 (Alaska 1977). Hence, this new legislation can furnish the grounds for legal guerilla warfare against state and local capital construction projects. From a policy standpoint, that may or may not be a good thing. From a legal standpoint, it is -- on the whole -- pretty much a bad thing.

The courts, in effect, will be brought into what should be a joint legislative-executive formulation of policies and programs.

Finally, the bill amends the several statutes relating to state financial assistance to local governments, villages, and nonprofit corporations for various public or quasi-public facilities. The principal effect of the amendments is to allow any and all conceivable costs, without limitation as to their reasonableness, to be eligible for matching or supporting grants.

Most of the aid is to be made available at the discretion of the head of the state agency involved. This provides some safeguard for the public treasury. But once a project is approved, there is no additional discretion, as a general rule, by which the cost may be limited, unless it has been limited either by regulation or by terms of the grant. We will discuss each program in turn. The references are to sections, pages, and lines on the pages of the engrossed version of the bill.

1. Secs. 17-19 (p. 13, lines 1-29, p. 14, lines 1-8) (aid to airports). The program is discretionary; therefore, there should be no problem. However, once the state agrees to provide a match grant, the grantee appears to be eligible, i.e., to have a right, to receive as much money as is necessary to match his costs as defined under the new AS 02.15.155.

2. Secs. 20-21 (p. 14, lines 9-29, p. 15, line 1) (aid to agricultural and industrial fairs). This program is also discretionary; therefore, it too should present no problem. The capital improvement aid, AS 03.20.035, is closely controlled by the commissioner's discretion, so it appears to be no problem. However, the definition provided by new AS 03.20.080 could well cause runaway costs.

3. Sec. 22 (p. 15, lines 2-17) (urban renewal as disaster assistance). This is subject to discretion and should cause no problem. Again, however, once the decision to make the grant is made, runaway costs may occur and the state will be stuck with them.

4. Sec. 23 (p. 15, lines 18-29, p. 16, lines 1-4) (access roads). This should present no problem because it is subject to discretion, to availability of funds, and

to a $50,000 maximum. In addition, AS 19.30.040(d) makes the developer liable for costs in excess of those agreed upon. That kind of provision should be in all of these.

5. Sec. 24 (p. 16, lines 5-20) (aid for various municipal purposes). Under AS 43.18.010(j), state aid continues for construction of health care facilities until it "equals 25 per cent of the total project cost." The new material would allow Dr. Mike Beirne or any future Dr. Mike Beirne to justify pretty much all of his claims. AS 43.18.020 limits these to the funds available, declares that there is no debt of the state, and requires pro rata distribution when eligible claims exceed available money. The problem is that, if the money has been appropriated, the developers will make their score.

6. Sec. 25 (p. 16, lines 21-29, p. 17, lines 1-8) (school construction). This has the same safeguards.

7. Sec. 26 (p. 17, lines 9-25) (convention and recreation facilities). This has the same safeguards.

8. Sec. 27 (p. 17, lines 26-29, p. 18, lines 1-13) (sports facilities). These are subject to a direct appropriation; and therefore, require legislative approval as a safeguard.

9. Secs. 28-29 (p. 18, lines 14-29, p. 19, lines 1-16) (visitor information centers). These are made "within the limits of . . . appropriations and considering the needs of other qualified applicants."

10. Secs. 30-31 (p. 19, lines 17-29, p. 20, lines 1-17) (municipal water and sewer systems). There are no safeguards for non-federally funded projects, except that the projects must be constructed in accordance with plans and specifications approved by DEC.

11. Sec. 32 (p. 20, lines 18-29, p. 21, lines 1-4) (village safewater systems). There are no local costs and no safeguards whatsoever. The new amendment opens the door to a total ripoff. The department can control it only by self-enforcing contractual provisions -- which are usually nonexistent -- in the grants. However, having to take over the ownership and operation locally imposes some restraint on misadventures.

12. Secs. 33-34 (p. 21, lines 5-29, p. 22, lines 1-4) (alcoholism facilities). These have a $50,000 single-grant maximum and departmental discretion not to fund.

The basic danger the amendments create is that local developers will overcharge for their own goods and services which they place into a project, claiming an offsetting amount from the state. This can be avoided, at least in part, by grant conditions (or agency regulations) which delimit the amount of those kinds of charges by making them conform to the rates and amounts charged for the same or similar goods and services on similar projects. All in all, however, the legislature's definition of "costs" is an invitation, if not to steal, at least to be wasteful. We are not at all sure that the state agencies involved are equipped to prevent either result.

More than most, this bill has its share of good and bad points. From a legal standpoint, i.e., from how it can and probably will affect the state's legal relationships and problems, we would prefer another version and would just as soon that this one were vetoed. For us, it simply has too many uncertainties and unknowns which, if answered wrong, will work against the public interest. We admit, however, that if they are answered correctly, no harm will occur and -- with respect to operational and capital budgeting -- a more rational approach may be developed.

Please note, however, that you have authority as the state's budget officer to effect almost all, if not all, those budgeting and procurement changes on your own with respect to the state government's budgeting and capital planning. Hence, this is not an all-or-nothing proposition.

Sincerely yours,

Avrum M. Gross
Attorney General

by Arthur K. Peterson

AMG:pjg:RWP

Administrative Committee on
Renewable Resources Development

October 12, 1977

AVRUM M. GROSS
ATTORNEY GENERAL

Renewable Resources
Funds

By:
Rodger W. Pegues
Assistant Attorney General

This confirms our recent discussions on this subject.

First, "renewable resources" are whatever the Alaska Supreme Court says they are. It is our best judgment that, as with "capital improvements," the court would not adopt a general definition but rather would judge each proposition on its own merits. Cf., City of Juneau v. Hixson, 373 P.2d 743 (Alaska 1962). As will be explained later, however, we doubt any ruling will ever be made. The administration, however, should use the same ad hoc test as the court would.

Second, investments are governed by the prudent man rule, i.e., to make money. AS 37.11.020, 060 and AS 37.10.070 (investment of surplus funds).

Third, expenditures may be made only by way of the budget-appropriation process. AS 37.11.030, 070.

The Alaska Renewable Resources Development Fund and Permanent Fund are not true dedications of revenues, i.e., there is no fund which is actually dedicated for a special purpose. There is a conditional, standing appropriation of surpluses, if any, from the development fund to the permanent fund. AS 37.11.040, 060. But that merely moves money from one fund to another, without expending it on a special purpose. Except for replacement of losses of principal from fund income (also a conditional, standing appropriation), that is the only source of income for the latter fund. If there is no surplus in a given year, there is no income to the fund for that year. A true dedicated fund has a regular source of income and the authority to expend money, without further appropriation, on its special purpose, e.g., education.

Additionally, there is no legal impediment against any legislature's appropriating from either fund for any public purpose whatsoever, without regard to its contributing to the development or management of a renewable natural resource. No legislature, with an exception not applicable here, may bind another to a given law or policy. With or without an express

amendment to AS 37.11, any future legislature may appropriate as it sees fit, subject only to an item veto. That includes appropriations from the principal of the permanent fund.

Legally, the funds may be viewed as special accounts to facilitate a legislative policy. So long as succeeding legislatures are in accord with the policy, the funds afford a way of providing fairly substantial amounts of money for the management of renewable natural resources without having to overcome the annual inertial resistance of the budget-appropriation process. The executive is bound by the policy as long as it remains law. But each and every legislature possesses the plenary power to annul the policy -- expressly by repeal or impliedly by not following it.

If the legislature changes the policy by not following it, e.g., appropriates from the development fund to build a road to exploit mineral resources of the Seward Peninsula, we doubt that a court would overturn the legislature's action. We believe, rather, that it would rule that the establishment of the fund and its terms by the Eighth State Legislature does not bind, say, the Eleventh State Legislature. There is a rule to the effect that the constitutional limitation of appropriation bills to appropriations precludes their being used to enact or amend other substantive law. E.g., Opinion to the Governor, 239 So.2d 1, 11 (Fla. 1960). However, we apprehend this rule to apply solely to conditions or restrictions attached to appropriations and not to the appropriations themselves.

Accordingly, it is unlikely -- so long as expenditures require an appropriation -- that the courts will ever rule on what is or is not a "renewable natural resource." Of course, if AS 37.11 were amended so as not to require appropriations for future expenditures, then it probably would be a true dedication of revenues and become unconstitutional. Alaska Const., art. IX, §7; Op. Atty. Gen., Dedication of Revenues Derived from Lease or Sale of State Natural Resources (May 2, 1975).

RWP/pjg

SCOMM

#18:17

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE JOINT RESOLUTION NO. 23

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

Proposing an amendment to the Constitution of the State of Alaska relating to finance.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

Section 15. ALASKA PERMANENT FUND. At least seventy-five [TWENTY-FIVE] per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments, one hundred per cent of all [AND] bonuses received by the State, and one hundred per cent of all revenue received by the State from the sale of land, except land-sale revenue pledged, before or after the effective date of this amendment, to repay bonds, shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 2. EFFECTIVE DATE. The increase from twenty-five per cent of mineral revenue to seventy-five per cent of certain mineral revenue and the increase to include all bonuses, in sec. 1 of this resolution, become effective on July 1, 1981.

Opinion 1977-21

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

SUBJECT: Permanent fund

TO:

FROM: Billy G. Berrier, Director
Division of Legal Services

You have requested my comments on the legal implications of the words "permanent" and "income producing" as used in the constitutional amendment authorizing the permanent fund on the legal standards and guides the legislature may wish to establish in legislation.

The relevant provision is Section 15, of Article IX which reads:

> "Section 15 ALASKA PERMANENT FUND. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law".

It is clear from the wording of the amendment itself and from the surrounding context that the concept is that a fund be created in which a portion of the mineral revenues of the state would be set aside in order to insure preservation for the future of that portion of the revenue. There can be no legitimate question that the objective is preservation of that portion as capital for the long term use of the state and its people and prevention of uses which are expedient in the short term but which would dissipate the capital of the fund. The paramount consideration must be the probable safety of the capital of the fund to be invested.

The term "permanent" as used three times in the body of the amendment and in the title of the fund would be read in the normal sense of that word since that reading is consistent with the context of the amendment, with the legislative and public discussion of the amendment, and with the understanding that the voters would be presumed to have in approving the amendment.

While the permanent fund is not a trust in the technical legal meaning of the term, the protection of capital required has substantial similarities to the requirements binding upon a trustee. This requirement is commonly referred to as the prudent-man rule. There have been numerous cases on this rule and many commentators have set out reasonable similar statements of the rule. A good statement is found in Scott on Trusts 3rd Ed in Sec. 227 (pages 1805 - 1806) which reads:

> "The only general rule which can be laid down as to investments is that the trustee is under a duty to make such investments as a prudent man would make of his own property having primarily in view the preservation of the estate and the amount and regularity of the income to be derived. In various forms this rule has been stated in innumerable cases. It involves three elements, namely care and skill and caution. The trustee must exercise a reasonable degree of care in selecting investments. He must exercise a reasonable degree of skill in making the selection. He must, in addition, exercise the caution which a prudent man would exercise where a primary consideration is the preservation of the funds invested."

This rule would seem to adequately set out the general parameters constitutionally required for permanent fund investments of principal. It would apply at two stages of the process. The legislature would be bound to apply it in exercising the duty to circumscribe and delineate investments required under the limitation in the constitution reading:

> "...the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investment. (emphasis added)

The managers of the fund are given no constitutional discretion under this clause. The discretion is lodged exclusively in the legislature; and, if the objectives of the permanent fund are to be attained, investments specifically designated by law as eligible for permanent fund investment must also meet the criteria of having as a primary consideration the preservation of the funds invested.

The legislation, however, would not be expected to detail the permissable investments. It would presumably designate specific investment catagories and create a management structure for the fund which would make the specific decisions as to which investments are to be made. Here again, the prudent-man rule would be applicable. In addition to designating specific catagories of investment, any legislation should also establish guidelines for the fund management which are consistent with the objective of the fund. The need for this arises because within a class which as a class meets the objectives of preservation of the funds invested, some specific investments would still not be made by a prudent man. Possibly this could be largely avoided by using an ultra restrictive approach to allowable catagories of investment but this approach would create or exacerbate other problems.

The primary difficulty with an ultra restrictive approach to allowable investments is that, as a matter of law, the problem of inflation would not be a factor in investment decisions. It can be reasonable assumed that inflation to some degree may be anticipated.

The argument has been made that inflation can realistically be anticipated to occur, that if principal is not increased in an amount to compensate for inflation the real value of the principal will decline even though the nominal value is maintained and that the duty of a prudent investor is to maintain the real value of the principal. Therefore, failure to account for inflation in investment policy violates the prudent-man rule of investment. I have found no authority to support this argument as a legal requirement. Factually, the argument would fall here. The constitutional amendment makes a clear distinction between principal which is permanent and income which is subject to expenditure by the normal appropriation process unless the legislature directs otherwise. At the time the amendment was adopted, inflation had occurred at an extremely high rate in the immediate past so it must be assumed that both the legislature and the public were conscious of inflationary effect. It would therefore, to support this argument, require assuming that investments which would have a capital appreciation, entirely apart from income earned, which is at least equal to inflation are the only permissable investments. This does not seem reasonable.

The argument that inflation must be taken into account does not seem valid here but that does not mean that inflation may not, or even that it should not, be taken into account. There is no reason that legislation establishing the management of the permanent fund and the disposition of fund income should not address this problem directly. I have suggested earlier that the legislation needs to establish standards for investments to avoid having to specify only ultra restrictive investments. The legislation could also require that the possible effects of inflation be a consideration in investment decisions made by the fund managers.

The term "income-producing" as used in the amendment presents serious conceptual difficulties. In context, this could simply be a restatement of the normal duty to make productive investments. In relation to trusts this has been stated:

> "It is the duty of a trustee to preserve the trust property and make it productive. It is ordinarily his duty to invest trust funds in such a way as to receive an income without improperly risking the loss of principal." (Scott on Trusts 227 p. 1805)

However, as stated earlier, the permanent fund is not a trust in the technical legal sense. Simply carrying over the trustee's duty could be misleading.

The term "income-producing" is not a term of art and has no fixed legal meaning differing from the conventional meaning of the term. It is possible that a court would hold that the term implies that maximum income consistent with safety of principal must be the exclusive criteria for investment. This would be consistent with trust law but it appears that the amendment contemplates broader considerations as well. It would appear more likely that other considerations, such as the effect particular investments would have on furthering public purposes other than maximization of income, could also be given weight. Some examples of other public purposes are providing jobs, improvement of the Alaskan economy and economic diversification.

It is clear that production of income is a necessary goal of each investment; it is probably that maximization of income consistent with safety of principal must be a major goal, ; but it appears unlikely that a court would hold that this must be the exclusive goal of permanent fund investment policy.

While the investment of the permanent fund differs from investment of state treasury surplus funds in several respects including the specific requirement of income producing investment of permanent fund principal, both have as major goals protection of principal and production of income. It is interesting to note that state treasury surplus fund investment specifies policy goals additional to the primary goals. On this point AS 37.10.075(f) provides:

> (f) Investment policy shall be formulated by the commissioner of revenue who shall be advised by a committee appointed by the governor which shall contain representation from the legislature. In formulating investment policy they shall consider maximum income and safety as governed by the prudent-man rule and the benefit to the private and public sectors of the economy in terms of increased housing and commercial credit, stimulated business activity, increased employment, support of the market for state and local bonds, increased public revenue together with the possible inflationary effect of the investment, and (h) and (i) of this section.

The question of what the term means as a matter of law will almost certainly be decided by the courts on a case by case basis. The questions involved are complex and change over time. In reasonably similar instances, the courts have refused to provide a general definition. For example the Alaska court in dealing with the term "capital improvements" as used in the Alaska Consitution said:

> "We believe it would be unwise for this court to attempt to provide an abstract definition of "capital improvements." We have concluded that it is beyond human ability to permanently circumscribe with mere words at a given point in time a concept which though limiting in aspect, is otherwise intended to provide a broad, permanent and continuing authority for municipalities to finance present as well as unforeseeable future needs." (Juneau v. Hixon 373 P2d 743 (Alaska 1962))

While it is my opinion the courts will be liberal in sustaining the reasonable expectations of the legislature and the fund managers, they are unlikely to allow investments which cannot reasonably be anticipated to produce maximum current income consistent with safety of principal modified by application of other permissable public policy considerations. It appears certain that investments which cannot reasonably be anticipated to produce direct income would not be allowed.

BGB:jpd

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S – JUNEAU 99811

DEPARTMENT OF REVENUE
MAR 29 1979
JUNEAU, ALASKA

March 29, 1979

Fran Ulmer, Director
Division of Policy Development
& Planning
Office of the Governor
Pouch AD
Juneau, AK 99811

Dear Ms. Ulmer:

I am enclosing the projections relative to permanent fund moneys which you requested.

The assumptions include a 25% permanent fund contribution rate through FY 81, and 75% thereafter. The earnings on the permanent fund are assumed to be 7% each year from FY 82 through FY 95. The earnings prior to this period range from 6.5% to 7%.

I have enclosed two basic scenarios: one which assumes 50% of the earnings from the permanent fund are deposited into the permanent fund balance, and the other which assumes that 100% of the earnings from the permanent fund are deposited into the general fund balance.

The three cases relative to expenditure growth are a balanced budget, a 10% expenditure growth rate compounded annually, and a balanced budget constrained by a 10% expenditure growth factor.

The pricing, inflation, employment, and other assumptions concerning petroleum and non-petroleum revenues are based on the assumptions utilized in the Department of Revenue's January Revenue Forecast. The particular Forecast I refer to also assumes a 50% probability that the gas line will be built and sustains deliveries of 2.0 Bcf/D as early as 1985.

If you have any questions, feel free to call.

Sincerely,

Vincent Wright

Vincent Wright
Chief of Research

VW:elm
Enclosures

04-D2LH

BALANCED BUDGET APPROACH

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
79	793.8	311.7	42.0	1,147.5	41.6	75.2	1,030.7	1,087.6	522.6	129.9
80	861.8	319.1	45.0	1,225.8	50.8	90.7	1,084.3	1,030.0	576.9	220.6
81	1,072.2	350.5	60.4	1,483.1	68.5	117.8	1,296.8	1,296.8	576.9	338.4
82	1,525.3	399.4	68.1	1,992.8	96.8	488.7	1,407.3	1,407.3	576.9	827.1
83	1,708.9	462.2	98.3	2,269.4	112.8	563.7	1,592.9	1,592.9	576.9	1,390.8
84	1,888.7	526.3	137.7	2,552.7	104.3	640.2	1,808.2	1,808.2	576.9	2,031.0
85	2,050.3	599.4	182.6	2,832.3	-0-	710.1	2,122.2	2,122.2	576.9	2,741.1
86	2,271.5	641.1	232.3	3,145.2	-0-	810.0	2,335.2	2,335.2	576.9	3,551.1
87	2,462.9	686.3	289.0	3,438.2	-0-	890.4	2,547.8	2,547.8	576.9	4,441.5
88	2,647.8	734.3	351.3	3,733.4	-0-	968.1	2,765.3	2,765.3	576.9	5,409.6
89	2,826.8	785.7	419.1	4,031.6	-0-	1,047.3	2,984.3	2,984.3	576.9	6,456.9
90	2,955.1	840.7	492.4	4,288.2	-0-	1,105.8	3,182.4	3,182.4	576.9	7,562.7
91	2,975.2	899.5	569.8	4,444.5	-0-	1,121.1	3,323.4	3,323.4	576.9	8,683.8
92	2,828.9	962.5	648.2	4,439.6	-0-	1,068.9	3,370.7	3,370.7	576.9	9,752.7
93	2,364.1	1,029.9	723.1	4,117.1	-0-	888.9	3,228.5	3,228.5	576.9	10,641.3
94	2,082.7	1,102.0	785.3	3,970.0	-0-	780.9	3,189.1	3,189.1	576.9	11,422.2
95	1,921.9	1,179.1	839.9	3,940.0	-0-	714.0	3,226.9	3,226.9	576.9	12,136.2

Department of Revenue/Research/March 22, 1979

10% EXPENDITURE GROWTH APPROACH

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
79	793.8	311.7	42.0	1,147.5	41.6	75.2	1,030.7	1,087.6	522.6	129.9
80	861.7	319.1	45.0	1,225.8	50.8	90.7	1,084.3	1,030.0	576.9	220.6
81	1,072.2	350.5	60.4	1,483.1	68.5	117.8	1,296.8	1,133.0	740.7	338.4
82	1,525.3	399.4	75.5	2,000.2	96.8	488.7	1,414.7	1,246.3	909.1	827.1
83	1,708.9	462.2	121.5	2,292.6	112.8	563.7	1,616.1	1,370.0	1,154.3	1,390.8
84	1,888.7	526.3	178.2	2,593.2	104.3	640.2	1,848.7	1,508.0	1,495.0	2,031.0
85	2,050.3	599.4	246.8	2,896.5	-0-	710.1	2,186.4	1,658.8	2,022.6	2,741.1
86	2,271.5	641.4	333.5	3,246.4	-0-	810.0	2,436.4	1,824.7	2,634.4	3,551.1
87	2,462.9	686.3	433.0	3,582.2	-0-	890.4	2,691.8	2,007.2	3,318.9	4,441.5
88	2,647.8	734.3	543.2	3,925.3	-0-	968.1	2,957.2	2,207.9	4,068.2	5,409.6
89	2,826.8	785.7	663.4	4,275.9	-0-	1,047.3	3,228.6	2,428.7	4,868.1	6,456.9
90	2,955.1	840.7	792.8	4,588.6	-0-	1,105.8	3,482.8	2,671.6	5,679.3	7,562.7
91	2,975.2	899.5	926.9	4,801.6	-0-	1,121.1	3,608.5	2,938.7	6,421.1	8,683.8
92	2,828.9	962.5	1,057.3	4,848.7	-0-	1,068.9	3,779.8	3,232.6	6,968.3	9,752.7
93	2,364.1	1,029.9	1,170.5	4,564.5	-0-	888.9	3,675.6	3,555.8	7,088.1	10,641.3
94	2,082.7	1,102.0	1,241.1	4,425.8	-0-	780.9	3,644.9	3,911.4	6,821.6	11,422.2
95	1,921.9	1,179.1	1,277.1	4,378.1	-0-	714.0	3,664.1	4,302.6	6,183.1	12,136.2

Department of Revenue/Research/March 22, 1979

BALANCED BUDGET NOT TO EXCEED 10%

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
79	793.8	311.7	42.0	1,147.5	41.6	75.2	1,030.7	1,087.6	522.6	129.9
80	861.7	319.1	45.0	1,225.8	50.8	90.7	1,084.3	1,030.0	576.9	220.6
81	1,072.2	350.5	60.4	1,483.1	68.5	117.8	1,296.8	1,133.0	740.7	338.4
82	1,525.3	399.4	75.5	2,000.2	96.8	488.7	1,414.7	1,246.3	909.1	827.1
83	1,708.9	462.2	121.5	2,292.6	112.8	563.7	1,616.1	1,370.9	1,154.3	1,390.8
84	1,888.7	526.3	178.2	2,593.2	104.3	640.2	1,848.7	1,508.0	1,495.0	2,031.0
85	2,050.3	599.4	246.8	2,896.5	-0-	710.1	2,186.4	1,658.8	2,022.6	2,741.1
86	2,271.5	641.4	333.5	3,246.4	-0-	810.0	2,436.4	1,824.7	2,634.3	3,551.1
87	2,462.9	686.3	433.0	3,582.2	-0-	890.4	2,691.8	2,007.2	3,318.9	4,441.5
88	2,647.8	734.3	534.2	3,925.3	-0-	968.1	2,957.2	2,207.9	4,068.2	5,409.6
89	2,826.8	785.7	663.4	4,275.9	-0-	1,047.3	3,228.6	2,428.7	4,868.1	6,456.9
90	2,955.1	840.7	792.8	4,588.6	-0-	1,105.8	3,482.8	2,671.6	5,679.3	7,562.7
91	2,975.2	889.5	926.9	4,801.6	-0-	1,121.1	3,608.5	2,938.7	6,421.1	8,683.8
92	2,828.9	962.5	1,057.3	4,848.7	-0-	1,068.9	3,779.8	3,232.6	6,968.3	9,752.7
93	2,364.1	1,029.9	1,170.5	4,564.5	-0-	888.9	3,675.6	3,555.8	7,088.1	10,641.3
94	2,082.7	1,102.0	1,241.1	4,425.8	-0-	780.9	3,644.9	3,644.9	7,088.1	11,422.2
95	1,921.9	1,179.1	1,295.7	4,396.7	-0-	714.0	3,682.7	3,682.7	7,088.1	12,136.2

Department of Revenue/Research/March 23, 1979

BALANCED BUDGET APPROACH
(50% of Permanent Fund Earnings Back to Permanent Fund)

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
79	793.8	311.7	42.0	1,147.5	41.6	75.2	1,030.7	1,087.6	522.6	129.9
80	861.8	319.1	45.0	1,225.8	50.8	90.7	1,084.3	1,030.0	576.9	220.6
81	1,072.2	350.5	60.4	1,483.1	68.5	117.8	1,296.8	1,296.8	576.9	338.4
82	1,525.3	399.4	42.2	1,966.9	96.8	488.7	1,381.4	1,381.4	576.9	838.9
83	1,708.9	462.2	69.8	2,240.9	112.8	563.7	1,564.4	1,564.4	576.9	1,432.0
84	1,888.7	526.3	90.5	2,505.5	104.3	640.2	1,761.0	1,761.0	576.9	2,122.3
85	2,030.3	599.4	114.7	2,764.4	-0-	710.1	2,054.3	2,054.3	576.9	2,906.7
86	2,271.5	641.1	142.1	3,054.7	-0-	810.0	2,244.7	2,244.7	576.9	3,818.4
87	2,462.7	686.3	174.0	3,323.2	-0-	890.4	2,432.8	2,432.8	576.9	4,842.4
88	2,647.8	734.3	209.9	3,592.0	-0-	968.1	2,623.9	2,623.9	576.9	5,980.0
89	2,826.8	785.7	249.7	3,862.2	-0-	1,047.3	2,814.9	2,814.9	576.9	7,236.6
90	2,955.1	840.7	293.7	4,089.5	-0-	1,105.8	2,983.7	2,983.7	576.9	8,595.7
91	2,975.2	899.5	341.2	4,215.9	-0-	1,121.1	3,094.8	3,094.8	576.9	10,017.6
92	2,828.9	962.5	391.0	4,182.4	-0-	1,068.9	3,113.5	3,113.5	576.9	11,437.1
93	2,364.1	1,029.9	440.7	3,834.7	-0-	888.9	2,946.1	2,946.1	576.9	12,726.3
94	2,082.7	1,102.0	485.8	3,670.5	-0-	780.9	2,889.6	2,889.6	576.9	13,952.6
95	1,921.9	1,179.1	528.7	3,629.7	-0-	714.0	2,915.7	2,915.7	576.9	15,154.9

Department of Revenue/Research/March 27, 1979

10% EXPENDITURE GROWTH APPROACH
(50% of Permanent Fund Earnings Back to Permanent Fund)

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
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82	1,525.3	399.4	63.7	1,988.4	96.8	488.7	1,402.9	1,246.3	897.3	838.9
83	1,708.9	462.2	92.2	2,263.3	112.8	563.7	1,586.8	1,370.0	1,114.1	1,432.0
84	1,888.7	526.3	128.1	2,543.1	104.3	640.2	1,798.6	1,508.0	1,404.7	2,122.3
85	2,050.3	599.4	172.6	2,822.3	-0-	710.1	2,112.2	1,658.8	1,858.1	2,906.7
86	2,271.5	641.4	231.8	3,144.7	-0-	810.0	2,334.7	1,824.7	2,368.1	3,818.4
87	2,462.9	686.3	299.4	3,448.6	-0-	890.4	2,558.2	2,007.2	2,919.1	4,842.4
88	2,647.8	734.3	373.8	3,755.9	-0-	968.1	2,787.8	2,207.9	3,499.0	5,980.0
89	2,826.8	785.7	454.2	4,066.7	-0-	1,047.3	3,019.4	2,428.7	4,089.7	7,236.6
90	2,955.1	840.7	539.6	4,335.4	-0-	1,105.8	3,229.6	2,671.6	4,647.7	8,595.7
91	2,975.2	899.5	626.1	4,500.8	-0-	1,121.1	3,379.7	2,938.7	5,088.7	10,017.6
92	2,828.9	962.5	706.8	4,498.2	-0-	1,068.9	3,429.3	3,232.6	5,285.4	11,437.1
93	2,364.1	1,029.9	770.3	4,164.3	-0-	888.9	3,275.4	3,555.8	5,005.0	12,726.3
94	2,082.7	1,102.0	795.8	3,980.5	-0-	780.9	3,199.6	3,911.4	4,293.2	13,952.6
95	1,921.9	1,179.1	788.8	3,889.8	-0-	714.0	3,175.8	4,302.6	3,166.4	15,154.9

Department of Revenue/Research/March 27, 1979

BALANCED BUDGET NOT TO EXCEED 10%
(50% of Permanent Fund Earnings Back to Permanent Fund)

FY	TOTAL GF PETROLEUM (GROSS)	TOTAL GF NON-PETRO REVENUE (LESS INTEREST)	TOTAL INTEREST REVENUE	TOTAL GF REVENUE (GROSS)	(LESS) STATE NATIVE CLAIMS PAYMENT	(LESS) PF CONTRIBUTION	TOTAL GF REVENUE (NET)	GF EXPENDITURES	GF BALANCE	PF BALANCE
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82	1,525.3	399.4	63.7	1,988.4	96.8	488.7	1,402.9	1,246.3	897.3	838.9
83	1,708.9	462.2	92.2	2,263.3	112.8	563.7	1,586.8	1,370.0	1,114.1	1,432.0
84	1,888.7	526.3	128.1	2,543.1	104.3	640.2	1,798.6	1,508.0	1,404.7	2,122.3
85	2,050.3	599.4	172.6	2,822.3	-0-	710.1	2,112.2	1,658.8	1,858.1	2,906.7
86	2,271.5	641.4	231.8	3,144.7	-0-	810.0	2,334.7	1,824.7	2,368.1	3,818.4
87	2,462.9	686.3	299.4	3,448.6	-0-	890.4	2,558.2	2,007.2	2,919.1	4,842.4
88	2,647.8	734.3	373.8	3,755.9	-0-	968.1	2,787.8	2,207.9	3,499.0	5,980.0
89	2,826.8	785.7	454.2	4,066.7	-0-	1,047.3	3,091.4	2,428.7	4,089.7	7,236.6
90	2,955.1	840.7	539.6	4,335.4	-0-	1,105.8	3,229.6	2,671.6	4,647.7	8,595.7
91	2,975.2	899.5	626.1	4,500.8	-0-	1,121.1	3,279.7	2,938.7	5,088.7	10,017.6
92	2,828.9	962.5	706.8	4,498.2	-0-	1,068.9	3,429.3	3,232.6	5,285.4	11,437.1
93	2,364.1	1,029.9	770.3	4,164.3	-0-	888.9	3,275.4	3,275.4	5,285.4	12,726.3
94	2,082.7	1,102.0	815.2	3,999.9	-0-	780.9	3,219.0	3,219.0	5,285.4	13,952.6
95	1,921.9	1,179.1	858.3	3,959.3	-0-	714.0	3,245.0	3,245.0	5,285.4	15,154.9

Department of Revenue/Research/March 27, 1979

AFTER RECESS

The Senate reconvened at 5:33 p.m.

INTRODUCTION AND REFERENCE OF SENATE RESOLUTIONS

SJR 26 SENATE JOINT RESOLUTION NO. 26 by the Rules Committee by request of the Governor,

Proposing an amendment to the Constitution of the State of Alaska relating to finance,

was read the first time and referred to the State Affairs Committee and the Finance Committee.

Governor's transmittal letter follows:

February 13, 1979

The Honorable Clem Tillion
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting for your consideration a joint resolution to amend the provisions of article IX, section 15, of the Alaska Constitution to increase the amount of money to be deposited in the Alaska Permanent Fund.

The revenue from our oil and gas resources has been disappointingly low, and, as a consequence, the amounts which will go into the permanent fund will not measure up to our original expectations. At the same time, many Alaskans, and I am among them, have come to conclude that our original dedication was too meager in the first place. The permanent fund cannot possibly be both a nest egg for our future and a foundation for diversifying our economy at the present level of dedication.

I propose, therefore, that the dedication from rentals, royalties, royalty sales, and federal mineral revenue sharing be increased from 25 percent to 75 percent. I propose that all bonuses be dedicated in their entirety. And I propose that land-sale revenue be added to the dedication and that, with the exceptions discussed below,

all of the latter be dedicated. The land is our capital, and, as we convert it to money, it should remain capital, that is, as a part of the permanent fund.

By necessary implication, any land-sale revenue which is dedicated by federal law for another purpose is excepted from this dedication. The federal law takes precedence. The revenue from the University of Alaska's land is a good example. The proposed amendment also expressly exempts land-sale revenue pledged now or in the future to repay bonds. This exemption allows the revenue to be used as security for a proposed revenue-bond program for financing our land disposal program. When it is no longer used as security, it will be deposited into the fund as well.

With the proposed increases in the permanent fund dedications, the fund should acquire sufficient money to permit the additional amounts to be used for development banking activities as authorized by law. Without the increases, I do not see how we can, in good faith, use any of the permanent fund for that purpose.

I urge your favorable consideration.

Sincerely,

Jay S. Hammond
Governor

INTRODUCTION AND REFERENCE OF SENATE BILLS

SENATE BILL NO. 216 by Senators Hackney, Fahrenkamp, Meland, Rodey, Stimson and Sturgulewski, entitled:

"An Act authorizing state aid to municipalities for the construction and development of cultural facilities."

was read the first time and referred to the Community and Regional Affairs Committee and the Finance Committee.

SENATE BILL NO. 217 by Senator Sackett, entitled:

"An Act providing for an advisory committee on judicial sentencing practices; and providing for an effective date."

was read the first time and referred to the Judiciary Committee and the Finance Committee.

SCOMM

#18:18

Introduced: 3/20/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

HOUSE BILL NO. 414

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to income of the Alaska permanent fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.13 is amended by adding new sections to read:

Sec. 37.13.190. PERMANENT FUND INCOME. Income from investment of the permanent fund becomes part of the permanent fund and shall be deposited in the permanent fund annually. The income may be used to provide for guarantees of indebtedness issued by governmental agencies of the state for power projects.

Sec. 37.13.200. GUARANTEES OF INDEBTEDNESS. The Board of Trustees of the Alaska Permanent Fund Corporation is authorized to enter into agreements with any public authority of this state or any municipality or other governmental agency of the state, providing for a guarantee of the payment when due, whether at maturity or by sinking fund redemption but not by acceleration of maturity, of the principal of and interest on bonds, notes or other indebtedness issued to finance projects for construction of electric generating and related transmission facilities, this guarantee to be payable solely from the income derived from the Alaska permanent fund established by AS 37.13.010 (other than income derived from the Alaska enterprise development fund established by AS 44.55.010). The agreements shall contain such terms, provisions, and covenants in furtherance of the purposes of AS 37.13.190 - 37.13.230 as the board of trustees determines.

Sec. 37.13.210. LIMITATION ON INDEBTEDNESS. No bonds, notes or

other indebtedness may be guaranteed under AS 37.13.200 unless the board determines that the debt service for any year for all bonds, notes and other indebtedness guaranteed will not exceed the amount of annual income estimated by the board to be derived during that year from the Alaska permanent fund (other than income from the Alaska enterprise development fund). The determination shall be made by resolution of the board before the execution of a guarantee agreement under AS 37.13.200.

Sec. 37.13.220. GUARANTEE ENDORSED. A bond, note or other indebtedness guaranteed under AS 37.13.200 shall have on its face an endorsement of the guarantee by the chairman of the board or his designee.

Sec. 37.13.230. LEGISLATIVE APPROVAL. No bond, note or other indebtedness may be guaranteed by the board under AS 37.13.200 until the facilities to be financed with the proceeds of the bonds, notes or other indebtedness have been approved by the legislature by concurrent resolution.

* Sec. 2. This Act takes effect upon the effective date of a version of House Bill No. 281 establishing the Alaska Permanent Fund Corporation.

Alaska State Legislature

1976

Source:

SCS CSSS HJR 39(Resources) am S

HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

SSHJR 39

"JOINT CHAIRMANS' REPORT ON
CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

The principal of the Fund would be used only for investment in income-producing investments which the legislative would establish and change from time to time to meet the needs of the state. The Fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund. SSHJR 39

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings -- ranging from adding to Fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures of the Fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.

HUGH MALONE
Chairman House Finance Committee

TERRY GARDINER
Chairman House Judiciary Committee"

The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) under consideration and a majority of the members of the Committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United State Department of Transportation to revise the standard time zones in which Alaska is located) and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by Parker, Wallis, Fischer and Miller. Not concurring was McKinnon who has no recommendation. HJR 41

Mr. Malone moved and asked unanimous consent that the Finance Committee referral on HOUSE JOINT RESOLUTION NO. 41 be waived. There being no objection, it was so ordered and the resolution was referred to the Rules Committee for placement on the calendar.

FIRST *Southwest* COMPANY
INVESTMENT BANKERS
MERCANTILE BANK BUILDING
DALLAS, TEXAS 75201

(214) 742-6461

March 19, 1979

The Honorable Terry Gardiner
Speaker
House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Speaker:

In response to your request, we have summarized below certain options for tax-supported financing of small hydroelectric projects.

In general, public projects are financed through the use of general obligation bonds, revenue bonds, or a combination thereof. General obligation bonds are backed by the "full faith and credit" of the issuer, the revenues used to pay the bonds being derived principally from taxes. Revenue bonds are usually secured solely by the net revenues (after operation and maintenance expenses) of the project being financed. Revenue bonds with a full or partial tax or general obligation pledge are a hybrid which, if used properly, can achieve the advantages of both bond types.

General obligation bonds generally sell at interest rates approximately 1 1/2% lower than revenue bonds of equal credit quality (rating). Nevertheless, the indiscriminate use of general obligation bonds in lieu of revenue bonds to achieve lower interest costs can be detrimental to the credit of the issuer in that the bond credit rating agencies critically examine the issuer's total debt burden payable from general funds. Careful use, however, of a general obligation bond or combination tax and revenue bond to finance a revenue project should not adversely affect the issuer's credit if the project produces net revenues sufficient to pay the debt, thus relieving the general fund of the debt burden.

All of the above points out the critical elements for financing small hydroelectric projects with general obligations of the State of Alaska. The concept is financially workable from a State viewpoint if feasible projects are funded and professionally managed. The projects, if feasible, would thus gain the benefit of a much lower interest rate, and the State's general fund would not be burdened with repaying the debt. The difference between the interest rate for the State's bonds and marginal-quality project revenue bonds is in excess of 2%. The differential alone will have a significant feasibility impact on the projects.

One vehicle presently in place that could be used to assist small hydroelectric projects is the Alaska Power Authority Revolving Fund. The Authority would issue, pursuant to a vote of the people, revenue bonds with a full or partial general obligation guarantee of the State. The funds could be deposited in the Revolving Fund for loans to local communities or cooperatives, the loans being secured by the revenues of the project and possibly by a local tax. In addition, interest during the project construction period could be funded from bond proceeds, as well as a reasonably required bond reserve fund equal to a year's debt service to further reduce the possibility of the State having to contribute to the Revolving Fund to pay principal and interest on the Authority bonds.

I hope this memorandum is responsive to your needs. If you have any further questions, please don't hesitate to contact me.

Sincerely,

John Hinton
Assistant Vice President

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WHITE, WELD & CO.
INCORPORATED

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

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

CABLE ADDRESS-"WHITEWELD"

December 9th, 1977

Mr. Clark Gruening, Chairman
House Permanent Fund Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 1. Creates the mechanism by authorizing the Board of the Permanent Fund to enter into guarantee agreements. Limits the guarantee to income only. Provides for agreements with any entity of state or local government. Provides guarantee of principal payments, sinking fund payments and interest but prevents use of Permanent Fund income for optional early retirement of guaranteed debt. Limits the guarantee to electric generation and transmission. Leaves the details of guarantee agreements to the Board of Trustees.

Section 2. In effect limits the amount of debt that can be guaranteed. This adds to the credit-worthiness of the guarantee from the lenders point of view. Depending somewhat on the actual portfolio of investments in the Permanent Fund, it is important to consider whether or not to limit the total of guarantees to something less than 100% of the Fund income. This could be done in the Act, which does not happen in this draft, or it could be a policy matter of the Board of the Fund.

Section 3. Provides that the guarantee article appear on the debt instrument which clearly establishes that it survives as long as the bonds are outstanding. This definitely is stronger and distinguishes the guarantee from any similarity to the so called "moral-obligation" pledge.

Section 4. Provides that a guarantee agreement can be entered into on the debt of projects only after approval by the legislature. Part of the thrust of this section is in contemplation of a centrally controlled State-wide power development plan that considers the needs and best interest of all of Alaska.

Sections 5 & 6 These sections are simply "boiler-plate" provisions.

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

Respectfully yours,

Theodore P. Swick

TPS/vmr

02-0018 (Rev. 10/76)

STATE
of ALASKA

MEMORANDUM

Singer

TO: Frances A. Ulmer, Director
Div. of Policy Development & Planning

DATE: April 11, 1979

FILE NO: J-66-614-79

TELEPHONE NO:

FROM: AVRUM M. GROSS
ATTORNEY GENERAL

By:
Rodger W. Pegues
Assistant Attorney General

SUBJECT: Use of Permanent Fund income as debt guarantee, HB 414

You have asked us to review HB 414, and to advise whether the legislature may provide for the use of the income from the Permanent Fund to guarantee bonds, notes, and other indebtedness issued to finance public power projects.

While HB 414 will require substantive amendment, the income from the permanent fund probably can be used for this purpose.

The constitutional amendment establishing the permanent fund provides in pertinent part that "[a]ll income from the permanent fund shall be deposited in the general fund unless otherwise provided by law." Alaska Const., art. IX, § 15. */ The concluding clause: "unless otherwise provided by law" was intended to give the legislature maximum flexibility in using the fund. 1976 H. Jour. 684-685. It may be that the record of proceedings before the several committees which considered the amendment and of proceedings on the floor of the legislature would show its purpose in more detail. Its purpose is not discussed in the ballot summary or voter's pamphlet. Both simply advised the electorate that the income would go into the general fund and be available for appropriation unless otherwise provided by law. The title of the joint resolution by which the legislature proposed the amendment makes no reference to the disposition of the Permanent Fund's income. Disposing of it so as to establish still another dedicated fund probably encompasses a whole new and different subject from establishing the

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*/ The clause, "unless otherwise provided by law" was added to the proposed constitutional amendment by a House Judiciary Committee Substitute. Compare SSHJR 39, 1/15/76, with CSSS HJR 39, 3/24/76. It was dropped by SCS CSSS HJR 39, 4/7/76 (which would have authorized additional dedications), and restored by SCS CSSS HJR 39 (Res), 5/21/76. It remained in SCS CSSS HJR 39 (Res) am S, 5/21/76, the final version.

Alaska Permanent Fund. As a general rule, separate subjects must be treated separately in adopting constitutional amendments, and each must be summarized for the voters. Our conclusion is, therefore, that the clause does not exempt the fund's income from the prohibition against dedicated funds.

We turn to the question of whether the clause permits the legislature to provide for the Permanent Fund's income to be pledged as a guarantee for financing public power projects. While we doubt that the clause exempts the fund's income from the prohibition against dedications for a special purpose, we believe that neither repaying debts nor guaranteeing their repayment comes within the constitution's prohibition against dedicated funds and that, therefore, the income can be used as a security to repay or guarantee the repayment of a debt for a given capital improvement. */

The next question is whether an appropriation is required to make payments on the debt as may become necessary.

The relevant provisions of the constitution provide as follows:

> No money shall be withdrawn from the treasury except in accordance with appropriations made by law.

Alaska Const., art. IX, § 13. **/

It appears that an appropriation would be necessary either to make the guaranty at the outset or subsequently to make payments. A guaranty is a promise that payment will be made in accordance with its terms. Aside from those

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*/ This conclusion is based on a reading of the Minutes of the Constitutional Convention and the files of the Convention's Committee on Finance and Taxation. The wording, "proceeds of any tax or license," in article IX, section 7, of the constitution was intended to allow exemptions for pension fund payments, bond proceeds, sinking fund receipts, and the like. 1975 Op. Atty. Gen. No. 9, 6-9.

**/ A related provision, article II, § 13, requires appropriations to be made in bills that are confined to appropriations.

the promise is unconditional. However, any promise to pay made by the state is necessarily conditioned on the appropriation of the monies to be paid. Id. In order to meet this constitutionally imposed condition, an appropriation is necessary. It can be made at the outset as a conditional appropriation, e.g., "$x million is appropriated annually to pay the guaranty on the condition that it becomes due." It can be made, as is done for general obligation bonds, as the payments become due, i.e., in the case of a guaranty, an annual, conditional appropriation.

While there is authority that no money can be paid from the treasury even on a judgment, United States v. Commonwealth, 288 S.W.2d 664 (Ky. 1956), the better view is that the provisions of a state constitution requiring an appropriation to be made by law must give way under the combined effect of the federal constitution's contracts and supremacy clauses. */ Cf., Virginia v. West Virginia, 246 U.S. 565 (1918). A guaranty is a contract and cannot be impaired. The legislature's refusal to honor it would constitute its impairment. A court would render judgment for the debtor and levy on the fund's income to enforce the judgment. Therefore, no appropriation would be required in order to enforce payment. Nevertheless, to avoid the necessity for obtaining a judgment, an appropriation should be made.

It appears that the concluding clause of the 1976 amendment authorizes the legislature to make an appropriation from the income on a continuing basis for the purpose of paying or guaranteeing payment of a debt for a public power project, i.e., provide in a single Act for a given sum of monies to be expended annually from the income of the fund. Thus, a conditional appropriation could be made at the time the guaranty is made, and no further appropriations would be required. With respect to a guaranty, our best guess is that a continuing appropriation would probably be upheld. The guaranty would probably include a promise not to repeal the appropriation so long as the guaranteed debt remains outstanding. Any repeal would then be invalidated by a court.

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*/ U.S. Const., art. VI, cl. 2; Amend. V, XIV, § 1.

The next question is whether the guaranty must be made by law and approved by the voters. Because the guaranty would be a contract for a conditional debt which could result in the state's being, in effect, in debt to the creditor, it appears that the approval of the electorate would be required to make the guaranty. Article IX, section 7, of the Alaska Constitution prohibits contracting debt unless it is for a capital improvement and is ratified by the electorate. The court places a great premium on this ratification. Thomas v. Rosen, 522 P.2d 1120 (Alaska 1974). The constitutional exceptions from the requirement of ratification do not expressly apply to a guaranty. Alaska Const., art. IX, § 11. Our best guess is that the requirement, therefore, applies to guaranties and that any proposed guaranty would have to be presented to the voters as a ballot proposition. It would almost certainly, therefore, require as well that, as with a bond issue, the guaranty be authorized by law in the first instance and then submitted to the voters. Enactment of a law is what the language of the 1976 amendment requires on its face.

We do not believe that a one-time-only ratification by the voters of an Act generally authorizing the Permanent Fund's managers to guarantee debts for public power projects would satisfy the constitutional requirement for contracting debt. However, it might aid the court in deciding that those requirements do not apply to a guaranty which is based solely on the Permanent Fund's income. There is a line of cases which hold that debt restrictions similar to those contained in article IX, section 8, of the Alaska Constitution apply solely to debts which the state's full faith and credit is pledged to pay. The likelihood that the rationale of these cases would be applied by the Alaska Supreme Court to a guaranty based solely on the income from the Permanent Fund could possibly be increased by the voter's having ratified the concept. Nothing prevents the legislature from making the statutory authorization for guaranties contingent on voter approval. Accordingly, while we do not believe it will be valid, a general authorization for the Permanent Fund managers to make guaranties could be enacted and then tested in court.

Finally, the constitution provides that the "public credit [cannot] be used except for a public purpose." Alaska Const., art. IX, § 6. We believe that only the most

irrational of power projects would be barred under this provision. E.g., Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970). We assume that the projects would be public works. Whether the income from the Permanent Fund could be used to guarantee financing for private works is an entirely different question which involves entirely different issues.

RWP/pjg

cc: Jerry Reinwand
Office of the Governor

Ron Lind
Div of Budget & Management

Keith Specking
Office of the Governor

bcc: Tom Singer
Div of Policy Development
& Planning

SCOMM

#18:19

Introduced: 2/9/79
Referred: Finance

BY HAUGEN, ANDERSON, BETTISWORTH, ELIASON, FREEMAN, FULLER, HAYES, HURLBERT, MALONE, MOSS, OSTERBACK AND PHILLIPS

IN THE HOUSE

HOUSE BILL NO. 162

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Permanent Fund and the water resources revolving loan fund."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.10.065 is amended to read:

Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund <u>in loans made under the provisions of AS 45.86 and may invest money in excess of current requirements for those loans</u> in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

[(c) THE COMMISSIONER OF REVENUE SHALL TRANSFER TO WHATEVER AGENCY IS ESTABLISHED FOR THE EXPRESS PURPOSE OF MANAGING AND INVESTING THE ALASKA PERMANENT FUND ALL OR PART OF THE SECURITIES AND MONEY IN THE ALASKA PERMANENT FUND IN ACCORDANCE WITH ALASKA LAW NO LATER THAN TWO WEEKS AFTER RECEIPT OF WRITTEN NOTICE FROM THAT AGENCY.]

* Sec. 2. AS 45.86.030 is repealed and re-enacted to read:

Sec. 45.86.030. LOAN FUND SOURCE. The principal and income from the Alaska Permanent Fund shall be allocated by the commissioner of revenue to the water resources revolving loan fund to the extent necessary for loans under this chapter.

SCOMM

#18.20

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

HOUSE BILL NO. 280

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the permanent fund; amending Appellate Rule 45, Alaska Rules of Court Procedure; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.10.065(a) is amended to read:

(a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue, unless otherwise instructed in accordance with AS 37.10.110, shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

* Sec. 2. AS 37.10 is amended by adding new sections to read:

ARTICLE 5. PERMANENT FUND INCOME.

Sec. 37.10.110. DISTRIBUTION OF INCOME TO RESIDENTS. (a) No later than June 30, 1981, the commissioner of revenue shall issue one share of the Alaska Permanent Fund to each resident of the state, regardless of age, who has been a resident continuously since July 1, 1980, and who, no later than February 1, 1981, has filed with the commissioner a statement of residency. The commissioner shall notify the public of the availability of shares under this subsection and the method for qualifying for shares. The notification shall be by publication in at least one newspaper of statewide circulation, by radio and television announcements, and by other means the commissioner determines to be appropriate and reasonable.

(b) One share issued under (a) of this section represents the total principal amount of the permanent fund at the time of the annual distribution of income under (c) of this section divided by the number of shares issued.

(c) Beginning July 1, 1981, and annually thereafter, the commis-

sioner shall distribute the net income from general investments of the permanent fund for the previous fiscal year to the qualified shareholders in accordance with the procedures established by this section.

(d) The net income from general investments of the permanent fund shall be distributed to shareholders in proportion to the amounts of their shares which are in general investments. The amount or a part of the amount represented by one share is considered to be in general investments if the shareholder has not elected to direct under AS 37.10.120(a) the amount or part of the amount represented by the share.

(e) A share issued under this section is not transferable by sale, donation, lien, judgment, devise, or any other method. Alienation of a share is void as against public policy. Upon a shareholder's death or the termination of his residency, his share lapses to the state and shall be counted as a full share for the purposes of (b) of this section. The lapsed share shall be invested for the state by the commissioner in accordance with AS 37.10.065(a). Income of the lapsed share shall be allocated to the general fund.

(f) Possession of a share imparts no right to ownership or possession of the principal of the permanent fund it represents; possession of a share imparts only those rights specified in AS 37.10.110 - 37.10.150.

Sec. 37.10.120. DIRECTED INVESTMENTS. (a) Within 60 days after the determination under (b) of this section of the amount of permanent fund principal available to each shareholder for directed investments, a shareholder may notify the commissioner of his election to direct the investment of the available amount of permanent fund principal or a part of it. The shareholder may direct investments to be made in any of the investments listed by the commissioner in accordance with AS 37.10.150-(b). The notification shall indicate the specific investments to be made and the specific amounts to be invested. Unless the shareholder

notifies the commissioner otherwise, the commissioner shall consider any investments directed by the shareholder from the previous determination under (b) of this section as part of the shareholder's directions for the current determination. The commissioner shall distribute net income as it is received from investments made under this subsection to the shareholder directing the investments.

(b) The amount of permanent fund principal for which the shareholder may direct investments under this section shall be determined by the commissioner when the principal of the permanent fund reaches $2 billion and at each $1 billion increase in principal thereafter. The amount of permanent fund principal available to a shareholder for directed investments is equal to the value of one share, as determined under AS 37.10.110(b), at the time the principal reaches $2 billion and at the time of each subsequent $1 billion increase in principal, as appropriate. The commissioner shall give public notice of the amount available for directed investments by publication in at least one newspaper of statewide circulation, by radio and television announcements, and by any other means the commissioner determines to be reasonable and appropriate.

(c) Upon receipt of notification provided in accordance with (a) of this section, the commissioner or his designee shall make investments of permanent fund principal in accordance with the notification.

(d) If the notification under (c) of this section is defective in that it directs investment of an amount greater than that which is available under (b) of this section to a shareholder, or in that it contains directions which are unclear or which the commissioner or his designee is not able to follow, the commissioner or his designee shall make reasonable efforts to expeditiously inform the shareholder of the defect. If the shareholder fails to revise his directions to cure the

defect or fails to notify the commissioner or his designee of the revision within the time period established in (a) of this section, or if there is insufficient time to allow the commissioner or his designee to inform the shareholder of the defect within the time period established in (a) of this section, the shareholder's investment directions are void, and the shareholder shall share in the distribution of income under AS 37.10.110.

(e) If the notification under (c) of this section directs investment of an amount less than that which is available under (b) of this section to a shareholder, the commissioner or his designee shall make the investments specified in the notification, and the shareholder shall receive, in addition to net income earned by the directed investments, a proportionate share of the distribution of net income under AS 37.10.110 for the amount not invested by his direction.

(f) A shareholder may direct the commissioner or his designee to sell an investment directed under (a) of this section at any time. The shareholder may direct the investment of the principal recovered at the sale in another eligible investment under (a) of this section or may allow the principal recovered at the sale to be invested by the commissioner in accordance with AS 37.10.065. If the shareholder decides to allow investment by the commissioner in accordance with AS 37.10.065, the shareholder may not direct any investments until the next determination under (a) of this section.

(g) The commissioner shall invest, in accordance with AS 37.10.-065, and distribute the net income of, in accordance with AS 37.10.110, any increase in permanent fund principal during periods between determinations under (b) of this section.

Sec. 37.10.130. DETERMINATION OF RESIDENCY. (a) An individual who applies for a share of the Alaska Permanent Fund must prove his

eligibility to the satisfaction of the commissioner. The commissioner may not issue an individual a share or make a payment to an individual until proof of that individual's eligibility sufficient to satisfy a reasonable person has been made to the commissioner.

(b) Proof of eligibility may be from school attendance records, state and local tax and licensing records, voter registration records, birth and marriage certificates, selective service records, sworn affidavits from others having knowledge of an individual's residence, and from other forms of documentary evidence which a reasonable person would rely on in the conduct of his own affairs. An affidavit from an individual without supporting evidence of eligibility is not satisfactory proof of eligibility.

(c) Upon determination of an individual's eligibility for a share, the commissioner shall, by first class mail, notify the individual of that determination. If the individual is determined to be ineligible, he shall be informed by certified mail, of the following:

(1) the reason for his ineligibility;

(2) that he may file additional proof and file a request for a hearing before the commissioner to present proof of his eligibility; and

(3) that the decision becomes final and unappealable 30 days after receipt of the notification unless, within that time, the individual files additional proof or files a request for a hearing before the commissioner.

(d) If an individual does not file additional proof or file a request for a hearing with the commissioner within 30 days after his receipt of the commissioner's notice of the determination, the commissioner's decision becomes final as to the period involved and there is no further appeal. The time limit is jurisdictional.

(e) If an individual files additional proof or files a request for a hearing with the commissioner within 30 days after he receives the commissioner's notice of the determination and, after the additional evidence has been considered or the hearing held, he is still determined to be ineligible, he may appeal to the superior court within 30 days after he receives notice of the final decision. The time limit is jurisdictional, and no appeal may be brought after it has elapsed. In considering the appeal, the superior court may review solely on the record which was before the commissioner and must apply the reasonable basis test to factual matters and its own judgment on the law. The same standard of review applies if a further appeal is taken to the supreme court.

Sec. 37.10.140. CONFIDENTIALITY. An investment made at the direction of a shareholder in accordance with AS 37.10.120(a) is confidential.

Sec. 37.10.150. REGULATIONS. The commissioner may adopt regulations in accordance with the Administrative Procedure Act (AS 44.62) for the administration and enforcement of AS 37.10.110 - 37.10.150, including, but not limited to, regulations relating to the allocation of permanent fund receipts to income and to principal.

Sec. 37.10.155. ELIGIBLE DIRECTED INVESTMENTS. (a) The commissioner shall, by regulation, establish a list of at least 100 specific investments which may be made at the direction of shareholders in accordance with AS 37.10.120(a). The commissioner shall include in the list only those investments which, in his opinion, accord with the prudent-man rule.

(b) An investment of permanent fund principal made under AS 37.-10.120(a) in an investment which is removed by the commissioner from the list of eligible investments shall be redeemed by the commissioner or

his designee at the earliest possible time, and the commissioner or his designee shall notify the shareholder at whose direction the investment was made of the redemption. The shareholder may direct the commissioner to reinvest the amount redeemed in eligible investments in accordance with AS 37.10.120(d).

Sec. 37.10.160. DEFINITIONS. For the purposes of AS 37.10.110 - 37.10.160,

(1) "commissioner" means the commissioner of revenue;

(2) "directed investments" means investments of permanent fund principal made by the commissioner of revenue or his designee under the direction of a shareholder in accordance with AS 37.10.120(a);

(3) "general investments" means investments of permanent fund principal made by the commissioner of revenue or his designee in accordance with AS 37.10.065 but not under the direction of a shareholder in accordance with AS 37.10.120(a);

(4) "net income" means total income to the Alaska Permanent Fund reduced by costs directly related to the attainment of income;

(5) "prudent-man rule" means the investment policy requiring exercise by the investor of the care, skill, and prudence in making investment decisions which would be exercised by a reasonably prudent person in managing his own property, taking into consideration maximum profit and safety of principal;

(6) "resident" means an individual who maintains a permanent place of abode in the state with the intention of making the state his permanent place of residence and who resides in the state continuously except for temporary purposes only and with the intent of returning; no person may be considered to have gained a residence solely by reason of his presence nor may he lose it solely by reason of his absence while in the civil or military service of this state or of the United States or

of his absence because of marriage to a person engaged in the civil or military service of this state or the United States; while a student at an institution of learning; while in an institution or asylum at public expense; while confined in public prison; while engaged in the navigation of waters of this state, of the United States, or of the high seas; or while residing upon an Indian or military reservation; a minor takes the residence of his parent or of his legal guardian; a married woman shall establish her own residence and does not presumptively take the residence of her husband;

(7) "shareholder" means a person to whom the commissioner of revenue issues a share of the Alaska Permanent Fund under AS 37.10.110.

* Sec. 3. In sec. 2 of this Act, the enactment of AS 37.10.130(d) and (e) has the effect of imposing a jurisdictional limitation on the operation of Appellate Rule 45, Alaska Rules of Court Procedure, in that an appeal under the rule (having to do with appeals from administrative decisions to the superior court) must be brought from the commissioner's decisions as to eligibility within 30 days or the court will have no jurisdiction to hear it. This is an exercise of the legislature's authority over the jurisdiction of the courts, but because it also effects an implied, narrow amendment to Appellate Rule 45 by imposing this jurisdictional time limit instead of the procedural time limit of the same duration which will continue to apply to other appeals, this section has also been included.

* Sec. 4. This Act takes effect July 1, 1979.

SCOMM
#18.21

#1821

Merrill Lynch White Weld Capital Markets Group
Merrill, Lynch Pierce Fenner & Smith, Inc.
1 Liberty Plaza
New York, New York 10006

June 14, 1978

The Speaker of the House, Rep. Hugh Malone
The Chairman of the House Sub-Committee Permanent Fund,
Rep. Clark Gruening

Gentlemen:

I regret I am unable to remain in Juneau for a proposed free conference on the Permanent Fund Bill. Other matters press me in New York and I am forced to return.

As a result of attending numerous hearings over the last several months, both Ted Swick and I have attempted to assist the Committee in drafting a bill for the administration of your Permanent Fund. We have received the distinct impression that the voters look upon this fund as an Alaskan Legacy. With the legacy concept in mind, we believe that House Bill 596 is written in such a way as to assure the professional, independent and non-political administration and investment of the fund according to the highest ethical standards. We believe that doing it any other way will defeat the expressed mandate of the voters.

In our opinion, the income from the Permanent Fund should be treated in such a manner as to bring benefit to all classes of Alaskans and if such purpose cannot be properly addressed in this closing session it would be better to permit it to flow back into the Permanent Fund and be dealt with by subsequent legislative actions. "Soft Loan" programs may have a legitimacy, but to utilize the income of the Fund to support such programs is to shirk the responsibility for the outright subsidy inherent in the "Soft Loan" concept.

We believe that the Senate's capital needs assessment and proposed six year forecast of capital expenditures and the segregating of a percentage of the Oil Royalty income to create a "pay-as-you-go" program is excellent and fiscally responsible. We have no opinion as to what this percentage should be.

The joining together of the above Senate Bill with the House Bill's administration of the Permanent Fund would constitute an excellent piece of legislation of which both Houses could be proud. "Soft Loan" programs do not belong in a legacy, public or private.

We are grateful for having had the opportunity to serve you as financial consultants on this singularly important issue. We will be available for any telephone consultation you may so desire.

Respectfully submitted,

Merrill Lynch White Weld
Capital Markets Group

Samuel L. Plaia
Vice-President

#18:21

March 5, 1980

The Alaska Permanent Fund and Management of Alaska's Wealth

This information is provided by Representative Hugh Malone, chairman of the House Special Committee on the Permanent Fund and a member of the free conference committee on the Permanent Fund.

The Alaska Permanent Fund was established by the voters in 1976 to receive at least 25% of all mineral royalties and bonuses. What this means in real terms is that approximately one out of every eight dollars which the state receives in oil revenues is deposited in the Permanent Fund. The fund currently contains about $350 million and is earning interest of over 11%. It is being invested by the Department of Revenue under an interim management plan, and the earnings flow into the general fund. The legislature has yet to decide just how the Permanent Fund shall be invested and managed over the long-run. A free conference committee, of three House and three Senate members, is presently meeting in an attempt to reach agreement on Permanent Fund legislation.

Alaska today is in the unique position of having enough money to adequately provide governmental services; to construct needed capital projects; to eliminate the personal income tax, expand loan opportunities, and return a share of the oil wealth to Alaskans as dividends; and to save a portion of the wealth for the future. Although earnings of the Permanent Fund will never completely replace today's oil revenues, they can go a long way towards helping stabilize the Alaskan economy and reducing the need for personal income tax payments in the

future.

Q. What are the basic components of the House Permanent Fund bill (HCS for SB 161)?

A. The House bill focuses on the management of the Permanent Fund and addresses three major concerns-- safety of principal, accountability, and legislative oversight. The fund would be invested as a trust consisting of a wide variety of quality, high-grade investments. These investments have been described as "squeaky conservative." The House also decided that the fund, because of its fundamentally different goals, should not be invested by the same people who manage money for day-to-day use by the state-- the Department of Revenue-- but should be managed by a public corporation distinct from state government. The proposed Permanent Fund Corporation, with its own board of trustees, would be made accountable in several ways. The House bill also expands the powers and duties of the Legislative Budget and Audit Committee to oversee all lending and investment functions of the state, including those of the Permanent Fund Corporation.

Q. How much money would the House bill deposit into the Permanent Fund?

A. The House bill would raise the contribution level to the Permanent Fund from the current 25% to 50% of all bonuses, 25% of royalties from existing leases, and 50% of royalties from new leases. It's important to remember that 50% of bonuses and royalties actually means about 25% of all oil revenues, so that three-quarters of state revenues would still be going to the general fund for general governmental purposes.

Q. What would be the advantages of investing the Permanent Fund according to the House plan?

A. The Permanent Fund, if invested as an "inviolate trust," would be just as secure as possible and would return substantial earnings to Alaskans. Because the investments would be diversified and would not rise and fall with Alaska's economy, the earnings would be stable. In addition, the establishment of a secure trust would be a sign to the national financial community that Alaska is following a responsible fiscal policy. The passage of the House bill would not preclude aiding the state's economy in other ways as well. Loan programs, capital projects, tax repeals or refunds-- all these can be taken care of through the general fund.

Q. Under the House plan, what would happen to the fund's earnings?

A. The earnings would flow into the general fund, just as they do today. Future legislatures would still have the option of redirecting the earnings. Paying them as dividends to today's Alaskans is one idea.

Q. How does the Hohman bill (SB 1) differ from the House bill?

A. Senator Hohman's fill is an extremely long and complex one which deals only peripherally with the Permanent Fund. SB 1 provides for the elimination of existing loan programs and development authorities and the substitution of a new program combining all loan purposes. The loan program would be tied to the Permanent Fund by using the Permanent Fund earnings to guarantee revenue bonds to fund the loans. The Hohman bill also differs from the House bill in that its Permanent Fund investment list is much broader (and less secure), its contribu-

tion rate is set at 100% of bonuses and 25% of royalties, and the fund is managed by the Department of Revenue.

Q. What are the House objections to the Hohman bill?

A. The primary objection is that it is concerned much more with the state's loan programs than with the Permanent Fund, and that a free conference committee on the Permanent Fund is not the place to so drastically restructure the loan programs. SB 1 is extremely complex and, if implemented, would have far-reaching consequences for the state's economy and credit rating. Specific problems with the concept include 1) the earnings of the Permanent Fund are put at risk, 2) consolidation of the loan programs does not solve the existing problem of access to them, 3) the programs would receive automatic funding without legislative review, 4) there is no method of prioritization and the different loan programs could not be judged separately on their merits, and 4) municipalities would be encouraged to issue unrestricted debt.

Q. What does the House offer as an alternative to the loan program portion of SB 1?

A. The House Finance Committee is currently developing a package of loan bills which will address the needs of Alaskans for easily accessible and low-cost loans. Although the details are yet to be worked out, some consolidation will occur and loans will be made available for financing housing and businesses. Emphasis will be placed on ensuring that those people who most needs loans receive them. Interest rates will be reasonable. I feel confident that the House will pass comprehensive and responsible loan legislation within the

next several weeks. I might add that $35 million a month in state funds is right now available for Alaskan mortgages through HCR 33, sponsored by the House Finance Committee this session.

Q. What does the state's financial picture look like for the next few years?

A. The latest financial projections are very impressive. With the Permanent Fund receiving just 25% of royalties and bonuses and with the earnings being distributed to the public, at the end of 1982 we should have about $1.2 billion in the Permanent Fund and $6.7 billion in the general fund. Since, at current growth and inflation rates, $1.6 billion will be needed to meet the state budget, there will be over $5 billion extra in the general fund to be appropriated for whatever purposes the legislature desires. While the opportunities for spending money within the state are vast, the legislature also bears an unprecedented responsibility to manage Alaska's new wealth wisely. Setting a portion of it aside in a secure Permanent Fund should be one step in responding to that responsibility.

#18:21

REMARKS OF GEORGE G. WOLF ON SSSB1

BEFORE THE HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

Juneau, Alaska

March 29, 1979

MR. CHAIRMAN; MEMBERS OF THE COMMITTEE:

My name is George Wolf. I am with the firm of Orrick, Herrington, Rowley & Sutcliffe in San Francisco. Our firm specializes in, among other things, municipal bond matters. I myself am a tax lawyer, and I assist our bond department on federal tax questions arising in connection with our bond practice.

I am here today at the invitation of your staff to provide to you an analysis of Sponsor Substitute for Senate Bill No. 1, entitled 'An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date", insofar as the Bill raises questions under Section 103 of the federal Internal Revenue Code of 1954, which deals with the exemption from tax for interest on obligations of a state or a political subdivision thereof.

I have been told that the members of the committee are familiar with the provisions of the Bill and how

they would operate if the Bill becomes law. Accordingly, I will dispense with any provision-by-provision or flow-of-funds analysis, and confine my remarks to the general impact of section 103 upon the perceived benefits of the Bill. Details will be addressed only as they become pertinent.

INTRODUCTION

Section 103(a) of the Internal Revenue Code provides that interest on the obligations of a state or any political subdivision thereof is excluded from the gross income of the recipient, and is therefore exempt from federal income tax. A typical example of such so-called tax-exempt obligations would be general obligation bonds issued by a state to finance a public project, such as a courthouse or public roads.

However, the statute also provides two significant limitations on the tax-exempt status of governmental obligations. That is, Section 103(b) denies the tax exemption to "industrial development bonds," and Section 103(c) denies the exemption to "arbitrage bonds." I will discuss the details of these provisions in a moment.

Insofar as Section 103 is concerned, the Bill under consideration essentially does two things. First,

it will consolidate virtually all of the State's loan programs into a single omnibus State loan agency. The Alaska Loan Programs Fund so created will issue revenue bonds to finance a large number of loan programs that are now financed individually by single purpose revenue bonds or by appropriation from the State general fund. Second, the Bill will dedicate the income from the Alaska Permanent Fund as security for the bonds issued by the Loan Programs Fund. (For purposes of clarity, I will refer to the Loan Programs Fund simply as "the Fund;" when I refer to the Permanent Fund, I will say the Permanent Fund.)

Both of these features will have a significant affect on the tax-exempt status of the revenue bonds issued by the Fund. This affect is both obscured and compounded by ambiguities in the Bill as to exactly how these two essential features will be accomplished.

The balance of my prepared remarks will follow the following format. First, the impact of the industrial development bond provisions of the Internal Revenue Code to the revenue bonds issued by the Fund. Second, the impact of the arbitrage bond provisions of the Code on the loans made by the Fund as well as the investment of the Permanent Fund and the Allocated Reserve Account. Third, various miscellaneous considerations. And fourth, as requested, a discussion of the trends in the tax-exempt status of governmental obligations.

INDUSTRIAL DEVELOPMENT BOND ASPECTS

An industrial development bond, to which tax exemption is denied, is one which meets two tests, commonly referred to as the trade or business test and the security interest test, respectively. In the arcane language of the Code, an IDB is any obligation (A) which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person other than an exempt person (an exempt person being a governmental unit or a "section 501(c)(3)" charity), and (B) the payment of the principal or interest on which (under the terms of the obligation or any underlying arrangement) is, in whole or in major part, secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or to be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

For purposes of the trade or business test, a "major portion" means more than 25%. In other words, if 75% or more of the proceeds of an issue of obligations will be used other than in the trades or businesses of nonexempt persons, the obligations will not be IDBs. Alternatively, if less than 75% of the proceeds are used

for noncommercial purposes, but the security interest test is not met, the bonds will not be IDB's.

The abuse sought to be remedied by the enactment of these IDB provisions in 1968 was the loaning, so to speak, by a state or city of its tax exemption to private business. The prior practice of many governments of issuing tax-exempt bonds to finance large-scale private business expansion has, as a result, been largely curtailed.

There are three exceptions to what would otherwise constitute an IDB. These are for bonds substantially all of the proceeds of which are used to provide so-called exempt facilities, to provide industrial parks, or which qualify as exempt small issues. That is, obligations that would otherwise be IDBs will nonetheless carry tax-exempt interest if substantially all of the proceeds of the bonds are to be used for one of the described purposes, unless held by a user of the facilities financed. "Substantially all" for this purpose means 90% or more of the net bond proceeds.

Exempt facilities are specifically defined in the statute, and include residential real property for family units, sports facilities, convention or trade show facilities, various types of transportation facilities, sewage or solid waste disposal facilities, air or water

pollution control facilities, and certain types of public utility facilities. All of these items are subject to considerable refinement, such as various public use requirements, both in the statute itself and in regulations promulgated by the Secretary of the Treasury.

Briefly stated, the small issue exemption permits the issuance of up to $1 million in obligations to finance facilities within one locality for one principal user. Under certain conditions, related to what is called the capital expenditure test, up to $10 million in obligations may be issued without losing the tax exemption. The industrial park exemption appears to be largely self-explanatory.

The Bill indicates that the following types of loans will be made from the Fund: farming, fishing, forestry, renewable and nonrenewable resources development, tourism, general business, small business, child care facilities, exempt facilities, single and multi-family housing, scholarship, municipal and nonprofit corporation, public and private historical preservation, and outdoor recreation development. Of the foregoing, only the following would fail to meet the trade or business test: single family residential housing, municipal and certain nonprofit corporation, scholarship, noncommercial historic preservation, and noncommercial outdoor recreation

development. All of the remaining types of loans would be commercial loans, and as a general proposition would meet the trade or business test, and therefore, assuming that the security interest test would be met, which will be discussed in a moment, single purpose bonds issued for such commercial loans would not carry tax-exempt interest.

It is my understanding that a major purpose of the Bill, and perhaps the single overriding purpose, is to finance the commercial loans enumerated above with tax-exempt bonds by combining the commercial loan programs with the noncommercial loan programs, and thereby utilizing the minor portion of bond proceeds for the commercial loans. The question then is whether that purpose can be accomplished under current federal law and regulations, and the general answer is, yes, it can be, provided that the volume of noncommercial loans is sufficient to support the commercial loan program at a rate of at least three to one, either on an overall basis or on an issue-by-issue basis.

This raises the first significant ambiguity in the Bill and the consequent uncertain application of Section 103(b) to the revenue bonds of the Fund. That is, it is not clear under the Bill whether the Fund will issue general revenue bonds to provide funds for all of the types of loans that can be made by the Fund, or

whether limited purpose bonds will be issued to provide funds for only specified types of loans. In other words, whether there will be a complete pooling of all bond proceeds to be used for all types of loans, or whether there will be a tracing of the proceeds of particular bonds into particular loans.

The distinction is important because, if complete pooling is contemplated, the Fund would likely lose the ability to issue bonds under the exempt activities, industrial park, and small issue exemptions, which require specific tracing of the bond proceeds into the designated expenditures for determining compliance with the substantially all test. The Fund would also lose its ability to issue tax-exempt bonds under the Housing Act (an independent basis for issuing tax-exempt bonds) by complete pooling, because Housing Act bonds also require tracing. Of course, if commercial loans will comprise less than 25% of the pool in any event, these factors are less important. In addition, while there is nothing to suggest that complete pooling is impermissible, that would be something new in the bond world, and a ruling from the Internal Revenue Service may be appropriate, and might be required to make the bonds marketable.

Because of these considerations, limited purpose revenue bonds, the proceeds of which are traceable into specific types of loans, would probably be required. Thus, a bond issue combining, for example, 75% municipal, single family residential, and student loans with 25% commercial loans would qualify for tax-exempt status. Similarly, bonds combining 90% exempt facilities (such as convention facilities and pollution control facilities) with 10% nonexempt commercial, could qualify for tax exemption, although this is somewhat more difficult to achieve because all or most of the 10% leeway for exempt facility loans and small issues is often necessary to account for the nonqualifying expenditures, such as loan proceeds being used to provide working capital, and other items that cannot properly be charged to capital account.

Whether such limited purpose revenue bonds, combining disparate loan activities such as student loans and farming loans, are marketable and at the more favorable interest rates contemplated by the Bill, is, of course, a question for your financial advisors.

I will mention only briefly the security interest test, because in almost all instances where the trade or business test is met the security interest test is also met. This is because, for revenue bonds to be marketable, payments on the loans made with bond proceeds must

secure the bonds. So it is here, where the assets of the Fund, which will consist essentially of its loan portfolio, are pledged as security for its bonds. In one published ruling of the Internal Revenue Service, the security interest test was broken on general obligation bonds issued to provide commercial loans, where the loans were not pledged as security for the bonds, but this Bill does not describe that situation. Here, payments on the commercial loans as well as on the noncommercial loans will be necessary for the payment of the principal of and interest on the bonds, and accordingly, under Treasury regulations, even if there was no specific pledge of the loans as security for the bonds, there would be an "underlying arrangement" which would supply the necessary element to satisfy the security interest test. It is possible that a very large pool of small loans, each of which is individually insignificant as security for the bonds, may fail the security interest test, but that is unlikely.

ARBITRAGE BONDS ASPECTS

Section 103(c) of the Internal Revenue Code provides that an arbitrage bond, which is also denied tax-exempt treatment, is any obligation all or a major portion of the proceeds of which, at the time of issuance,

are reasonably expected to be used directly or indirectly to acquire other obligations which may be reasonably expected to produce a yield over the term of the issue which is materially higher than the yield on the obligations, or to replace funds which are used directly or indirectly to acquire securities or obligations with a materially higher yield.

The basic abuse sought to be outlawed by the arbitrage bond provisions was the exploitation by governmental issuers of the difference between tax exempt and taxable securities. In other words, prior to 1969, a city or a state could issue bonds carrying an interest rate of, say, 6%, which would be two to three percent below market interest because of the tax exemption, invest the proceeds of the bond issue in U.S. government securities bearing 8% interest, and pocket the 2% difference.

As with the IDB provisions, the arbitrage provisions of Section 103 deal essentially with the use of the proceeds of governmental obligations. Unlike the IDB provisions, however, the arbitrage provisions affect every issue of governmental obligations, even those issued for purely public purposes as well as those issued to finance noncommerical loan programs, such as residential housing and veterans programs. For this reason, and because they

deal with the intricate and arcane rules of public finance and flow of funds, the arbitrage rules, currently set forth merely in proposed form as Treasury regulations, are among the most complex provisions to be found in the federal revenue laws, dealing with definitions, yield computations, temporary periods, reserve funds, refunding issues, and so forth.

In the jargon of this area of the law, bonds issued by the governmental unit are called "governmental obligations" and the obligations acquired with the proceeds of such bonds are called "acquired obligations." The loans made by the Fund will constitute acquired obligations for this purpose.

The first question on the application of these rules to the Bill under consideration is which yield spread is applicable. The Bill provides that the interest rate on loans made by the Fund will be equal to the Fund's cost of borrowing plus 1% (which goes into loss reserve account) plus the optional 1/6 of 1% for fire and liability insurance. Thus, the Bill contemplates a basic 1% spread in the yield between the obligations it issues and the obligations it acquires.

Generally, the arbitrage rules permit a yield spread of only 1/8th of one percentage point between the governmental obligations and the acquired obligations.

Under various conditions, the permitted yield spread is reduced to zero or increased to 1/2%. However, if the proceeds of the bonds are used to fund a "governmental program," the permitted yield spread is increased to 1-1/2 percentage points. The question, then, is whether the loan program contemplated in the Bill will constitute a "governmental program" under the arbitrage regulations.

The regulations define a governmental program as one which involves the acquisition of so-called acquired purpose obligations (that is, obligations acquired to carry out the purpose of the program and for which the governmental obligations were issued); at least 90% of all such obligations acquired under the program, by amount of cost outstanding, are evidences of loans to a substantial number of persons representing the general public, loans to exempt persons, or loans to provide housing and related facilities, or any combination of the foregoing; at least 90% of all of the amounts received by the governmental unit with respect to the obligations acquired under the program will be used to pay debt service on the obligations, make additional program loans, or for other purposes germane to the program; plus various detail requirements.

By far the most common governmental programs are those involving residental mortgage loans, student loans, and veterans programs. That does not mean, however,

that other types of programs cannot qualify, so long as the general public test is met. In addition, the regulations are reasonably clear that two or more types of loans can be embodied within one governmental program. Thus, for example, there is nothing in the regulations that would explicitly prohibit a governmental program that amalgamated housing, student, and veterans loans with miscellaneous commercial loans, although, again because of the novelty of the proposed Alaska Loan Programs Fund, a ruling on this point would be strongly advisable.

It is clear, however, that single purpose bond issues, such as for exempt facilities, do not constitute a governmental program, and therefore cannot qualify for the 1-1/2% spread. Bonds issued for such purposes, as well as for industrial parks and to qualify for the small issue exemption, will therefore be limited to the 1/8th% spread.

This obviously again raises against the question of pooling or tracing of bonds proceeds. If complete pooling were contemplated, it is possible that a ruling could be obtained from the Internal Revenue Service that the entire Alaska Loan Programs Fund constitutes one governmental program, so that all of the loans could qualify for the 1-1/2% spread.

On the other hand, it is open to question whether a large number of limited purpose issues can each be said to be funding a governmental program.

Another arbitrage aspect of the pooling versus tracing question is that the arbitrage regulations require the yield on each issue of governmental obligations to be computed separately, and compared with the separate computation of the yield on the obligations acquired with the proceeds of such bonds. Permission from the IRS is necessary for a joint yield computation on two or more issues of bonds. Thus, unless a joint yield ruling is obtained each time a series of bonds is issued, it will be necessary for the Fund to maintain adequate accounts to trace all of its bond proceeds into particular loans. Thus, determination of compliance with the arbitrage rules will require extensive tracing in any event. It should also be noted that most single purpose loan agencies, such as housing agencies, find the accounting requirements necessary to comply with this tracing to be extremely difficult at best. The complexity of such accounting for a multi-purpose agency such as that contemplated by the Bill may approach impossibility.

The next significant arbitrage question raised by the Bill is the matter of bond security. Under the Bill, the average annual income from the Permanent

Fund will be placed in the Allocated Reserve Account. Monies in the Allocated Reserve Account will then be used to fund the capital reserve account (equal to 5% of all bonds outstanding), the loss reserve account (equal to 5% of all loans outstanding), and the fire insurance and liability reserve account (with no specific funding requirements). The debt service reserve account is separately funded (with an amount up to the maximum permissible under Section 103(c)).

As I read the section of the Bill dealing with the Allocated Reserve Account (Section 45.96.120; p. 13), after the funding of the three accounts mentioned above, expenditures may be made from the Allocated Reserve Account in accordance with annual appropriations by the Legislature. If the result of that provision is that the balance of the Allocated Reserve Account is not pledged as security for bonds, such that there is no reasonable assurance that amounts in the Account will be available to pay debt service if necessary, the Allocated Reserve Account does not present an arbitrage problem because the funding levels for the reserve accounts (assuming some level such as 1% is specified for the liability account) are well within the 15% limit that can be invested without restriction.

I have been advised, however, that this section of the Bill, dealing with the Allocated Reserve Account, was intended to pledge the entire Account as security for bonds issued by the Fund, in order to increase the security for the bonds and therefore reduce interest cost. If that is the case, or if the same result is achieved through a subsequent pledge of the monies in the Allocated Reserve Account by the Legislature or through resolutions authorizing the issuance of the bonds (assuming that could lawfully be done), a serious arbitrage problem will result, because the entire Allocated Reserve Account would become what is called an "invested sinking fund." This is because the Treasury currently takes the position that any monies pledged as security for bonds, where the pledge is sufficient to restrict the issuer's discretion with respect to such monies so that there is a reasonable assurance to the bondholders that such monies will be available to pay debt service if necessary, such monies will be treated as bond proceeds, whether or not they are in fact bond proceeds. The result of being classified as an invested sinking fund is that when the amounts held in the Allocated Reserve Account, when aggregated with all other reserve funds (such as the debt service reserve fund), exceed 15% of the original

face amounts of all bonds outstanding, such excess will be subject to investment yield restrictions. Moreover, sinking fund proceeds are not entitled to the 1/8th% yield spread, but are essentially restricted to a zero spread.

Again, whether the significant reduction in interest expense contemplated by the Bill can be achieved if less than the entire Allocated Reserve Account is pledged as security for the Fund's bonds is a question for your financial advisors.

The final significant arbitrage question raised by the Bill is the potential application of the replacement clause of Section 103(c)(2). You will recall that a bond is an arbitrage bond not only if the immediate use of the proceeds is investment in higher yielding obligations, but also if bond proceeds are used to replace other funds of the issuer which in turn had been invested in higher yield obligations. In other words, a city cannot issue bonds to finance its everyday expenditures, while investing its tax receipts.

The only known application of the replacement clause to treat bonds as arbitrage bonds involved a complicated financial maneuver by a city-owned utility whereby the city switched the usual application of funds so that operating revenues were used to pay debt service

and an investment fund was used to pay operating expenses. The Internal Revenue Service held that the investment fund was being used to replace revenues, and the investment fund was therefore subject to arbitrage yield restrictions.

On the other hand, it is generally accepted that a state or local government is not required to fund capital projects out of current revenues to the extent of its ability before it can issue bonds. On the contrary, states with large surpluses continue to issue general obligation and other bonds to fund various projects, including loan programs.

The question, then, is whether the Internal Revenue Service will view the Permanent Fund or the income therefrom as available for making loans under the Alaska Loan Programs Fund, with the result that the proceeds of revenue bonds issued by the Fund will be viewed as replacing amounts in the Permanent Fund or in the Allocated Reserve Account for the purpose of applying arbitrage yield restrictions. While this result is unlikely, again, because of the novelty of the arrangement purposed, a ruling on this point should be considered.

MISCELLANEOUS

The bill provides that the Fund may purchase

bonds issued by nonprofit corporations on behalf of certain municipalities. (Actually there is a technical error in the Bill in this respect, because it refers to bonds issued by municipalities on behalf of nonprofit corporations.) The Bill states that a nonprofit corporation is eligible for a loan under this section if it is exempt from federal income tax under section 501(c)(3) or (4) of the Internal Revenue Code, it is a public corporation or other municipal instrumentality under Alaska statutes, or it is created by statute and performs a state function. It should be pointed out that the requirements for nonprofit corporations to issue tax-exempt bonds are substantially more complicated than reflected in the Bill. (Moreover, only Section 501(c)(3)'s are exempt persons for purposes of determining the IDB status of bonds.) These requirements to date have been developed in public and private rulings issued by the Internal Revenue Service. In addition, in February, 1976, the Treasury Department published detailed proposed regulations on what it refers to as "constituted authorities," which can issue tax-exempt obligations on behalf of a state or local governmental unit. It is questionable whether the final form of these regulations will be substantially similar to that proposed. In short, it would probably be impossible

to draft a statute that adequately reflected all of the current and anticipated requirements of the Treasury Department, and it may be preferable simply to require that the interest on bonds issued by such nonprofit corporations be tax-exempt if held by a person other than a person exempt from federal income tax generally, such as the state.

One of the numerous provisions of the Bill regarding loan eligibility and loan limits is a maximum limit on any single commercial project of $5 million. To the extent that this figure was selected because that was the maximum permissible loan under the small issue exemption for industrial development bonds, the maximum should be raised to $10 million, in conformity with a change in the law in 1978.

The Bill also allows for bank participation in the origination and servicing of loans made by the Fund. A currently open question in the IDB area is whether the loan servicing contract with the bank results in the proceeds of a bond issue being used in the trade or business of the bank, even if the most direct use of the funds is to provide, for example, residential housing. For this reason, it is customary for such bank servicing contracts to be terminable at the will of the agency at least annually. This is probably not the kind of detail that should

be placed in a statute, but I bring it to your attention in any event.

At several points in my prior comments I have mentioned the advisability of seeking a ruling from the Internal Revenue Service as to the effect of some of the more novel features of this Bill. In particular, rulings would be advisable on a total pooling of bond proceeds to fund all types of loans, if that is contemplated, whether the fund generally or specific segments of it constitute a governmental program for purposes of the 1-1/2% yield spread, and probably for joint yield computations on all bonds issued for the same general purposes. Requests for IRS rulings, however, have become substantially more complex in the last few months. As part of the Revenue Act of 1978, the Congress added a new provision to the Internal Revenue Code permitting issuers of governmental obligations to seek a declaratory judgment from the United States Tax Court that the interest on prospective obligations will be tax exempt. Because of this new provision, the IRS will no longer issue rulings on one question involving the tax exempt status of bonds. Instead, they now require that the ruling request address every question that can affect the tax-exempt status of the bonds. In other words, in connection with bonds that might be issued by the Fund, the Fund could not seek a ruling limited to, for example,

the question whether the intended use of the bond proceeds will constitute a governmental program, but will have to address every other issue in a ruling request as well.

Moreover, the IRS will accept a ruling request only with respect to an actually prospective issue of obligations, which will require a resolution calling for the issuance of the bonds. Because this is an entirely new procedure, we do not know at this time how strictly the IRS will interpret this requirement. It is possible that they might require the implementation of the entire Alaska Loan Programs Fund before they will even accept a ruling request on the tax-exempt status of the bonds to be issued by the Fund.

TRENDS

Your staff asked me to address not only the application of the current law and regulations to the omnibus loan program and bond security arrangements contemplated by the Bill, but also to make an assessment of what the law might be in five years.

I will say at the outset that there is no serious suggestion at this time to eliminate the tax-exempt status of governmental obligations generally, and it is politically unlikely that that will happen in the foreseeable future. Most of the proposals for a so-

called taxable bond option, whereby the interest on governmental obligations would be subject to federal income tax in the hands of the holders of the obligations and the federal government would provide a subsidy to the issuer to pay the extra interest expense, have provided that the option would be with the issuer and would be with respect to bonds that would otherwise be tax-exempt. One proposal in the last Congress would have given the holder of the obligation the option to include the interest in income, pay the tax thereon, and take a tax credit for the full amount of such interest, but that proposal would have been beneficial, by expanding the market for tax-exempt obligations to moderate income individuals.

The current controversy in the tax-exempt bond market relates to bonds issued to finance single and multi-family housing for other than low and moderate income individuals. The volume of housing bonds has taken a sharp upswing in the last few years, and Treasury and Housing and Urban Development, as well as the politically powerful banking & savings and loan industries, are urging the Congress to restrict the availability of tax-exempt housing bonds. Varous alternatives are being proposed, such as limiting the income level of the recipients of governmental assistance, limiting the fair market value

of residences financed with governmental assistance, and geographic targeting of government mortgage assistance. How this controversy will be resolved, and it is likely that some restrictions will be placed on housing bonds within the next one to two years, may have a significant affect on the omnibus loan Fund. For example, if arbitrary income limits are imposed, with bonds financing mortgage loans for persons exceeding certain income limits being treated in a manner similar to the current treatment of industrial development bonds, and if, in addition, a substantial portion of Alaska's residential mortgage loans are to persons exceeding the income limits, a significant portion of the leverage that the Bill contemplates to produce a large minor portion to be used for commercial loans may be eliminated. This may, of course, be mitigated somewhat by cost-of-living adjustments for different geographic areas, which would yield a much higher income limit for Alaska, but it cannot be known at this time how the housing bond controversy will eventually be resolved.

There are no other specific trends in the area of tax-exempt bonds. However, as a wholly new approach to state lending activities, the Alaska Loan Programs Fund may create its own trend. That is, if this Bill is adopted and is successful in raising large amounts of capital for

commercial loans with tax-exempt financing, you will have accomplished exactly what the Congress thought it had prohibited in 1968 with the enactment of the industrial development bond provisions. That may prompt other states to do the same, which may in turn prompt the Treasury to seek legislation from the Congress prohibiting this type of financing vehicle. Whether that would occur in three years, five years, or ten years, if at all, cannot be known.

My final comment in this area is to make reference again to the Tax Court declaratory judgment procedure enacted last year. Under this new procedure, we will for the first time be getting a significant body of case law in this area. Probably the first area to come under challenge will be the Treasury's proposed regulations, expected to be finalized in the immediate future, on arbitrage bonds, especially the invested sinking fund provisions. An opinion widely held within the bond community is that the regulations go far beyond the statute and are invalid. Whether that opinion will be shared by the courts remains to be seen. What is virtually certain, however, is that an increasing number of judicial decisions over the next several years will have an unsettling effect upon the law in this area. In such a

climate, the value of following customary financial practices in the bond industry, established over many years, cannot be estimated.

#14:21

MEMORANDUM

To: Representative Hugh Malone

From: Nancy Lord, Aide

Date: May 3, 1979

Subject: CS for SS for SB1 (Rules) and CS for SJR26

At your request I have prepared the following summary of the contents of the latest version of Senator Hohman's permanent fund bill and his CS for the governor's proposal for a constitutional amendment.

CS for SS for SB1 is basically a gluing together of CS for HB281 (the House permanent fund bill), HB99 (the governor's tax credit bill), and SS for SB1, with a few important changes.

I have not attempted here to analyze any of the bill but only to identify the changes from previous drafts of SB1 as well as changes in the House and governor's bills whcih are incorporated into it.

Pages 1 through 12 are identical to CS for HB281 except in three places.

First, the contribution level of the permanent fund is set at 100% of bonuses and 25% of royalties rather than the 50% level for both set forth in the House bill. This conflicts with the accompanying CS for SJR26, however, in that it provides for the dedication to the permanent fund of 25% of all dedicated mineral

revenues (i.e. 25% of 100% of bonuses and 25% of 75% of royalties). Mr. Berrier assures me that this is a drafting error and that the intent of the resolution was for the permanent fund to receive 25% of both bonuses and royalties. Thus, should that correction be made and should the constitutional amendment become law, the permanent fund would receive 25% of bonuses, not 100% as stated in the bill.

Second, the new Hohman bill sunsets the Permanent Fund Corporation in 1982 (page 5, lines 14-17) and turns the management of the fund back to the Department of Revenue.

Third, the language in section k (page 10) differs from 281's language and offers a possibly dangerous loophole concerning allowable permanent fund investments.

Pages 12-13 correspond to HB99 except that the tax credits are not given unless a constitutional amendment dedicating 75% of mineral revenues to various funds and accounts becomes effective.

The allocated reserve account (page 19) now gets one-half of the permanent fund earnings instead of all. This, however, is inconsistent with the resolution, which says that half of the earnings go to tax credits and half to the general fund.

The problem of the spread of responsibilites for the loan program among departments is partially taken care of by assigning the

accounting and collecting duties to the Department of Commerce.

This latest CS excludes veteran and scholarship loans. (That is, those loan programs are not repealed and replaced under the umbrella program.) The loan programs, funds, and authorities now repealed are those for agriculture, commercial fishing, housing, recreation and open space, area development, child care, state development, small business development, AIDA, water resources, alternative power, tourism, business, and historical districts.

A new section 45.96.200 (page 34) says that "public purpose" loans may not be made unless certified by the commissioner of Revenue as good risks.

A section in earlier drafts which prevented municipalities from selling industrial development bonds is now deleted.

A new Sec. 27 (page 50) sets up a comprehensive loan program reserve account to receive 15% of mineral royalties (bonuses aren't mentioned here). That money is then appropriated to the allocated reserve account for the securing of the bonds, and flows from there to various other reserve accounts.

Another new section, Sec. 34 (page 52), sets up for six months a "special account" in the general fund, made up of the general fund surplus in excess of $100 million. This provides interim loan money for the period between the time the old loan programs

shut down and the time the new one is operable. The loans in the interim, purchased by the special account, shall all have an interest rate of 9½%.

Other than the changes noted and a number of very minor ones, the latest Hohman proposal is the same as the earlier SS.

The accompanying resolution takes the governor's proposal for a constitutional amendment to increase the contributions to the permanent fund and changes it to provide for a whole series of dedications. Under the CS, 75% of all mineral royalties and 100% of all bonuses would be dedicated as follows: 25% to the permanent fund, 5% to the Renewable Resources Development Fund, 25% to the capital outlay account, 5% to the energy facilities development account, and 15% to the loan programs fund.

It is worth noting that this latest loan fund bill, when it is detached from the House proposal for fund management, no longer has any tie to the permanent fund, assuming that the permanent fund earnings are distributed as specified in the resolution. The loan programs fund would now have nothing to do with either the permanent fund income or principal, but would be funded by a separate dedication from oil revenues. (This would impact the permanent fund only to the extent that the contribution rates to it could not be increased.)

STATE of ALASKA

MEMORANDUM

#18:21

TO: [redacted]

DATE: February 27, 1978

FILE NO:

John Sackett

TELEPHONE NO:

FROM: Judy Crondahl

SUBJECT: SB-429 Alaska Permanent Fund

The following will be a brief analysis of the Senate Permanent Fund Bill and some of its possible ramifications.

Section 1 of SB-429 [1]. establishes the Alaska Loan Program Fund and provides the State Bond Committee with revenue bonding authority "to carry out the fund's purposes". Obligations of the fund would be secured by the establishment of an Unallocated Reserve Account. This account would receive all the income from the 25% Permanent Fund contribution, and other funds as appropriated. In turn it would fund other accounts established to service specific needs of the Revenue Bonds. They are the Fire Insurance and Liability Reserve Account, the Loss Reserve Account, and the Capital Reserve Account. Other expenditures could be made from the Unallocated Reserve Account as appropriated.

There would also be established, as a sub-account of the Unallocated Reserve Account, the General Fund Contributions Account. Its revenue would come from the lesser of two sources: either the revenue of the 40% of mineral lease rentals, royalties, etc. going to the General Fund; or the Unobligated General Fund amounts for which appropriations have not lapsed at the end of the fiscal year. Expenditures from this sub-account would be the same as the Unallocated Reserve Account, subject to appropriation. [2].

The effect of authorizing Revenue Bonds for the Loan Program will be to have a multiplier effect on the available revenues from the Permanent Fund. It is possible that these funds could be increased ten-fold through the sale of Revenue Bonds. At the same time, while the liability of the state is limited in terms of not obligating the full faith and credit nor the taxing power of the state, the revenues and assets of the Loan Program Fund are obligated [3]. As stated earlier, this includes not only the income from the Permanent Fund, but also other funds as appropriated and General Fund amounts automatically appropriated to the General Fund Contribution Account.

The types of loans allowable under the Alaska Loan Program would be of four (or five) major types. They would be for residential housing, commercial purposes, public purposes and education. (Reference Sec. 45.96.250, page 14). A fifth type for tourism, historical and open space loans is included under Sec. 45.96.360 (page 27). These five types increase the scope of the current state loan programs immeasurably. It would appear that there would be very few enterprises not covered by this proposed program [4].

To administer the Alaska Loan Program there would be established a Division of Alaska Loan Programs in the Department of Commerce and Economic Development and a Division of Collections in the Department of Revenue. Also established in Section 1 of SB-429 would be two evaluations committees. One would be the Alaska Loan Programs Evaluation Committee comprised of the Directors of the two new above-named divisions, and also the Director of the Division of Economic Development. The other committee, the Renewable Resources Loans Evaluation Committee, would be comprised of the two new above-named divisions and the Director of a third new division, the Division of Renewable Resources in the Department of Commerce and Economic Development [5].

Section 2 of SB-429 [6] establishes the Permanent Fund under AS 37.13. Changes in investment of the Permanent Fund from Chapter 6, SLA 77 [7] increase the number of allowable types of investment. It would be advisable to obtain professional opinion as to the relative security of the added types.

Under Sec. 15 of SB-429 [8] surplus General Funds are permitted to be invested in all loans under the Alaska Loan Program, rather than just the current agricultural and veteran's loans. This could immeasurably increase the amount of <u>illiquid</u> General Funds.

1. Attachment "A", pp 1-38
2. Attachment "B"
3. Attachment "A", Sec. 45.9[illegible].090, page 6
4. Attachment "C"
5. Attachment "A", Sec. 37.11.130, p. 43.
6. Attachment "A", pp. 38-40
7. Attachment "D"
8. Attachment "A", p. 55.

ATT. A - Copy of Bill

ATTACHMENT "B"

ALASKA LOAN PROGRAMS FUND

Unallocated Reserve Account

Revenues	Expenditur
1. Permanent Fund Income	1. Funding for Fire Ins. & Liability Res. Acct.
2. Other Appropriated Funds	2. Funding for Loss Reserve Acct.
	3. Other expenditures as appropriated
	4. Funding for Capital Reserve Acct.

General Fund Contribution (Sub-) Account

Revenues	Expenditures
Lesser of: 1. All G.F. Revenue from mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments & bonuses received by state, or; 2. Unobligated G.F. amounts for which appropriation has not lapsed at end of F.Y.	1. As above-subject to Legislative Appropriation

Debt Service Reserve Account

Revenues	Expenditures
1. Proceeds of sale of obligations - The maximum allowable under Federal law & regs for tax-exempt obligations.	1. When funds not available from principal & interest acct. or Cap. Res. Acct: (a) payment of principal (b) redemption or purchase (c) payment of interest (d) redemption premium 2. Balance at retirement to Unallocated Reserve Account.

Capital Reserve Account

Revenues	Expenditures
1. 5% of obligations issued & sold from Unallocated Reserve Account	1. From each account to the Unallocated Reserve Acct at end of F.Y.: (a) any amt in excess of 5% of obligations secured.
2. From the Unallocated Reserve Acct at end of F.Y.: (a) any amt necessary to bring Capital Reserve Acct to 5% of obligations secured.	2. When funds not available from Principal & Interest Acct: (a) payment of principal of obligations. (b) purchase redemption of obligations. (c) payment of interest of obligations. (d) payment of required redemption premium.
3. Interest earned	3. Interest paid to Unallocated Reserve Account
	4. Remaining balance when issue fully retired paid to Unallocated Reserve Account.

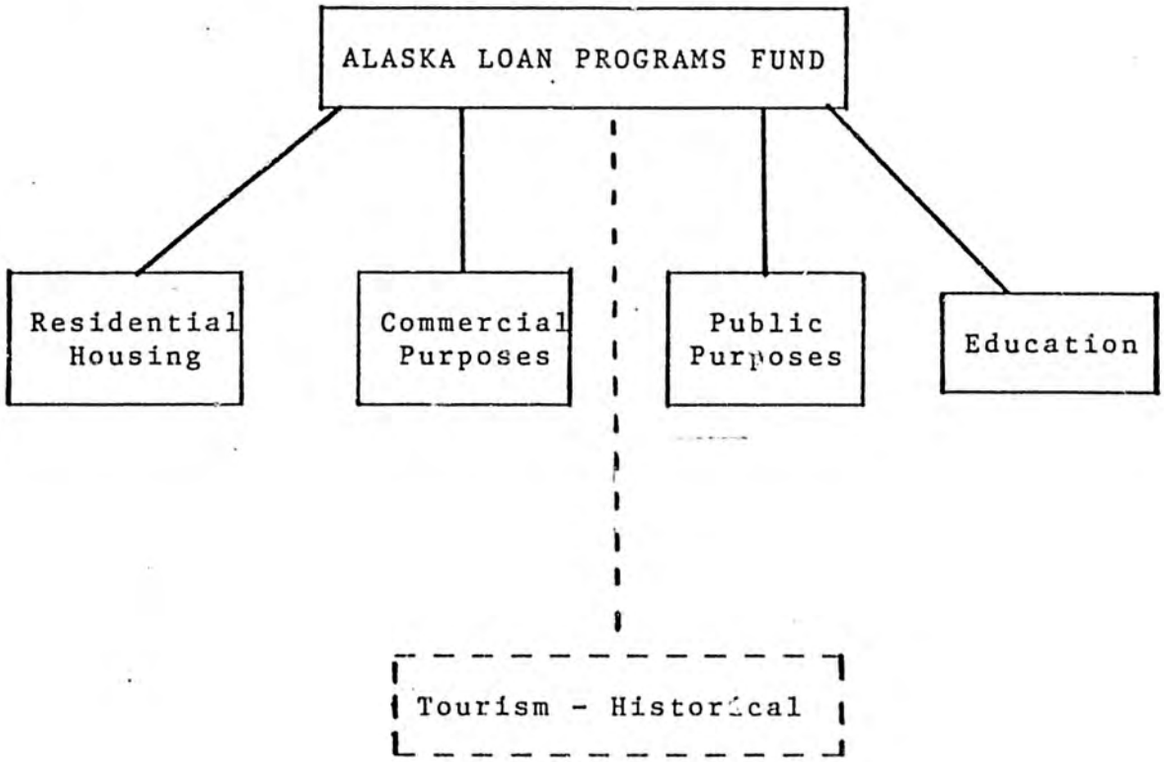
Loss Reserve Account

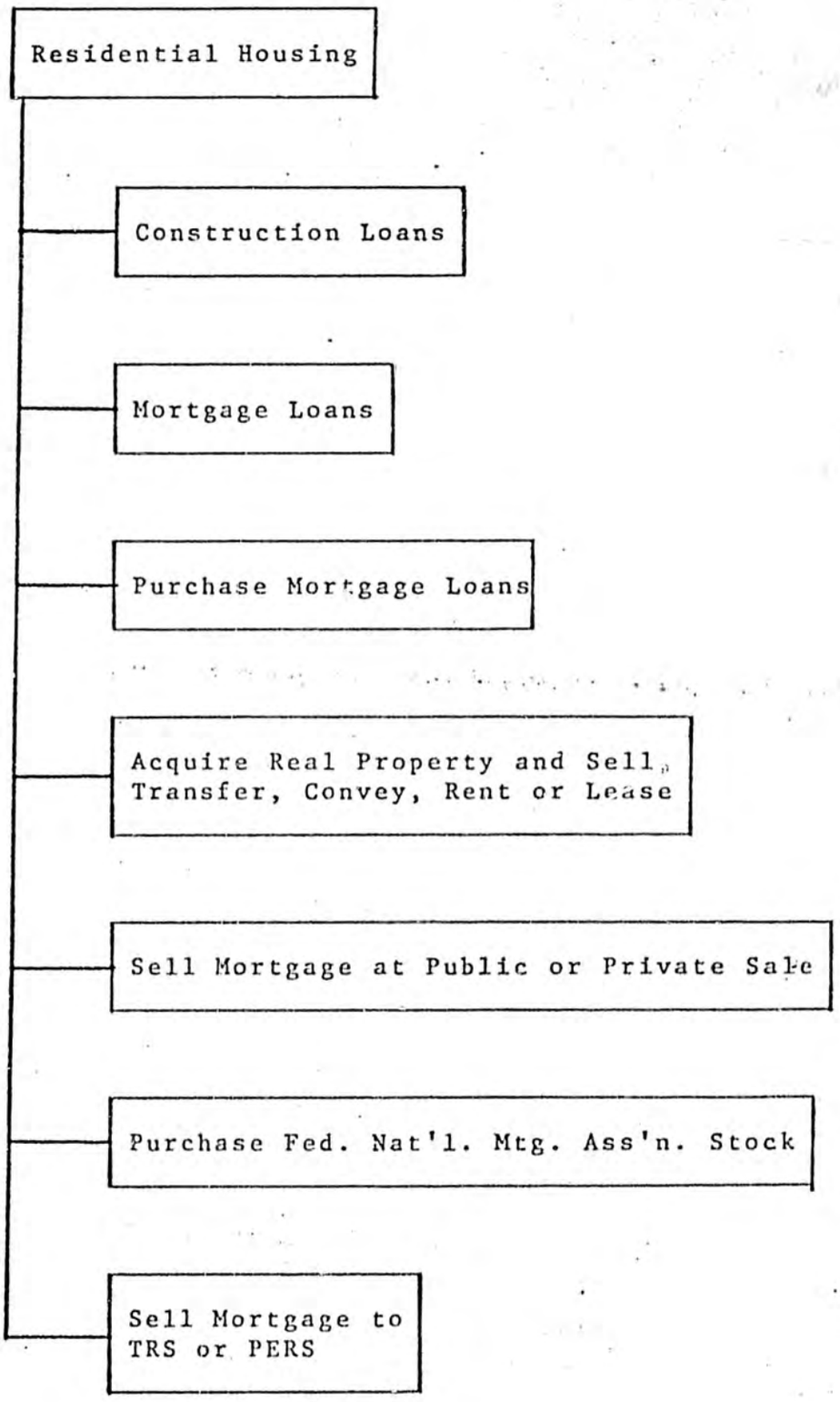
Revenues	Expenditures
1. From Unallocated Reserve Acct: (a) 5% of estimated loans to be made during first year. (b) Amt. necessary to bring balance to 5% of loans outstanding during each succeeding year. (c) Sufficient funds to bring balance to 5% at any (and all) times during year.	1. Losses realized from loans
2. 1% difference between interest paid by borrower and interest paid by fund.	2. Excess of 5% (a) Unallocated Reserve Acct until all amts paid to Loss Reserve & Capital Reserve have been re-paid, then (b) Earned Income Acct of Loan Programs Fund.

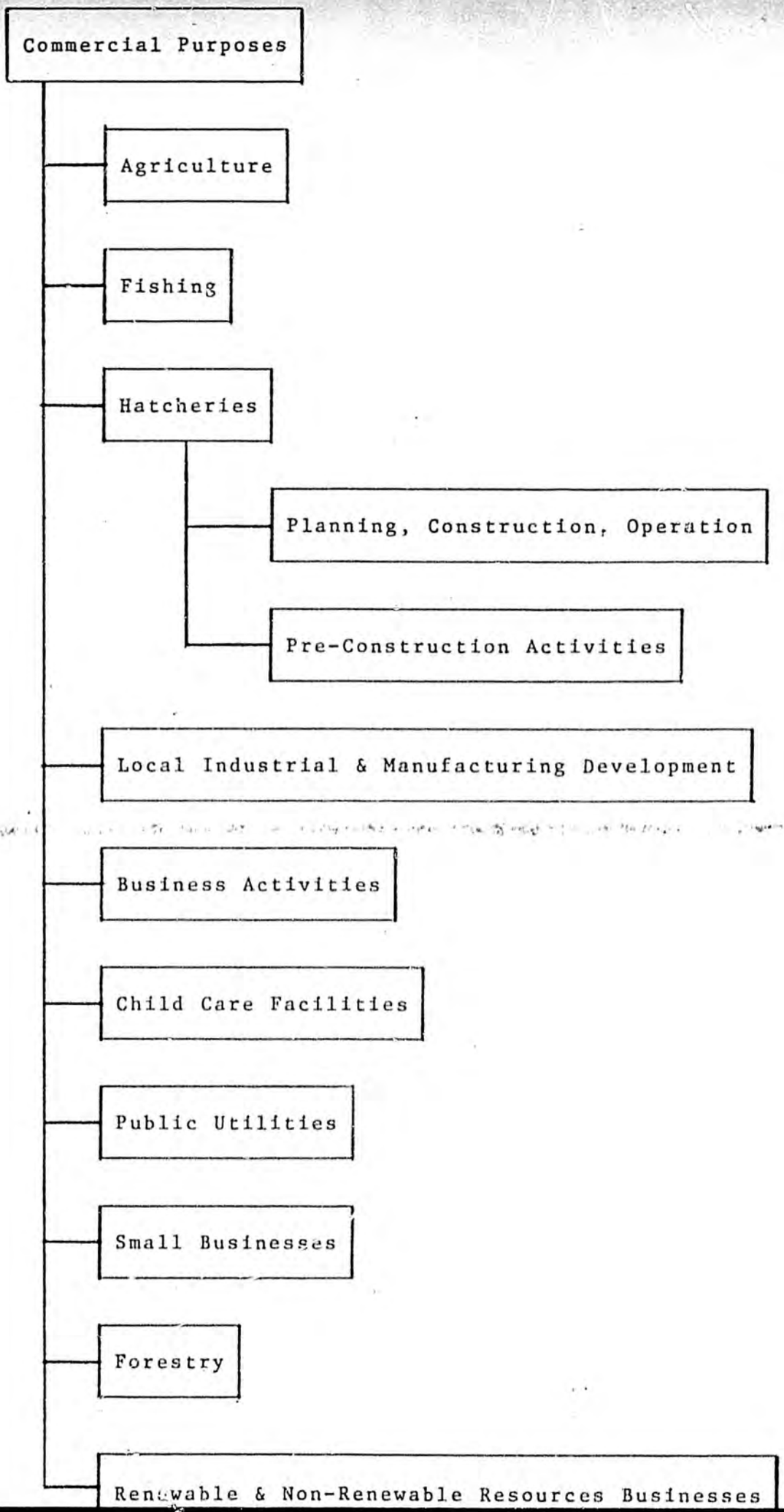
Fire Insurance & Liability Reserve Account

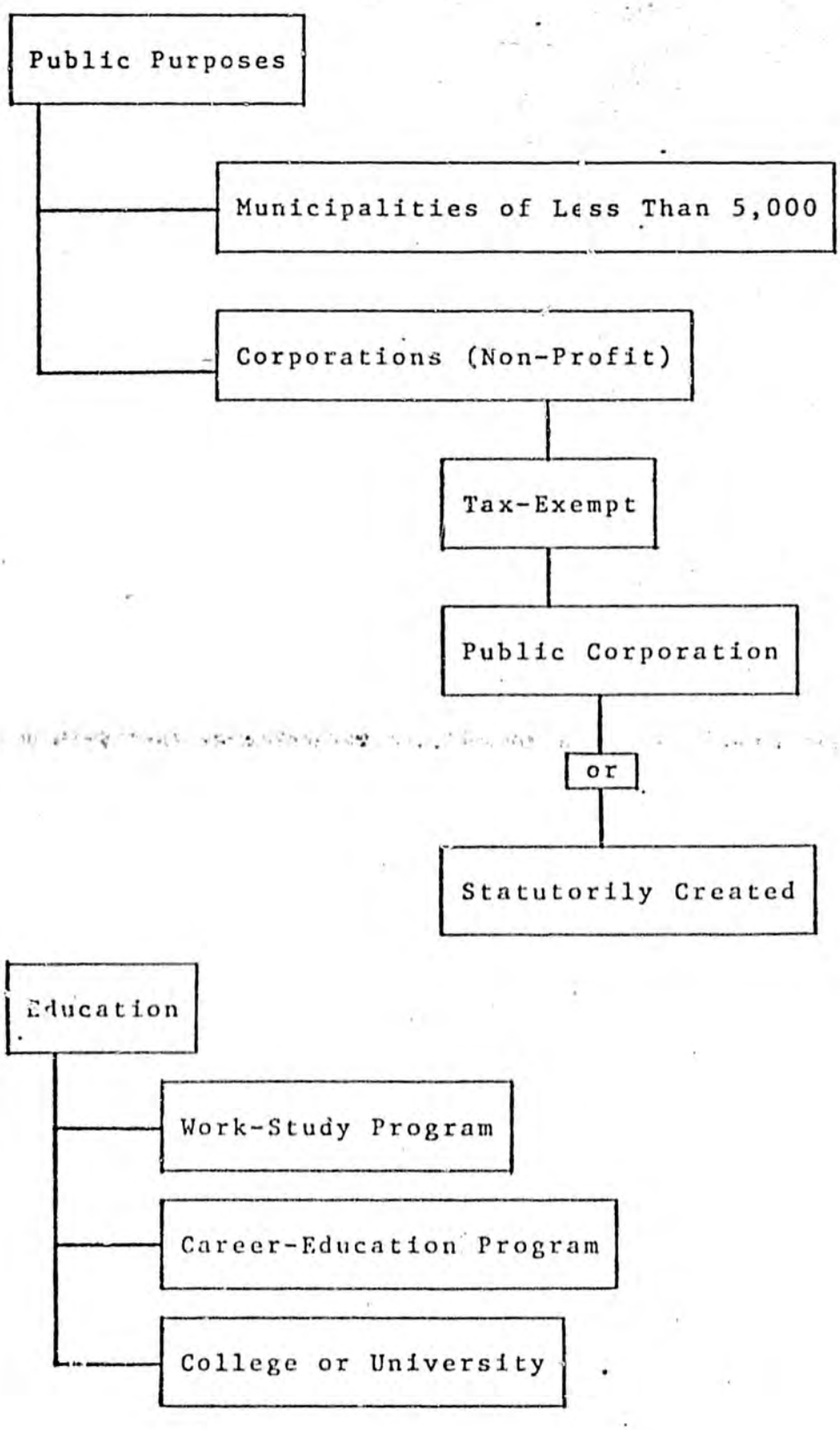
Revenues	Expenditures
1. Add'l charge of .6%/year on loans which do not provide proof of fire & liability insurance.	1. Fund loss reimbursement

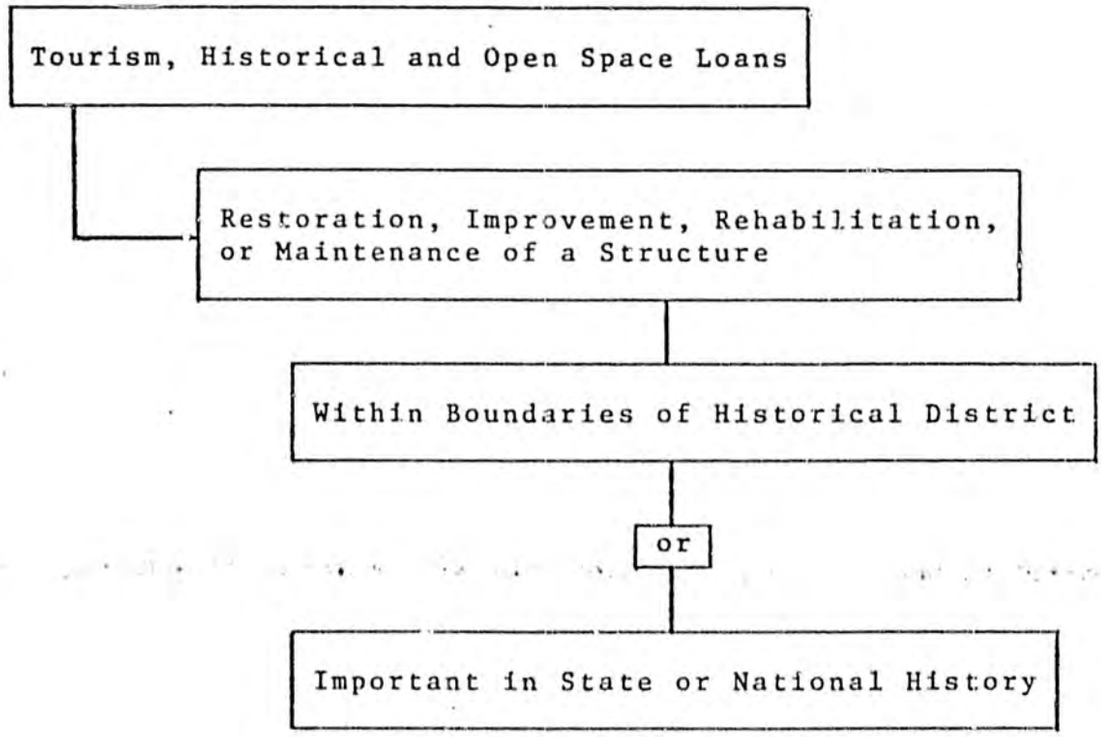
ATTACHMENT "C"




Residential Housing
Construction Loans
Mortgage Loans
Purchase Mortgage Loans
Acquire Real Property and Sell, Transfer, Convey, Rent or Lease
Sell Mortgage at Public or Private Sale
Purchase Fed. Nat'l. Mtg. Ass'n. Stock
Sell Mortgage to TRS or PERS


Commercial Purposes
Agriculture
Fishing
Hatcheries
Planning, Construction, Operation
Pre-Construction Activities
Local Industrial & Manufacturing Development
Business Activities
Child Care Facilities
Public Utilities
Small Businesses
Forestry
Renewable & Non-Renewable Resources Businesses


Public Purposes
Municipalities of Less Than 5,000
Corporations (Non-Profit)
Tax-Exempt
Public Corporation
or
Statutorily Created
Education
Work-Study Program
Career-Education Program
College or University


Tourism, Historical and Open Space Loans
Restoration, Improvement, Rehabilitation, or Maintenance of a Structure
Within Boundaries of Historical District
or
Important in State or National History

Attachment D

LAWS OF ALASKA

1977

Source: HB 210

Chapter No. 6

AN ACT

Providing for interim management of the Alaska Permanent Fund; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.10 is amended by adding a new section in art. 3 to read:

Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).

Approved by the Governor: March 22, 1977
Actual Effective Date: March 23, 1977

TO: Rep. Cowper, Chairman
House Finance Committee

DATE: 8 March 1978

FROM: James B. Rhode, AA

SUBJECT: Economic Premises of HB 596 (Alaska Permanent Fund) and Related Bills

You have asked for a brief comment on the economic premises that emerge in HB 596 and related bills. They are grouped below under three broad headings: (1) public savings, (2) closing the "capital gap", and (3) subsidies.

(1) The trust in HB 596 is a "nest egg" or public savings account for the future. This serves a number of compatible purposes:

- to support the budget as oil revenues decline
- to check the use of revenues for lower state priorities
- to hold revenues that are not immediately needed (but otherwise might not be collected)
- to give time for the state to better assess its priorities

These purposes are met by the historic trust rule of maximum return consistent with safety of principle.

(2) The Enterprise Fund is to close the "capital gap" in Alaska, private and public. This gap is measured by economists as the amount of capital that would normally be provided by private markets but is not because of "institutional barriers" in the financial community as a whole. Such barriers include lack of information, lack of experience with particular kinds of investment, and racial and other bias. Local regulatory practice can be a barrier, but the effects are probably not great due to the relatively free flow of capital within and even between countries.

A capital gap is not a sheer absence of funds. Money can usually be obtained at some price. Rather, the usual reason that funds are not forthcoming is that other areas, offering better returns and lesser risks, can pay more for capital and enjoy more investor confidence.

The full scale of this gap in Alaska is not documented. However, the evidence is that the shortfall is in the millions, not billions, of dollars and is focused in rural Alaska, mainly in small and medium ventures. Elsewhere, there is no proof that large, attractive loans are being missed or rejected by the private capital markets (banks and their lines of credit, bond and money markets, insurance companies).

(3) Many appropriations are made to further economic goals that are not met, or met as well, by the growth of the private economy. We concentrate here on spending meant to spur development, including

capital items (whether from bond proceeds or the general fund), loan programs, technical assistance programs, job training, and, soon, the renewable resources fund. The economic goals of these efforts include reducing the seasonal and cyclical nature of the Alaskan economy, stable employment, improving resident and minority hire, raising personal incomes, lowering the cost of living, and the like. For the most part, the money spent on these goals represent a subsidy, direct or indirect. They provide a good or service for which people are unable to pay or, at times, unwilling to pay.

HB 596, in turning away from subsidies, is not opposing them as such. Indeed, they are permitted for the Enterprise Fund under special conditions. Yet most subsidies are expected to be made in the state budget process. And that forum is to receive more scrutiny as the result of a new legislative committee for investment oversight. The premise of this approach is simply that more intelligent subsidies will be made if they are openly voted---if the public can see what money is at stake, who gets it, and who wanted them to have it.

cc: Rep. Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

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CLA 1949)

2. Accounting.

Section
and 60. Department of Revenue to depos
nue money to state treasury

for state money and payment to
deposit in proper fund. (a) Each offic
authorized to collect or receive fees
belonging to the state shall account for
es or other money, less fees to which he
artment of Revenue at least once each

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wspaper of general circulation in each of
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f the semiannual report on bank deposits
slative Affairs Agency for distribution of
legislature. The terms of the deposit may
equest. (§ 12-2-1 ACLA 1949; am § 8 ch
186 SLA 1957; am § 1 ch 115 SLA 196

ACLA Cross reference. — As to deposit of state
, SLA funds, see AS 37.10.075.
pealed Quoted in Empire Printing Co. v. Robert
A 1953 17 Alas. 209, 247 F.2d 8 (9th Cir. 1957)
as it Am. Jur. and C.J.S. references. — 42
Am. Jur., Public Funds, §§ 5 to 41.
2, SLA 26 C.J.S. Depositories §§ 7 to 14; 81
cond of C.J.S. States § 155.
ed § 8.
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nt of Revenue to deposit money to state
ts received by the Department of Revenue
posited in the state treasury at least once
the department to the proper fund. (§ 12

Article 3. Investment and Deposit of State Funds.

Section
65. Investment of the Alaska Permanent Fund
70. Investment of surplus funds
75. Deposit of state funds
79. Purchase of bonds
80. Sale of bonds held as investments
85. Financial aid to corporations by state or political subdivision
87. Loans to bond construction funds
88. Department of Administration authorized to make advances to the University

Sec. 37.10.065. Investment of the Alaska Permanent Fund. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency. (§ 1 ch 6 SLA 1977)

Legislative committee report. — For report on ch. 6, SLA 1977 (HB 210), see 1977 Senate Journal, p. 575; 1977 House Journal, p. 279.

MEMORANDUM

To: Representative Hugh Malone

From: Nancy Lord, Aide

Date: May 3, 1979

Subject: CS for SS for SB1 and CS for SJR26

At your request I have prepared the following summary of the contents of the latest version of Senator Hohman's permanent fund bill and his CS for the governor's proposal for a constitutional amendment.

CS for SS for SB1 is basically a gluing together of CS for HB281 (the House permanent fund bill), HB99 (the governor's tax credit bill), and SS for SB1, with a few important changes.

I have not attempted here to analyze any of the bill but only to identify the changes from previous drafts of SB1 as well as changes in the House and governor's bills whcih are incorporated into it.

Pages 1 through 12 are identical to CS for HB281 except in three places.

First, the contribution level of the permanent fund is set at 100% of bonuses and 25% of royalties rather than the 50% level for both set forth in the House bill. This conflicts with the accompanying CS for SJR26, however, in that it provides for the dedication to the permanent fund of 25% of all dedicated mineral

revenues (i.e. 25% of 100% of bonuses and 25% of 75% of royalties). Mr. Berrier assures me that this is a drafting error and that the intent of the resolution was for the permanent fund to receive 25% of both bonuses and royalties. Thus, should that correction be made and should the constitutional amendment become law, the permanent fund would receive 25% of bonuses, not 100% as stated in the bill.

Second, the new Hohman bill sunsets the Permanent Fund Corporation in 1982 (page 5, lines 14-17) and turns the management of the fund back to the Department of Revenue.

Third, the language in section k (page 10) differs from 281's language and offers a possibly dangerous loophole concerning allowable permanent fund investments.

Pages 12-13 correspond to HB99 except that the tax credits are not given unless a constitutional amendment dedicating 75% of mineral revenues to various funds and accounts becomes effective.

The allocated reserve account (page 19) now gets one-half of the permanent fund earnings instead of all. This, however, is inconsistent with the resolution, which says that half of the earnings go to tax credits and half to the general fund.

The problem of the spread of responsibilites for the loan program among departments is partially taken care of by assigning the

accounting and collecting duties to the Department of Commerce.

This latest CS excludes veteran and scholarship loans. (That is, those loan programs are not repealed and replaced under the umbrella program.) The loan programs, funds, and authorities now repealed are those for agriculture, commercial fishing, housing, recreation and open space, area development, child care, state development, small business development, AIDA, water resources, alternative power, tourism, business, and historical districts.

A new section 45.96.300 (page 34) says that "public purpose" loans may not be made unless certified by the commissioner of Revenue as good risks.

A section in earlier drafts which prevented municipalities from selling industrial development bonds is now deleted.

A new Sec. 27 (page 50) sets up a comprehensive loan program reserve account to receive 15% of mineral royalties (bonuses aren't mentioned here). That money is then appropriated to the allocated reserve account for the securing of the bonds, and flows from there to various other reserve accounts.

Another new section, Sec. 34 (page 52), sets up for six months a "special account" in the general fund, made up of the general fund surplus in excess of $100 million. This provides interim loan money for the period between the time the old loan programs

shut down and the time the new one is operable. The loans in the interim, purchased by the special account, shall all have an interest rate of 9½%.

Other than the changes noted and a number of very minor ones, the latest Hohman proposal is the same as the earlier SS.

The accompanying resolution takes the governor's proposal for a constitutional amendment to increase the contributions to the permanent fund and changes it to provide for a whole series of dedications. Under the CS, 75% of all mineral royalties and 100% of all bonuses would be dedicated as follows: 25% to the permanent fund, 5% to the Renewable Resources Development Fund, 25% to the capital outlay account, 5% to the energy facilities development account, and 15% to the loan programs fund.

It is worth noting that this latest loan fund bill, when it is detached from the House proposal for fund management, no longer has any tie to the permanent fund, assuming that the permanent fund earnings are distributed as specified in the resolution. The loan programs fund would now have nothing to do with either the permanent fund income or principal, but would be funded by a separate dedication from oil revenues. (This would impact the permanent fund only to the extent that the contribution rates to it could not be increased.)

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

HOUSE BILL NO. 279

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, <u>investment oversight</u> and post-audit functions.

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund;

(10) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment

oversight division is established as a permanent staff agency responsible to the Legislative Budget and Audit Committee for the performance of oversight and review functions to provide information on the policy and performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.331. STAFF. (a) The committee shall hire and determine the salary of the division director who shall serve both at the direction and pleasure of the committee. The director shall serve as head of the investment oversight division and, within the limits of the budget approved by the committee, shall employ and determine the compensation of the professional and clerical staff of the division.

(b) The director and members of the professional and clerical staff shall not join or support a partisan political organization. This prohibition does not prevent the director or members of the staff from joining social organizations, expressing private opinion, registering as to party or voting.

Sec. 24.20.341. DUTIES. The investment oversight division shall

(1) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(2) review periodic reports from all agencies of the state which perform lending or investment functions;

(3) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the Legislative Budget and Audit Committee at the time the committee directs;

(4) present to the committee within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d);

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternace levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federa mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 per cent of

all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of future generations of Alaskans;

(2) the corporation's primary goal should be to maximize total return while maintaining safety of principal;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation as needed for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings established in sec. 20 of this chapter.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The board shall annually elect a chairman from among its

members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. Initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a vacancy is not created but the member of the board may not participate in board business and may not be counted for purposes of establishing a quorum. The joint session of the legislature shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the member of the board shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim member of the board who shall exercise all powers of a permanent member of the board until such time as the legislature in joint session fails to confirm the interim appointment.

(c) A vacancy on the board does not impair the authority of a

quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.13.080. QUALIFICATIONS OF BOARD MEMBERS. (a) No person may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of the United States or of this state.

(c) At least one member of the board shall have recognized competence and wide experience in finance, investments, or other business management-related field. No two members may be appointed to the board who share substantially similar professional or occupational backgrounds.

Sec. 37.13.090. QUORUM. Two members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.100. COMPENSATION. Each member of the board shall receive an honorarium of $250 for each meeting day in attendance. Members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and all other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee acquires, owns or

controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is applicable to the board in the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital.

(b) The corporation assets may only be used for income-producing investments.

(c) The board shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation. It may contract with the division of treasury of the Department of Revenue for services.

(g) Subject to (a) and (b) of this section, the board may invest

corporation assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

(1) No portion of the assets of the fund may be used in the purchase of stock of a corporation which is not paying dividends on that stock in cash at the time of purchase; nor in the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the corporation may be used in the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the corporation would exceed 30 per cent of the assets of the corporation.

(h) Subject to (a) and (b) of this section, the board may invest corporation assets in

(1) Federal Housing Administration mortgages;

(2) Federal Veterans Administration mortgages;

(3) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage.

(i) To qualify as a mortgage or secured loan which may be purchased by the board under (h) of this section, the mortgage or secured loan shall

(1) be secured by real estate in the state;

(2) have as a mortgagor an Alaska resident or a corporation in which at least 60 per cent of the stock is owned by Alaska residents;

(3) be certified by the originating financial institution

that the loan being sold has been made in compliance with law and that liens supporting the loan have been perfected;

(4) have no initial closing fees or service fees which exceed one-half of one per cent, excluding closing costs.

(j) The board may purchase loans provided for in (h) of this section only with the approval of each purchase by the division of Alaska loan programs of the Department of Commerce and Economic Development, and the loans may be purchased only from financial institutions which are operating under the national banking laws, federal savings and loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the corporation's assets. Before adoption of any investment guidelines, the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(l) Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal

year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.150. INCOME. (a) The interest and dividends received in a year are the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

(b) When 50 per cent of the income of the corporation available for distribution, as certified by the commissioner of revenue, exceeds the amount estimated by the commissioner as equal to the amount of the tax credits allowed by AS 43.20.015, the credit allowed in AS 43.20.-015(b)(3) shall be $300 plus an additional amount equal to the quotient obtained by dividing that excess by the number of eligible taxpayers claiming credit under AS 43.20.015(b)(3).

Sec. 37.13.155. MORTGAGE LOSS RESERVE ACCOUNT. The board may establish a mortgage loss reserve account for the purpose of protecting the financial integrity of the fund.

Sec. 37.13.160. BOARD BUDGET. The board's operating budget is by appropriation from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.170. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment

programs.

Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of corporation investments including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations for any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet. The board may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of trustees and employees of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

* Sec. 6. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 7. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Alaska Permanent Fund Corporation Board of Trustees.

* Sec. 8. TRANSITION. The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the corporation board of trustees.

* Sec. 9. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. Efficient use of the capital resources of the state will be promoted by creating a single loan fund to provide a single source from which potential users can acquire a state loan and obtain information about existing federal or private loan programs which will better serve the needs of the user or which will complement a proposed state loan. A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The purpose of the loan programs fund is to

provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least eight years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan programs fund in accordance with secs. 10 - 490 of this chapter.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in order to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipation notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds

of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may be paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when the definitive bonds or bond anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid

as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee, will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge is made, and assets or revenues pledged are immediately subject to the lien of the pledge without physical delivery or further action. The lien of a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except that a sale may be restricted by the resolution providing for the issuance of the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce all rights granted under the coupons or under any other contract executed by the fund under this chapter, and may enforce and compel the performance of all duties required by this chapter to be performed by the fund or by an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration

provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them, and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so

provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this chapter shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued by a body corporate and public of this state and for an essential public and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may sell bonds at public or private sale until July 1, 1984. After July 1, 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account called the allocated reserve account is established. The amounts necessary to fund the capital reserve account established under sec. 140 of this chapter, the fire insurance and liability reserve account under sec. 160 of this chapter, and the loss reserve account under sec. 150 of this chapter are allocated to those accounts to the extent appropriations for that purpose are available. All other expenditures from this account shall be in accordance with annual appropriations.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account called the unallocated reserve account is established. The unallocated reserve account consists of any amounts remaining in the general fund at the end of a fiscal year which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in sec. 120 of this chapter from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regu-

lations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principal and interest account or the capital reserve account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the capital reserve account. The commissioner of revenue shall pay into that account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequent sales, if any, of obligations of the issue secured, an additional amount equal to five per cent of the principal amount of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserve account any amount in the account in excess of five per cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaining principal balance of the obligations secured, pay into the account from the allocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations or

(4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by sec. 120 of this chapter. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into that account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the fund from the allocated reserve account the amount necessary to bring the balance of this account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into this account from the allocated reserve account the sum needed to bring the balance of this account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest paid by the fund required by sec. 430 of this chapter shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of this account exceeds five per cent of the remaining principal balance of the total amount of loans

projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the

division of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund under the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthly reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.190. BUDGET. The operating budget is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under secs. 180(b) and 240(b) of this chapter and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices as necessary which shall be headed by district directors. The office shall provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

(b) Each district loan office shall include a veterans' loans section. The veterans' loans section shall process loan applications from applicants who meet the eligibility requirement of sec. 440 of this chapter. The veterans' loan section shall also provide information and assistance to veterans relating to loan applications under this chapter, other state loan programs or state grant programs, federal loan or grant programs, and to the extent feasible, private loans.

Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a) There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Evaluation Committee consisting of the directors, or their designees, of the following divisions: (1) the division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Department of Revenue, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development.

(b) The committee shall notify recipients of loans under the provisions of this chapter who have been delinquent in their loan repayments for a period in excess of 30 days. Upon notification of delinquency, the borrower may request reevaluation and technical assistance from the committee. If the borrower requests reevaluation, the committee shall consider the terms and conditions of the loan as well as all other pertinent information to determine whether there are feasible

alternative terms and conditions which will protect the interest of the state and prevent the default of the loan.

(c) In performing the duties described in (b) of this section, the committee shall have access to all nonconfidential records, data, information, and statistics of all departments, boards, commissions, agencies, and institutions of the state. The committee shall also have access to any records or other information of the borrower which are pertinent to its investigation. Failure on the part of the borrower to provide the records or information shall be grounds for refusal to reevaluate.

(d) If the committee determines that alternative terms and conditions are available which will protect the interest of the state and prevent default of the loan, it may renegotiate the loan in accordance with those terms.

Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There is established within the Department of Revenue the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the department is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

(b) If a borrower who has received notification of delinquency in accordance with sec. 220 of this chapter does not request reevaluation, or if the evaluation committee determines that renegotiation of the existing terms and conditions is not feasible or justified, and the loan is not brought current within 30 days after the notification of delin-

quency is sent, the loan shall be transferred to the loss reserve account and transmitted for collection to the division of collections. A monthly report of the status of the collection effort shall be made to the Legislative Budget and Audit Committee. The total principal and interest due shall be transferred from the loss reserve account to the fund upon assignment of each loan.

Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, public purposes, and education.

Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of sec. 370 of this chapter,

(1) make or participate in the making of construction loans from the fund to sponsors, developers, and builders of land development or residential housing;

(2) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(3) purchase or participate in the purchase of mortgage loans made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(4) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(5) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(6) purchase, in order to meet the requirements of the sale of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(7) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, the security instrument shall be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of secs. 295 and 297 of this chapter;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the fund a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to

harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of secs. 410 and 420 of this chapter, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under sec. 270(7) of this chapter on the basis of the following criteria:

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of receipt of the application.

Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under sec. 270(2) of this chapter shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under sec. 270(2) of this chapter and covering a

vessel documented under the laws of the United States and so long as the Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39 Stat. 728), as amended, remain ambiguous with respect to whether or not a state or state agency qualifies as a citizen of the United States for purposes of those Acts, the first lien requirement of this section may be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection of a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of the United States. In the case of a security agreement given to secure a loan made under sec. 270(2) of this chapter and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a first preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary of Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.297. LOANS FOR PURCHASE OF ALASKA LIMITED ENTRY PERMITS. (a) Loans under sec. 270(2) of this chapter for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan

programs, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

(1) the certificate for the pledged permit lists the director as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be

made through the purchase by the fund of municipal bonds. Loans to nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality in which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued by the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this section shall be the same as the cost of borrowing to the fund. Loans made under this subsection are subject to the following conditions:

(1) When the amount of the issuance is $5,000,000 or less, the loan shall be made through the purchase by the fund of general obligation or revenue bonds.

(2) The borough or city attorney shall certify that all legal requirements relating to required bond elections, if necessary, and bond issuance have been met, or if the bonds are issued outside a municipality, certification shall be made by the Department of Law.

(3) The bonds shall be prepared by the municipality's attorney, approved by the attorney general and need not be in definitive form.

(4) The bonds shall be for a term commensurate with purpose, but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the

Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five years maturity;

(C) 50 points under the average for the next five years maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five years maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly or indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal

instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in secs. 400 - 430 of this chapter do not apply to loans or purchases made under this section.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest on bonds of the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state and those bonds on behalf of nonprofit corporations guaranteed or issued under this chapter there is established a special account called

the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of the obligations issued and sold after July 1, 1979 and upon subsequent sales, if any, of obligations of the issue secured an additional amount equal to five per cent of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reserve account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if the amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any income or interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of

the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted, unless the municipality has provided otherwise by a resolution adopted before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is performed has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not performed within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of greater than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the sum total of all costs of financing and carrying out a project are eligible for bonding under secs. 300 - 330 of this chapter. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications,

architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expenses of the issuer; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

Sec. 45.96.350. EDUCATION. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make scholarship loans from the fund to students selected under (b) - (g) of this section.

(b) Proceeds from scholarship loans may only be used for transportation, books, tuition and required fees, and for room and board. The loans may only be used to attend a career education program approved by the Alaska Commission on Postsecondary Education or a college or university accredited by the accreditation association for the region in which the college or university is located.

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing in a work study program approved by the Department of Education, in a career education program, or in a college or university designated under (b) of this section.

(d) Loans are noninterest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (g) of this section if appropriated funds are available for payment to the fund of the interest.

(e) The repayment period for student loans is 10 years. Unless a deferment of payments has been granted under (g) of this section, repayment shall commence when the student terminates his studies. In case of hardship, the Alaska Loan Programs Evaluation Committee may extend repayment of a loan for an additional period of up to five years.

(f) If, upon completion of the course of study for which the loan was granted, the borrower repays 60 per cent of the principal amount of the loan with interest with no delinquency, the remaining 40 per cent owing shall be forgiven if appropriated funds are available for payment to the fund of the amount forgiven.

(g) The Alaska Loan Programs Evaluation Committee shall defer repayment of a loan during any of the following:

(1) the first year after a student terminates his studies;

(2) return by the student to student status as provided in (c) of this section;

(3) performance by the student of military or required alternative service; or

(4) 50 per cent or greater disability of the student, as certified by competent medical authority.

Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to a business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan under this chapter, other than a loan made under sec. 350 of this chapter, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. Except for loans made under sec. 330 of this chapter, a corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full individual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility requirements. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of sec. 260 of this chapter for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling; (2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of sec. 270 of this chapter may not exceed:

(1) $500,000 per individual for business activities; farm development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish manufacturing and processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other activity not otherwise specifically provided for in this section;

(2) $350,000 per individual for farm chattel other than for irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10 individuals participating in the project and the loan to each individual does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

(d) Educational loans made under the authority of sec. 350 of this

chapter may not exceed:

(1) $4,000 per individual per year for undergraduate studies;

(2) $8,000 per individual per year for graduate studies;

(3) $4,000 per individual per year for vocational studies;

(4) $4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan

amounts established in sec. 380(a) and (b) of this chapter shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determination.

Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in secs. 380(b) and 390 of this chapter shall be further limited, based upon the actual technical and managerial experience of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience is less than two years, he may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.410. VALUE LIMITATION. The provisions of secs. 380 - 400 of this chapter notwithstanding, no loan made under this chapter, unless it is a loan made under the provisions of sec. 330 of this chapter, may exceed

(1) 90 per cent of the appraised value of real property pledged as security for the loan;

(2) 95 per cent of the appraised value of real property pledged as security for the loan if the loan is for residential housing in an area where Federal Housing Administration mortgage insurance is not available; or

(3) 80 per cent of tangible personal property pledged as security for the loan.

Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property pledged as security for the loan nor

(1) 30 years on a loan secured by real property;

(2) 15 years or the life of the equipment on a loan secured by equipment used for production of income;

(3) seven years on a loan secured by tangible personal property.

Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost for the loss reserve account plus the amount required for any necessary insurance, but the rate of interest charged may be lower if necessary to prevent bonds issued under

this Act from being arbitrage bonds under the provisions of and regulations under section 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost by the commissioner is conclusive. Rates of interest less than that, except as provided in (b) of this section, may be charged if the renewable resource development fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or if appropriation for the purpose of paying the difference has been made.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made to a veteran or is made for agricultural purposes. If the loan is made to a veteran, the World War II veterans' revolving fund, created in AS 26.-15.090, shall pay the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made to a veteran and for agricultural purposes, the rate of interest shall be reduced by two per cent and each fund shall pay one-half the difference.

(c) When the World War II veterans' revolving fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made to veterans apply only if appropriation is made for the purpose of paying the difference. When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The

following persons are eligible for special interest rates for veterans established in sec. 430(b) of this chapter:

(1) any person who served in the armed forces of the United States for 90 days or more, or whose service was for less than 90 days because of injury or disability incurred in the line of duty, between April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to six months after termination of hostilities involving United States forces in Indo-China, or in a combat zone during any period of armed conflict, who was separated from the armed forces with a discharge other than dishonorable, and

(A) who at the time of induction into the service was a resident of the territory or state, who had been a resident for not less than one year immediately before his induction, and who returned to the territory or state after discharge as a resident with the intention of remaining in the territory or state; or

(B) who, not being a bona fide resident of the territory or state before his entry into the service, has been a resident of the territory or state for five or more years;

(2) any person who was dependent on a member of the armed forces or a veteran of World War II at the time of the member's or veteran's death if

(A) the member or veteran was a resident of the territory for one year before induction into the service;

(B) he served in the armed forces for at least 90 days between September 16, 1940, and July 25, 1947, but no benefits for loans accrue to dependents of an enlistee or reenlistee for time served after November 1, 1945, regardless of whether the enlistment or reenlistment was before or after November 1, 1945;

(C) he died before the official date of the termination

of that war; and

(D) his discharge was not dishonorable;

(3) any person who has served in the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia for not less than six years and who has not received a discharge other than honorable.

(b) The provisions of sec. 430(b) of this chapter are extended to persons who served other than dishonorably on active duty between June 25, 1950, and January 31, 1955, who served other than dishonorably on active duty between August 4, 1964, and six months after termination of hostilities involving forces of the United States, and to dependents of those persons, subject to the following provisions and eligibility qualifications:

(1) a discharge other than dishonorable from the armed forces of the United States or release to a reserve component;

(2) at the time of entry into the service residency in the territory or state for not less than one year before entry into the service, and return to the territory or state within a reasonable length of time after discharge or separation with the intention of remaining in the territory or state; or lacking residency before entry into the service, residency in the territory or state for at least five years following release from active military service; and

(3) service in the armed forces of the United States for 90 days or more, or service for a lesser period because of injury or disability incurred in line of duty, between June 25, 1950, and January 31, 1955, or service in the armed forces of the United States for 90 days or more or service for a lesser period because of injury or disability incurred in line of duty, between August 4, 1964, and July 1, 1977.

(c) A person who is eligible under more than one of the qualification provisions of (a) and (b) of this section shall have the rate of interest on his loan reduced by one and one-half per cent.

Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the

authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from the fund the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan programs as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project

after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund created in AS 45.96.020.

* Sec. 10. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 11. AS 14.40.751(a) is amended to read:

(a) There is created a scholarship revolving loan fund. [THE FUND SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUND AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FROM THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

* Sec. 12. AS 14.40.755(b) is amended to read:

(b) A person whose [LOAN OR] grant application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application.

* Sec. 13. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR <u>GRANTS</u> [LOANS]. Only public or nonprofit private corporations are eligible for <u>grants</u> [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. <u>501(c)(3) and (4)</u> [501(e)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 14. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corporations designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER SEC. 50 OF THIS CHAPTER] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 15. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 16. AS 29.13.100 is amended by adding a new paragraph to read:

(39) AS 29.58.290 (industrial development bonds)

* Sec. 17. AS 29.58 is amended by adding a new section to read:

Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality, home rule or otherwise, may issue a revenue bond which is an industrial development bond under the provisions of the Internal Revenue Code of 1954 (26 U.S.C. 103).

* Sec. 18. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO <u>DIVISION OF TREASURY</u> [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the <u>division of treasury of the</u>

Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the division of treasury [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 19. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

(5) corporate obligations of prime or equivalent quality, as

rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Federal Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) [AS 03.10 AND AS 26.15];

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements, reverse repurchase agreements, or any trading practice or instrumentalities that may evolve ininvestment management.

* Sec. 20. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the approval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

* Sec. 21. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and execution of transactions, in or out of Alaska.

* Sec. 22. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 23. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 24. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in sec. 70 of this chapter, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure state deposits provided for under this section.

* Sec. 25. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury and division of collections are in the classified service and may not be designated as

partially exempt;

* Sec. 26. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to municipalities, of up to one-half the nonfederal share of costs of projects described in sec. 10 of this chapter which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 27. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 28. AS 44.21.020 is amended by adding new paragraphs to read:

(13) provide accounting services for the permanent fund (AS 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable resources development fund (AS 37.11), and all other state funds;

(14) provide detailed accounting of state loans outstanding and securities held by the state.

* Sec. 29. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking, economics, or another closely related field;

(2) have 10 years of experience in banking or investment management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department, except that the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of these functions.

* Sec. 30. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 31. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 32. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 10 - 15, 26 - 27, and 33 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than

January 1, 1980.

* Sec. 33. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771; AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4), 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 34. AS 37.10.065(c), 37.10.075(b) - (d), 37.10.079; and AS 44.25.-020(2) are repealed.

* Sec. 35. AS 37.10.065(a) and (b) are repealed.

* Sec. 36. Section 35 of this Act takes effect upon transfer of the funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 8 of this Act.

* Sec. 37. Sections 1 - 9, 16 - 25, 28 - 32, and 34 of this Act take effect June 30, 1979. The unobligated general fund surplus as of June 30, 1979 shall lapse into the unallocated reserve account created in AS 45.96.125 on June 30, 1979.

* Sec. 38. Sections 10 - 15, 26, 27 and 33 of this Act take effect June 30, 1980.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 21, 1979

SUBJECT: Permanent Fund
(Work Order No. 6582)

TO: Representative Hugh Malone

FROM: Kenneth E. Vassar, Legislative Counsel KEV

Enclosed is the bill you requested which duplicates SB 1.

Also enclosed is a memorandum delivered to me from Donna Spragg Pegues, our revisor of statutes, pointing out some technical and legal problems in the bill.

KEV:nem

Enclosures

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M February 20, 1979

SUBJECT: The Permanent Fund Bill:
(Work Order No. 6582)

TO: Kenneth E. Vassar, Legislative Counsel

FROM: Donna Spragg Pegues, Revisor of Statutes

This memorandum is written to outline:

1. Some problems of clarity encountered in my review where changes may need to be made;

2. A few legal problems with the bill.

I will discuss the last category first. Then I will simply move through the bill section by section outlining certain problems encountered.

The Title. You will recall that we discussed the problem involved in putting together the title for this bill which would:

1. Be confined to one subject; and

2. Express that subject,
(art II sec. 13, Alaska State Constitution).

In my opinion, the title does not meet the requirements of the Alaska constitution. But, if the legislation were challenged, the Alaska supreme court might well be more liberal than I seem to be. In the case of North Slope Borough v. Sohio Petrolem et. al, P.2d CPN. No. 1750 (October, 1978), the Court stated:

> "[a]ll that is necessary is that the act should embrace some general subject; and by this is meant, merely, that all matters treated should fall under some one general idea, be so connected with or related to each other, either logically or in popular understanding, as to be parts of, or germane to, one general subject. Johnson v. Harrison, 50 N.W. 923, 924 (minn. 1891)."

Perhaps here the "one general subject" required by the Court is the overall use of state revenues.

Local Hire. AS 45.96.450 establishes "employee practices" for a loan recipient who contracts for work to be done on the project financed by a loan. It requires that 90 to 95 percent Alaska resident hire on the project and calls for immediate foreclosure of the loan for a violation of the section. I think the constitutionality of this section is highly questionable in light of the United States Supreme Court opinion Hicklin v. Orbeck, (1978).

Confirmation of Members of Permanent Fund Corporation. AS 37.13.050 requires that the members appointed by the governor to the Permanent Fund Board of Trustees be confirmed by the legislature. It seems to me that this section is questionable under Bradner v. Hammond, 553 Pacific 21 (alaska 1976). The Board of Trustees is not the head of a principal department under section 26 of the Alaska constitution. Likewise, it is not a regulatory or quasi-judicial board under section 26 of the Alaska constitution. However, I note that the legislature passed a similar provision when it enacted the Renewable Resource Corporation Act (Chapter 179, SLA 1979). I also note that there are other "independent" corporations in title 44 which include the same provision. The question is probably debatable and, none of the independent "corporations" has been challenged in court. I assume the legislature will want to let this one go through as drafted, but I did want to let you know of my concern about the constitutionality of the provision.

Removal of Board Members. In AS 37.13.070 the legislature is involved in the removal process. This is also a characteristic of the Alaska Renewable Resources Corporation which was enacted last session. The same comments apply as in the matter of confirmation.

Disposition of Permanent Fund Money. As you know, article IX, section 15 of the Alaska state constitution establishes the Alaska Permanent Fund. The final sentence of that section requires that "all income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law."

I do not see any disposition of income in this act. Is the income meant to go the the General Fund? Also, as I earlier noted, I do not observe any tie-in between money from the Permanent Fund and the resources of the loan fund. I assume none was intended in this version of the bill?

Perhaps the income tax rebate section was meant to be a disposition of the income of the Permanent Fund. However, that section does not actually require the disposition of any money. In effect, the section relating to taxes only allows for an increased credit when the income reaches a certain level. No actual disbursal of income is involved.

Unallocated Reserve Account. As you know, AS 45.96.125 sets up an "unallocated reserve account" which apparently consists of the General Fund unobligated balance. It is not clear to me just what is to happen to that balance (for example, is it subject to regular appropriation?) after it is swallowed up by this reserve account. The precise money flow here evades me. So, in your absence I took up the matter with Billy Berrier. He told me that he thought that the legislature intended to make the "unallocated reserve account" an account in the General Fund. However, in the context of the bill it reads as if it were an account in the Loan Fund. You may want to take up this question with Billy Berrier.

I will now go through the bill and list some of the technical questions encountered.

37.13.130(g)(1) I do not understand the exception in this subsection. I think it needs some redrafting and will be happy to discuss it with you.

37.13.130(i). In this subsection "secured loans" are mentioned which may be purchased under (h). But, (h) describes only "mortgages." Subsection (h) does not mention "secured loans." I find this somewhat confusing. It seems to me that only mortgages should be listed in (i). I have the same problem with AS 37.13.130(j).

37.15.150(b). This is the section concerning the tax credit which we discussed earlier. It remains unclear. This is especially true because of the difficulty of tieing a tax year into a fiscal year. The Permanent Fund is apparently on a fiscal year basis and the income tax is levied on a calendar year basis.

45.96.020(b). See the same language at 45.96.240 and 44.25.025. Because a salary and not a "range" is what is received by an individual, I think this section needs redrafting.

45.96.040. See the last sentence of this section where the "fund" is selling its assets. Here and there throughout the bill we find the "fund" doing particular things. David and I agree that a fund is inanimate and cannot actually do anything. Rather, things are done with the money in the fund. I also wonder who the "officer" is in 45.96.050. We have not had any officers of the fund identified at any point in the bill.

45.96.240. In the last line of this section the phrase "business practice" is used. I am not certain exactly what this means.

45.96.300. As I noted to you earlier, I have had some difficulty with this section on "public purpose" loans. I still believe that (a)(1) says the same thing as (a) in general, since both kinds of bonds are included in both places. It seems to me that this is one of the matters that should be taken up with the sponsor. Let's discuss. This section could also probably use some reworking for clarity.

As for (b), I cannot tell if this includes the municipalities which are already included in (a) or not. What do you think? I am just not certain what they are trying to do through these sections.

As for (e) - is the "major" part 51 percent? I am not sure what they mean by "major" part. Also, I am not certain whether (e) limits all "public purpose" loans under 45.96.300 or just some of the subsections. What do you think?

45.96.440(c). I believe this subsection needs to be tied back to 45.96.430(b) as to which fund pays this additional difference.

45.96.470(c). I believe there is a statute setting the rate of interest. It should be cited here.

37.10.070(a)(14). I wonder how the state can purchase a "trading practice?"

45.25.025(c). The exception here is unclear to me and I think the subsection should be redrafted for clarity. I will, of course, be glad to explain my problem with it.

A few other notes follow.

David pointed out that he thinks we should change the system so that section numbers change on a count of five rather than ten. In other words, AS 45.96.055 would follow AS 45.96.050. This gives more room for additions to the statutes. I do not think it is necessary to attempt to change this bill to conform with this new approach, but I did want to call it to your attention for future reference.

There is a section in the bill which provides that the legislature has power to pass on the executive branch investment policy. That policy can be rejected by the legislature. I note that the issue of the legislature's power to annul an executive action is now before the Alaska Supreme Court and may be decided sometime during the next session. It is something to think about as this bill proceeds.

I also note that almost all of the provisions for loans in the bill have residence requirements and in one section the limitations on the amount of loans is tied to length of residence. These sections may at some point be subject to challenge because of the durational residence requirements.

DSP:nem

SENATE FINANCE COMMITTEE
May 18, 1978
9:10 a.m.

TRANSCRIPT OF TESTIMONY BY REPRESENTATIVES FROM E. F. HUTTON & CO., INC.

RE: PERMANENT FUND

SF-78 # 48 (1137 - end)

Mr. Dupere introduced Messrs. Alfred A. Wiesner and Leonard E. Matz from E. F. Hutton & Co., Inc., and Mr. Allan Garfinkle of Kutak Rock & Huie, advising that they would be speaking on proposed permanent fund legislation, Mr. Garfinkle to address IRS implications and legal aspects of the fund while Messrs. Wiesner and Matz address the marketability of this pioneer-type legislation.

LEGAL ASPECTS AND IRS IMPLICATIONS

GARFINKLE: I will discuss the purpose and rationale of fund bonds with respect to the IRS Code. The state can issue tax free bonds, but there are exceptions which limit the state's power built into the IRS Code. One limitation is the purpose, the other limitation is the dollar amount of the bonds designed to help private companies (Industrial Development Bonds).

Since the purpose of the committee is to assist in commerce within the state, I will discuss the limitations with an attempt to see if they can be used more easily and with fewer constraints. There is a benefit in having one agency which can issue bonds for many purposes, most of which are non-industrial

basis without congressional interest.

GRUENING: Alaska is perceived as a very rich state, and if congress were to feel that Alaska was getting tax exempt status which creates a drain on the treasury -

GARFINKLE: That is a possibility which would result in having to rewrite the legislation. I don't think that this is going to happen. Really, if Alaska is going to issue 25 million dollars in bonds to develop the state, that is just such a tiny drop in the bucket that I can't see anyone getting upset by it. If every state did it, then there might be problems, but I don't foresee those now.

MARKETABILITY

WIESNER: My name is Fred Wiesner, I am with E.F. Hutton Company. I handle underwriting as well as distribution out of Denver, Colorado. If I may sit down and discuss this bill a little. The bill before you is, at least in my experience, unique. Possibly in the Lower 48 the closest you could come to it is some of the bond banks. You have one up here, and a number of the other states have them. The bond banks are, however, essentially oriented to financing municipal improvements. A few of them are involved in housing, and a few are involved in small issues of bonds where they feel that a better

market can be achieved through the bond bank concept rather than individually. I think the jury is still out on whether a more economical basis has been achieved through the bond bank.

Probably a slightly closer concept of this bill is one presently being considered in New Mexico and one in Wyoming. Both states are going to be impacted to a considerable degree in terms of coal extraction, etc., and have extractive taxes, and intend to take a goodly sum of that and use it in part to build roads, water systems, etc. in the impacted area, and a bit of it will be used to assist in house financing, etc. in these same areas. However, in terms of the industrial revenue aspect of this financing, it is not generally prevalent in either one of those situations.

In the case of the issues in the bond bank, the security is somewhat different than what you are looking at in this case. The bond bank deals are generally no better than the weakest link or the weakest issue in the bond bank. Most of them do not have preferral security provisions to bolster the security behind the bond bank. Some of them do, but most of them, to the extent they do, are very limited. In this case, however, you are looking at not only the security considerations in terms of loans made, but

you are looking at the income that is to be derived off of this permanent fund as an additional security behind this loan, and that is what makes the entire difference, really. Many states would, I think, like very much to set up a bill similar to what you are doing here, but the demand for loans would be heavy in the states of Colorado, New Mexico, or some of the energy states in the Lower 48, but the source of income, the source of revenue, will be nowhere near the amount of money that you are talking about up here. You are looking here at a permanent fund of somewhere between 150 and 250 million dollars a year as net addition to the permanent fund. And at that net addition, the income gets to be substantial. Unfortunately, most of the Lower 48 won't be taking in that kind of money under extractive taxes.

The bill is going to assist housing. It will assist municipalities on their water, sewers, schools, you name it. It will help the fishing industry. It will help virtually all areas of the industrial complex in Alaska in terms of its ability to borrow money from this bank (if you want to call it that) on a long term debt financing basis at rates that are more attractive than they could get in the private sector, for probably

those rates will be cheaper for two reasons. Mr. Garfinkle mentioned earlier that tax exempt versus taxable, you could probably look for a 2% savings in interest. I think that is true, 2 to 2-1/2, for credit per credit, but we are not talking about credit per credit. For a gentleman that is anticipating moving into the lumbering or perhaps fishing area, it might be a question whether he gets any money at all because in the case of this bank, you have got the security of the income of the permanent fund that is behind this loan. So, I think in terms of your small industrial borrowers, you are going to see substantially greater interest savings to them, and/or the difference between the ability to borrow any money at all versus not borrowing it.

In looking at this bond as such would emanate from this program, you've got a bond that is secured by two sources of revenue: the borrower's and the interest income from the permanent fund. The borrower's will vary probably fairly widely. To the extent that there is a lot of housing involved in any specific borrowing, your borrowers will probably be fairly strong (a fairly strong security aspect behind the bonds). To the extent that you have a lot of small industrial borrowers, your credit probably will be weakened to that extent. However,

the credit is essentially identical in all of the loans in that the anticipated source of revenue from the permanent fund will be very, very substantial.

Obviously, if you were to borrow under this program presently, under one of these bond issues presently, you are borrowing in anticipation of the security you are going to have in the future--the security from the permanent fund. I don't see that as any difficult problem in terms of marketing. You are, in terms of marketing this kind of issue, selling, in my opinion, a well secured obligation, and you are selling an unknown obligation; unknown to the extent that the investor, the institution, and the underwriter for that matter, has never been faced with a "critter" quite like this before. That doesn't mean that our industry hasn't been able to move enough to recognize a deal occasionally, but we are a little slow. It is different. It is unique. It is going to take some education on the part of the investors. I see no reason why that educational process, however, cannot commence and be successful in convincing the large institutional investors, as well as the individuals, that this "animal," this "creature" of the state legislature is one that is beneficial to an investment portfolio, and would be beneficial to the people of the state of Alaska.

A question was asked before in terms of congressional intent on changing, possibly, these ratios as to the amount of money that can be "diverted" to private enterprise. I think that if Alaska were to implement this type of program, it would be one of few states, if any other states, implementing it, and I have found, at least in my experience in the advanced refunding area, that until a program becomes highly visable and is utilized nationwide, the Treasury Department's interest in doing anything about it has been really insignificant. I think an example is the whole concept of advanced refunding which is under some change right now. I've been doing advanced refundings for 20 some years. We have never heard from the Treasury Department, and they never heard from us for many, many years until the large issues in Tennessee, Florida, Mississippi, and the East Coast started to be done, and then the Treasury Department felt there was a problem. I don't see a change in regulations in connection with those dollars that can be utilized in private industry.

I would like to try to answer some questions.

HOHMAN: Any questions of Mr. Wiesner?

GRUENING: Are you aware of what the present earnings from the permanent fund are?

WIESNER: Insignificant, because the permanent fund is so small. You'll not see earnings of any consequence until about 1981 or 82.

GRUENING: So that borrowings made in the next couple of years will be in anticipation of income. I am wondering whether - isn't the ultimate security the amount of the reserve whether it's permanent fund income or a cash reserve that is committed?

WIESNER: Define, if you will.

GRUENING: Well, there is nothing magic, is there, about the use of permanent fund income. If you allocated the same amount that you are estimating, but you don't know is going to accrue, but you think is going to accrue, actually allocate that in terms of cash to a reserve fund, aren't you providing a greater security in that the borrower doesn't have to anticipate--he's got it.

WIESNER: Well, to the extent that money is in hand versus promised, you know one in hand is always worth two in the bush, but -

GRUENING: In this case it's two in bush!

WIESNER: But in this case I think you are looking at something a little - (laughter in response to Rep. Gruening's previous statement precludes answer) In the sense that if money is needed <u>now</u>, and is borrowed <u>now</u>, the permanent fund is not in a position, <u>now</u>, of securing bonds of a substantial cash balance unless they were to use permanent money. A lender, a municipal lender, is lending money

on a longer term view. He is not lending on the basis of what is going to happen in Alaska next year or the year after. He is lending money, say for 20 or 25 years, and he is looking essentially at what the permanent fund is going to look like in years to come, and what reasonable sources of cash flow can he see out of the interest earnings off that fund. The fact that there is no yield this year, or very little, or next year, is not nearly as of great a consequence to him as how much does he think is going to be there 5 or 10 years from now, because that is what is going to pay him off--not the money that is there tomorrow.

GRUENING: Doesn't it require him to look at the underlying security of the permanent fund? In other words, the projects, incidentally, are based not on the security of the permanent fund, but on our oil income largely, so if the pipeline blows up or springs a leak, or there is a drop in the price of oil, these have the greatest impact on earnings at this point anyway, because we don't have a real investment plan developed for the permanent fund. My point is, wouldn't a reserve fund that we could set up today in larger quantity than could be established by flow of the income from the permanent fund help to get this program off the ground quicker then?

In other words, your suggestion is to establish, I think, a track record since there is no "critter" of this nature, you say, and perhaps starting a reserve fund to begin with so we can see whether establishing a track record might be better than anticipating income and having it materialize -

WIESNER: Let me paraphrase it, perhaps, in how I could look at an issue in two different categories. If you were to issue 100 million dollars in bonds today, and say we will put into a cash reserve today 25 million dollars (a good size figure or whatever) say 30 million dollars as security behind that bond, and that is what we are going to put up (no more, no less) but you've got 30 million to play with--versus buying a 100 million dollar issue and give me the security of the income from the permanent fund (admittedly not there today, or of any consequence, but over the next 20 years is going to amount to hundreds of millions of dollars) I will, if you will, take the two in bush versus the one in hand. I would rather have the security of the permanent fund (the total permanent fund income) than a cash balance in hand today, unless you were going to make the cash a hundred million dollars, assuming that is what the bond issue is.

GRUENING: (Question inaudible.)

Nancy Lord
c/o Malone

last '79 SB1

Original sponsor: Hohman

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

title change

For an Act entitled: "An Act relating to nonrenewable resource revenues; ~~to the investment, review and use of state revenues; to Alaska loan programs~~; to legislative oversight; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of those agencies of the state which perform lending or investment functions since those functions do not receive the detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and the state treasury. This need will be met by the enactment of AS 24.20.156 - 24.20.209 and secs. 3 and 4 of this Act.

* Sec. 2. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.156. PURPOSES. The purposes of the Legislative Budget and Audit Committee include

(1) monitoring and reporting

(A) the performance of the agencies of the state which perform lending or investment functions,

(B) the extent to which the performance of these agencies has contributed to the fiscal, financial, economic and social

improvement of the state and its citizens,

(C) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal, investment and financial planning;

(2) holding these agencies accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature;

(3) annually reviewing the extent of capitalization of the investment funds of the state and alternative investment policy for the general fund surplus and recommending needed legislation.

Sec. 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of suggested appointees to the Board of Trustees of the Alaska Permanent Fund Corporation and the Board of Trustees of the Alaska Renewable Resources Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for any needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the

general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs.

Sec. 24.20.209. RECORDS. The Legislative Budget and Audit Committee shall keep a complete file of all reports presented to it and all reports presented by it to the legislature or to a legislative committee.

* Sec. 3. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) hold public hearings on the confirmation of the members of the Board of Trustees of the Alaska Permanent Fund Corporation, and the members of the Board of Trustees of the Alaska Renewable Resources Corporation;

(9) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(10) enter into and enforce all contracts necessary or desirable for the functions of the committee.

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15

(1) 50
(2)
(3) 50% of all ... loans issued after July 1, 1979.

of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 100 per cent of mineral lease bonuses remaining after deduction of any amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

same

(2) 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state from mineral leases issued on or before July 1, 1979;

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device

managed to allow the maximum use of disposable income from the corporation as needed for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings established in AS 37.13.020.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. (a) There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

(b) The existence of the corporation is terminated on June 30, 1982, and its functions and responsibilities transferred to the Department of Revenue, unless the legislature continues its existence under the provisions of AS 44.66.050.

Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of five members appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The board shall annually elect a chairman from among its members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be appointed for terms of three years, and they may be reappointed subject to reconfirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms shall be two members serving for one year, two members serving for two years, and one member serving for three years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a vacancy is not created but the board member may not participate in board business and may not be counted for purposes of establishing a quorum. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers of a permanent board member until such time as the legislature in joint session fails to confirm the appointment of the interim board member.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.13.080. QUALIFICATIONS OF BOARD OF TRUSTEES. (a) No individual may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal

office, position or employment, either elective or appointive, except as a member of the armed forces of the United States or of this state.

(c) At least three members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related field.

Sec. 37.13.090. QUORUM. Three members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.100. COMPENSATION OF TRUSTEES. Members of the board receive an honorarium of $250 for each meeting day if they attend the meeting and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and all other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.

(b) If a member or employee acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule shall be applied by the board in the management and investment of permanent fund assets. The prudent-man rule as applied to investments of

the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (a), (h), and (i) of this section, the board may invest corporation assets in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and

which are secured as to the payment of principal and interest in accordance with Alaska law and for which a generally recognized secondary market exists;

(4) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(5) short-term corporate promissory notes of the highest rating assigned by a nationally recognized rating service;

(6) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(8) the guaranteed portion of Federal Small Business Administration loans;

(9) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;

(10) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(11) the guaranteed portion of Farmer's Home Administration loans.

(h) Investments under (g)(4) of this section may not exceed 25 per cent of the total investments of the fund. Investments under (g)(8) - (11) of this section may not exceed in the aggregate 25 per cent of the total investments of the fund.

(i) No portion of the assets of the fund may be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

no Federal Housing Adm. mortgages.

(j) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

amended on house bill

(k) Nothing in this section precludes in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.150. INCOME. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

dc

Sec. 37.13.160. BOARD BUDGET. The operating budget of the board

is from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.170. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the investments and investment programs of the corporation.

Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of corporation investments including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet. The board may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. Security instruments issued by the corporation, their transfer, and their income are exempt from all taxes

and assessments in the state.

Sec. 37.13.200. POLITICAL ACTIVITIES. The resources of the corporation may not be used to finance or influence any political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.220. DEFINITIONS. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation.

* Sec. 6. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 7. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Board of Trustees and executive director of the Alaska Permanent Fund Corporation.

* Sec. 8. AS 43.20.015 is repealed and re-enacted to read:

Sec. 43.20.015. INDIVIDUAL TAX CREDIT. (a) For tax years beginning after December 31, 1977, each individual filing an Alaska net income tax return is entitled to a cost-of-living credit provided for in

this section. For married taxpayers filing a joint return, the return may claim the credit for each spouse.

(b) The amount of the annual cost-of-living credit is as follows, but not exceeding the net tax liability of the taxpayer after application of all other credits:

(1) for the 1978 tax year -- $100;

(2) for the 1979 and 1980 tax years -- $100 plus an amount determined by the department under (c) of this section times the number of years, up to a maximum of five, that the taxpayer has filed a return under this chapter;

(3) for the 1981 and following tax years -- an amount determined by the department under (c) of this section times the number of years, up to a maximum of five, that the taxpayer has filed a return under this chapter.

(c) The additional credit amount under (b)(2) of this section, and the amount under (b)(3) of this section, is equal to the quotient of 50 per cent of the income of the Alaska permanent fund during the previous fiscal year divided by the total number of creditable years as determined in (d) of this section, but no additional credit amount may be allowed under (b)(2) or (b)(3) of this section until a constitutional amendment providing for dedication of at least 75 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state becomes effective.

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(d) The number of creditable years is the number of individual tax returns filed under this chapter in the current year multiplied by the number of years that the individuals filing those returns previously filed returns up to a maximum of five years per individual.

(e) For part-year resident and non-resident individual taxpayers,

the credit provided in this section shall be prorated according to the number of months present in the state for those years in which the taxpayer is claiming credit.

* Sec. 9. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. The purpose of the loan programs fund is to provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least five years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan programs fund in accordance with this chapter.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in ord to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipation notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may be paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when the definitive bonds or bond

anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee, will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge is made, and assets or revenues pledged are immediately subject to the lien of the pledge without physical delivery or further action. The lien of a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except that a sale may be restricted by the resolution providing for the issuance of the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce all rights granted under the coupons or under any other contract executed by

the fund under this chapter, and may enforce and compel the performance of all duties required by this chapter to be performed by the fund or by an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them, and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding

obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this chapter shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued by a body corporate and public of this state and for an essential public

and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may sell bonds at public or private sale until July 1, 1984. After July 1, 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account within the general fund called the allocated reserve account is established. One half of the income from the Alaska permanent fund established in AS 37.13.010 is allocated to the allocated reserve account, and other money may be appropriated to the account. The amounts necessary to fund the capital reserve account established under AS 45.96.140, the fire insurance and liability reserve account under AS 45.96.165, and the loss reserve account under AS 45.96.150 are allocated to those accounts from the allocated reserve account. All other expenditures from the allocated reserve account shall be in accordance with annual appropriations.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account within the general fund called the unallocated reserve account is established. The unallocated reserve account consists of any amount in excess of $100,000,000 remaining in the general fund at the end of a fiscal year

which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in AS 45.96.120 from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regulations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principal and interest account or the capital reserve account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when these obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the capital reserve account. The commissioner of revenue shall pay into the capital reserve account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequent sales, if any, of obligations of the issue secured, an additional amount equal to five per cent of the principal amount of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserve

account any amount in the capital reserve account in excess of five per cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaining principal balance of the obligations secured, pay into the account from the allocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by AS 45.96.120. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into the loss reserve account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the loss reserve account from the allocated reserve account the amount necessary to bring the balance of the loss reserve account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into the loss reserve account from the allocated

reserve account the amount needed to bring the balance of the loss reserve account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest as required by AS 45.96.420 shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of the loss reserve account exceeds five per cent of the remaining principal balance of the total amount of loans projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Fire ins. + liability reserve acct.

Sec. 45.96.160. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.165. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The

fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the division of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund under the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthly reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.180. BUDGET. The operating budget of the fund is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.190. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Commerce and Economic Development. Reports shall be made by the department to the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemization of each loan which has been in default for a period in

need to be Adm.

excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 45.96.170(b) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.200. LOAN PROCEDURES. The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices as necessary which shall be headed by district directors. A loan office shall provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

vet loans out

Sec. 45.96.210. ALASKA LOAN PROGRAMS COMMITTEE. There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Committee consisting of the directors, or their designees, of the following divisions: (1) the division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Department of Commerce and Economic Development, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development. The committee shall make a monthly report to the Legislative Budget and Audit Committee on the status of loan collections.

trimmed down duties

Sec. 45.96.220. COLLECTIONS; DIVISION OF COLLECTIONS. There is established within the Department of Commerce and Economic Development the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary

used to be Revenue

within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the department is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

Sec. 45.96.230. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, and public purposes.

Sec. 45.96.240. RESIDENTIAL HOUSING. The director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of AS 45.96.360,

Construction loans OUT

(1) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(2) purchase or participate in the purchase of mortgage loans made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(3) acquire real property, or any interest in real property, in the name of the fund, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(4) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(5) purchase, in order to meet the requirements of the sale

of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(6) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, a security instrument sold under this paragraph must be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.250. COMMERCIAL LOANS. (a) The director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of AS 45.96.270 and 45.96.280;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in

the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the director of the division of Alaska loan programs a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of AS 45.96.400 and 45.96.410, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.260. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under AS 45.96.250(a)(5) on the basis of the following criteria:

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of receipt of the application.

Sec. 45.96.270. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under AS 45.96.250(a)(2) shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under AS 45.96.270(a)(2) and covering a vessel documented under the laws of the United States and so long as the Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 342; 39 Stat. 728), as amended, remain ambiguous with respect to whether or not a state or state agency qualifies as a citizen of the United States for purposes of those Acts, the first lien requirement of this section may

be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection of a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of the United States. In the case of a security agreement given to secure a loan made under AS 45.96.250(a)(2) and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a first preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary of Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.280. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a) Loans under AS 45.96.250(a)(2) for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan programs, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

(1) the certificate for the pledged permit lists the director as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.290. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be made through the purchase by the fund of municipal bonds. Loans to nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality in which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued by

the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this subsection shall be the same as the cost of borrowing to the fund. Loans made under this subsection may not exceed $5,000,000 and are subject to the following conditions:

(1) The borough or city attorney shall certify that all legal requirements relating to required bond elections, if necessary, and to bond issuance have been met, or if the bonds are issued outside a municipality, certification shall be made by the Department of Law.

(2) The bonds shall be prepared by the municipality's attorney, approved by the attorney general and need not be in definitive form.

(3) The bonds shall be for a term commensurate with purpose, but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five years maturity;

(C) 50 points under the average for the next five years

maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five years maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly or indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least

10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in AS 45.96.370 - 45.96.410 do not apply to loans or purchases made under this section.

new section

Sec. 45.96.300. CERTIFICATE REQUIRED. No loan may be made or bonds purchased under AS 45.96.290 unless the commissioner of revenue has certified to the director of Alaska loan programs that, in the judgment of the commissioner, the borrower or seller has sufficient financial capacity, resources or assets to reasonably assure repayment of the loan or payment of the bonds when due.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest on bonds held or owned by the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state guaranteed or issued under this chapter there is established a special account called the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of

the obligations issued and sold after July 1, 1979 and upon subsequent sales, if any, of obligations of the issue secured an additional amount equal to five per cent of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reserve account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if the amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any income or interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted,

unless the municipality has provided otherwise by a resolution adopted before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is conducted has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not conducted within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of more than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the total of all costs of financing and carrying out a project are eligible for bonding under AS 45.96.290 - 45.96.330. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, recon-

struction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expenses of the issuer; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

scholarship loans out

Sec. 45.96.350. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) The director of the division of Alaska loan programs may make loans from the fund to a business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.360. ELIGIBILITY. In order to be eligible for a loan under this chapter, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. A corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full individual liability for repayment of the loan. A loan to a corporation is immediately due and payable if the corporation ceases to meet the eligibility requirements of this section. The eligibility requirements of this section do not apply to loans made under AS 45.96.330. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.370. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of AS 45.96.240 for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling; (2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of AS 45.96.250 may not exceed:

(1) $500,000 by a borrower for business activities; farm

development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other commercial activity not specifically provided for in this section;

(2) $350,000 by a borrower for farm chattels other than irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10 individual borrowers participating in the project and the loan to each individual borrower does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

education loans out

(d) A loan may not be made under (c) of this section if a borrower or an owner of stock in a corporate borrower has unpaid debt on a loan made under (c) of this section.

(e) A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the

borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979, is the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.380. AREA COST DIFFERENTIAL. (a) The maximum loan amounts established in AS 45.96.370(a) and (b) shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determi-

nation.

Sec. 45.96.390. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in AS 45.96.370(b) and 45.96.380 shall be further limited, based upon the actual technical and managerial experience in Alaska of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience in Alaska is less than two years, he may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience in Alaska is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience in Alaska is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience in Alaska is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience in Alaska is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.400. VALUE LIMITATION. The provisions of AS 45.96.-370 - 45.96.390 notwithstanding, no loan made under this chapter, unless it is a loan made under the provisions of AS 45.96.330, may exceed

(1) 95 per cent of the appraised value of an owner-occupied single family dwelling for which the loan is made;

(2) 90 per cent of the appraised value of an owner-occupied multiple dwelling with four or less units for which the loan is made;

(3) 80 per cent of the appraised value of other residential real property for which a loan is made;

(4) 75 per cent of the appraised value of other real or personal property pledged as security for a loan.

down from 80%

Sec. 45.96.410. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property

pledged as security for the loan or

(1) 30 years on a loan secured by residential real property;

(2) 20 years on a loan secured by real property other than residential real property;

(3) eight years or the life of the equipment on a loan secured by equipment used for production of income;

(4) five years on a loan secured by tangible personal property.

Sec. 45.96.420. RATE OF INTEREST. (a) The rate of interest charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost of money to the fund for the loss reserve account plus the amount required for any necessary insurance. However, the rate of interest charged a municipality may be lower if necessary to prevent bonds issued under this chapter from being arbitrage bonds under sec. 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost of money to the fund made by the commissioner is conclusive. Rates of interest less than the rate established by this subsection may be charged if the renewable resource development fund or another state fund pays the difference between the cost of money to the fund and the interest rate charged or if an appropriation is made to pay the difference.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made for agricultural purposes. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower.

(c) When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

veterans OUT

Sec. 45.96.430. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.440. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the director of the Alaska loan programs fund on request. The fund shall reimburse the department, agency or corpora-

tion for expenses reasonably incurred under this section.

Sec. 45.96.450. BANK PARTICIPATION. (a) Loans made under the authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.460. ASSURANCE REQUIRED. (a) For each loan made from the fund, the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan pro-

grams as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.470. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund created in AS 45.96.020.

* Sec. 10. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 11. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR GRANTS [LOANS]. Only public or nonprofit private corporations are eligible for grants [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. 501(c)(3) and (4) [501(c)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 12. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corporations designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 13. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be

served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 14. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO DIVISION OF TREASURY [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the division of treasury of the Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the division of treasury [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 15. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

9/ Surplus

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law,

(5) corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Federal Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) and [AS 03.10] AS 26.15;

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements or reverse repurchase agreements.

* Sec. 16. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the ap-

proval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

* Sec. 17. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and execution of transactions, in or out of Alaska.

* Sec. 18. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 19. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 20. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in AS 37.10.070, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure

state deposits provided for under this section.

* Sec. 21. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to municipalities, of up to one-half the nonfederal share of costs of projects described in AS 41.22.010 which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 22. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 23. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking, economics, or another closely related field;

(2) have five years of experience in banking or investment

management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds, except the permanent fund established in AS 37.13, and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department. However, the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of those functions.

* Sec. 24. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 25. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 26. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 7 - 10, 18 - 19, and 24 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than January 1, 1980.

* Sec. 27. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.159. <u>GENERAL FUND; COMPREHENSIVE LOAN PROGRAM RESERVE ACCOUNT</u>. (a) There is created within the general fund the comprehensive loan program reserve account.

new

15% of principal

(b) Fifteen per cent of the annual receipts paid the state from mineral lease rentals for state land and royalties derived from minerals produced on state land shall be allocated to the comprehensive loan program reserve account.

(c) The proceeds of the comprehensive loan program reserve account are subject to annual appropriation in the general appropriation Act and may be appropriated to the allocated reserve account established in AS 45.96.120.

(d) The term "comprehensive loan program" as used in this section means the loan program established under AS 45.96.

* Sec. 28. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury, and division of collections are in the classified service and may not be designated as partially exempt;

* Sec. 29. TRANSITION. Section 8 of this Act and AS 43.20.015(b)(1) in sec. 8 of this Act are intended to assure that taxpayers are allowed the credit provided for the 1978 tax year by AS 43.20.015 as enacted in ch. 144 SLA 1978, and to avoid a double credit for that tax year.

* Sec. 30. TRANSITION. The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the board of trustees of the corporation.

* Sec. 31. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 16.10.300; 16.10.310(a)(1), (4), and (5); 16.10.320; AS 18.100.030(1) and (4), 18.100.040 - 18.100.060; AS 41.22.-

14.40 - no scholarship loans
26.15 - no vet loans

020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 32. AS 37.10.065(c), 37.10.075(b) - (d), 37.10.079; and AS 44.25.020(2) are repealed.

* Sec. 33. AS 37.10.065(a) and (b) are repealed.

* Sec. 34. The unobligated general fund surplus as of June 30, 1979, in excess of $100,000,000 shall lapse into a special account in the general fund. Money in the special account may be used only from June 30, 1979, to December 31, 1979, for purchase of evidences of indebtedness acquired or to be acquired after June 30, 1979, and before December 31, 1979, from state loan programs which were in existence on January 1, 1979. Loans purchased with money in the special account must bear interest at an annual rate of nine and one-half per cent. Despite any provisions in existing loan programs, all state loans to be purchased with money in the special account bear interest at an annual rate of nine and one-half per cent. Before January 31, 1980, the governor shall certify to the legislature the balance remaining in the special account and that balance may be appropriated to the principal of the permanent fund established by AS 37.13.010.

* Sec. 35. Section 8 of this Act is retroactive to January 1, 1978.

* Sec. 36. Sections 9, 14 - 20, 23 - 28, and 34 of this Act take effect June 30, 1979.

* Sec. 37. Sections 10 - 13, 21, 22, and 31 of this Act take effect June 30, 1980.

* Sec. 38. Section [illegible] of this Act takes effect upon transfer of the funds

of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 30 of this Act. The remainder of this act take effect July 1, 1972

* Sec. 39. Sections 1 - 8, 29, 30, 32, and 35 of this Act take effect immediately in accordance with AS 01.10.070(c).

Introduced: 2/23/79
Referred: Commerce and Finance

IN THE SENATE BY HOHMAN

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, investment oversight and post-audit functions.

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment oversight division is established as a permanent staff agency responsible to the Legislative Budget and Audit Committee for the performance of oversight and review functions to provide information on the policy

and performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.331. STAFF. (a) The committee shall hire and determine the salary of the division director who shall serve both at the direction and pleasure of the committee. The director shall serve as head of the investment oversight division and, within the limits of the budget approved by the committee, shall employ and determine the compensation of the professional and clerical staff of the division.

(b) The director and members of the professional and clerical staff shall not join or support a partisan political organization. This prohibition does not prevent the director or members of the staff from joining social organizations, expressing private opinion, registering as to party or voting.

Sec. 24.20.341. DUTIES. The investment oversight division shall

(1) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(2) review periodic reports from all agencies of the state which perform lending or investment functions;

(3) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the Legislative Budget and Audit Committee at the time the committee directs;

(4) present to the committee within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d);

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

Sec. 37.13.020. INVESTMENT OF THE PERMANENT FUND. (a) The prudent-man rule is applicable to the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the permanent fund means that in making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large in-

vestments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital.

(b) The permanent fund assets may only be used for income-producing investments.

(c) The commissioner shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The commissioner shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) Subject to (a) and (b) of this section, the commissioner may invest permanent fund assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

(1) No portion of the assets of the permanent fund may be used in the purchase of stock of a corporation which is not paying dividends on that stock in cash at the time of purchase; nor in the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the permanent fund may be used in the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the fund would exceed 30 per cent of the assets of the fund.

(f) Subject to (a) and (b) of this section, the commissioner may

invest permanent fund assets in

(1) Federal Housing Administration mortgages;

(2) Federal Veterans Administration mortgages;

(3) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage.

(g) To qualify as a mortgage or secured loan which may be purchased by the commissioner under (h) of this section, the mortgage or secured loan shall

(1) be secured by real estate in the state;

(2) have as a mortgagor an Alaska resident or a corporation in which at least 60 per cent of the stock is owned by Alaska residents;

(3) be certified by the originating financial institution that the loan being sold has been made in compliance with law and that liens supporting the loan have been perfected;

(4) have no initial closing fees or service fees which exceed one-half of one per cent, excluding closing costs.

(h) The commissioner may purchase loans provided for in (f) of this section only from financial institutions which are operating under the national banking laws, federal savings and loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

(i) The commissioner shall establish and from time to time as necessary modify guidelines for the investment of permanent fund assets. Before adoption of any investment guidelines, the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment. Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.030. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by

gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.040. INCOME. The interest and dividends received in a year are the income of the permanent fund for that year. The income available for allocation to the allocated reserve account established in AS 45.96.120 shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for allocation will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

Sec. 37.13.050. BUDGET. The operating budget is from the general fund unless the legislature specifically appropriates from the unallocated reserve and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.060. ACCOUNTING. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee

on at least a monthly basis. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 37.13.020(d) and (i) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the fund.

Sec. 37.13.070. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the commissioner of revenue shall publish a report for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by the legislative audit division, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of fund investments including an appraisal at market value, a description of fund investment activity during the period covered by the report, an examination of the impact of the investment criteria of this chapter on the fund portfolio with recommendations for any needed changes and any other information the commissioner believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the fund shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet.

* Sec. 6. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. Efficient use of the capital resources

of the state will be promoted by creating a single loan fund to provide a single source from which potential users can acquire a state loan and obtain information about existing federal or private loan programs which will better serve the needs of the user or which will complement a proposed state loan. A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The purpose of the loan programs fund is to provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least eight years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan

programs fund in accordance with AS 45.96.010 - 45.96.490.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in order to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipation notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may be paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for

bonds or bond anticipation notes when the definitive bonds or bond anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge is made, and assets or revenues pledged are immediately subject to the lien of the pledge without physical delivery or further action. The lien of a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except that a sale may be restricted by the resolution providing for the issuance of the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce all

rights granted under the coupons or under any other contract executed by the fund under this chapter, and may enforce and compel the performance of all duties required by this chapter to be performed by the fund or by an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them, and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this chapter shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued

by a body corporate and public of this state and for an essential public and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may sell bonds at public or private sale until July 1, 1984. After July 1, 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account within the general fund called the allocated reserve account is established. The income from the Alaska permanent fund established in AS 37.13.010 is allocated to the account. Other money may be appropriated to the account. The amounts necessary to fund the capital reserve account established under AS 45.96.140, the fire insurance and liability reserve account under AS 45.96.160, and the loss reserve account under AS 45.96.150 are allocated to those accounts from the allocated reserve account. All other expenditures from the allocated reserve account shall be in accordance with annual appropriations.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account within the general fund called the unallocated reserve account is established. The unallocated reserve account consists of any amounts remaining in the

general fund at the end of a fiscal year which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in AS 45.96.120 from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regulations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principal and interest account or the capital reserve account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the capital reserve account. The commissioner of revenue shall pay into the capital reserve account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequent sales, if any, of obligations of the issue secured, an additional amount equal to five per cent of the principal amount of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserve

account any amount in the capital reserve account in excess of five per cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaining principal balance of the obligations secured, pay into the account from the allocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by AS 45.96.120. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into the loss reserve account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the loss reserve account from the allocated reserve account the amount necessary to bring the balance of the loss reserve account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into the loss reserve account from the allocated

reserve account the amount needed to bring the balance of the loss reserve account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest paid by the fund required by sec. 430 of this chapter shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of the loss reserve account exceeds five per cent of the remaining principal balance of the total amount of loans projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obliga-

tions of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the division of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund under the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthly reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.190. BUDGET. The operating budget is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemi-

zation of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 45.96.180(b) and 45.96.240(b) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices as necessary which shall be headed by district directors. The office shall provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

(b) Each district loan office shall include a veterans' loans section. The veterans' loans section shall process loan applications from applicants who meet the eligibility requirement of AS 45.96.440. The veterans' loan section shall also provide information and assistance to veterans relating to loan applications under this chapter, other state loan programs or state grant programs, federal loan or grant programs, and to the extent feasible, private loans.

Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a) There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Evaluation Committee consisting of the directors, or their designees, of the following divisions: (1) the division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Department

of Revenue, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development.

(b) The committee shall notify recipients of loans under the provisions of this chapter who have been delinquent in their loan repayments for a period in excess of 30 days. Upon notification of delinquency, the borrower may request reevaluation and technical assistance from the committee. If the borrower requests reevaluation, the committee shall consider the terms and conditions of the loan as well as all other pertinent information to determine whether there are feasible alternative terms and conditions which will protect the interest of the state and prevent the default of the loan.

(c) In performing the duties described in (b) of this section, the committee shall have access to all nonconfidential records, data, information, and statistics of all departments, boards, commissions, agencies, and institutions of the state. The committee shall also have access to any records or other information of the borrower which are pertinent to its investigation. Failure on the part of the borrower to provide the records or information shall be grounds for refusal to reevaluate.

(d) If the committee determines that alternative terms and conditions are available which will protect the interest of the state and prevent default of the loan, it may renegotiate the loan in accordance with those terms.

Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There is established within the Department of Revenue the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the depart-

ment is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

(b) If a borrower who has received notification of delinquency in accordance with AS 45.96.220 does not request reevaluation, or if the evaluation committee determines that renegotiation of the existing terms and conditions is not feasible or justified, and the loan is not brought current within 30 days after the notification of delinquency is sent, the loan shall be transferred to the loss reserve account and transmitted for collection to the division of collections. A monthly report of the status of the collection effort shall be made to the Legislative Budget and Audit Committee. The total principal and interest due shall be transferred from the loss reserve account to the fund upon assignment of each loan.

Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, public purposes, and education.

Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of AS 45.96.370,

(1) make or participate in the making of construction loans from the fund to sponsors, developers, and builders of residential housing;

(2) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(3) purchase or participate in the purchase of mortgage loans

made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(4) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(5) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(6) purchase, in order to meet the requirements of the sale of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(7) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, the security instrument shall be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or

corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of AS 45.96.295 and 45.96.297;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the fund a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of

Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of AS 45.96.410 and 45.96.420, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under AS 45.96.270(5) on the basis of the following criteria:

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of

receipt of the application.

Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under AS 45.96.270(2) shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States and so long as the Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39 Stat. 728), as amended, remain ambiguous with respect to whether or not a state or state agency qualifies as a citizen of the United States for purposes of those Acts, the first lien requirement of this section may be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection of a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of the United States. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a first preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary of

Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.297. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a) Loans under AS 45.96.270(2) for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan programs, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

(1) the certificate for the pledged permit lists the director as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be made through the purchase by the fund of municipal bonds. Loans to nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality in which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued by the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this subsection shall be the same as the cost of borrowing to the fund. Loans made under this subsection may not exceed $5,000,000 and are subject to the following conditions:

(1) The borough or city attorney shall certify that all legal requirements relating to required bond elections, if necessary, and to bond issuance have been met, or if the bonds are issued outside a municipality, certification shall be made by the Department of Law.

(2) The bonds shall be prepared by the municipality's attorney, approved by the attorney general and need not be in definitive form.

(3) The bonds shall be for a term commensurate with purpose, but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive

basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five years maturity;

(C) 50 points under the average for the next five years maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five years maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly or indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years

maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in AS 45.96.400 - 45.96.430 do not apply to loans or purchases made under this section.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest on bonds of the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if

default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state and those bonds on behalf of nonprofit corporations guaranteed or issued under this chapter there is established a special account called the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of the obligations issued and sold after July 1, 1979 and upon subsequent sales, if any, of obligations of the issue secured an additional amount equal to five per cent of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reserve account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if the amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any income or interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director

of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted, unless the municipality has provided otherwise by a resolution adopted before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is performed has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not performed within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of greater than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has

a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the sum total of all costs of financing and carrying out a project are eligible for bonding under AS 45.96.300 - 45.96.330. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expenses of the issuer; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

Sec. 45.96.350. EDUCATION. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make scholarship loans from the fund to students selected under (b) - (g) of this section.

(b) Proceeds from scholarship loans may only be used for transportation, books, tuition and required fees, and for room and board. The loans may only be used to attend a career education program approved by the Alaska Commission on Postsecondary Education or a college or university accredited by the accreditation association for the region in which the college or university is located or approved by the commission.

(c) To maintain a loan the student must continue to be enrolled as

a full-time student in good standing in a work study program approved by the Department of Education, in a career education program, or in a college or university designated under (b) of this section.

(d) Loans are noninterest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (g) of this section if appropriated funds are available for payment to the fund of the interest.

(e) The repayment period for student loans is 10 years. Unless a deferment of payments has been granted under (g) of this section, repayment shall commence when the student terminates his studies. In case of hardship, the Alaska Loan Programs Evaluation Committee may extend repayment of a loan for an additional period of up to five years.

(f) If, upon completion of the course of study for which the loan was granted, the borrower repays 60 per cent of the principal amount of the loan with interest with no delinquency, the remaining 40 per cent owing shall be forgiven if appropriated funds are available for payment to the fund of the amount forgiven.

(g) The Alaska Loan Programs Evaluation Committee shall defer repayment of a loan during any of the following:

(1) the first year after a student terminates his studies;

(2) return by the student to student status as provided in (c) of this section;

(3) performance by the student of military or required alternative service; or

(4) 50 per cent or greater disability of the student, as certified by competent medical authority.

Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to a

business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan under this chapter, other than a loan made under AS 45.96.350, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. Except for loans made under AS 45.96.330, a corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full indi-

vidual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility requirements. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of AS 45.96.260 for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling; (2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of AS 45.96.270 may not exceed:

(1) $500,000 per individual for business activities; farm development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish manufacturing and processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other activity not otherwise specifically provided for in this section;

(2) $350,000 per individual for farm chattel other than for irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10

individuals participating in the project and the loan to each individual does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

(d) Educational loans made under the authority of AS 45.96.350 may not exceed:

(1) $4,000 per individual per year for undergraduate studies;

(2) $8,000 per individual per year for graduate studies;

(3) $4,000 per individual per year for vocational studies;

(4) $4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled

by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan amounts established in AS 45.96.380(a) and (b) shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determination.

Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in AS 45.96.380(b) and 45.96.390 shall be further limited, based upon the actual technical and managerial experience of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience is less than two years, he

may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.410. VALUE LIMITATION. The provisions of AS 45.96.-380 - 45.96.400 notwithstanding, no loan made under this chapter, unless it is a loan made under the provisions of AS 45.96.330, may exceed

(1) 90 per cent of the appraised value of real property pledged as security for the loan;

(2) 95 per cent of the appraised value of real property pledged as security for the loan if the loan is for residential housing in an area where Federal Housing Administration mortgage insurance is not available; or

(3) 80 per cent of tangible personal property pledged as security for the loan.

Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property pledged as security for the loan nor

(1) 30 years on a loan secured by real property;

(2) 15 years or the life of the equipment on a loan secured by equipment used for production of income;

(3) seven years on a loan secured by tangible personal property.

Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest

charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost for the loss reserve account plus the amount required for any necessary insurance, but the rate of interest charged may be lower if necessary to prevent bonds issued under this Act from being arbitrage bonds under the provisions of and regulations under section 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost by the commissioner is conclusive. Rates of interest less than that, except as provided in (b) of this section, may be charged if the renewable resource development fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or if appropriation for the purpose of paying the difference has been made.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made to a veteran or is made for agricultural purposes. If the loan is made to a veteran, the World War II veterans' revolving fund, created in AS 26.-15.090, shall pay the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made to a veteran and for agricultural purposes, the rate of interest shall be reduced by two per cent and each fund shall pay one-half the difference.

(c) When the World War II veterans' revolving fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made to veterans apply only if

appropriation is made for the purpose of paying the difference. When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The following persons are eligible for special interest rates for veterans established in AS 45.96.430(b);

(1) a person who served in the armed forces of the United States for 90 days or more, or whose service was for less than 90 days because of injury or disability incurred in the line of duty, between April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to six months after termination of hostilities involving United States forces in Indo-China, or in a combat zone during any period of armed conflict, who was separated from the armed forces with a discharge other than dishonorable, and

(A) who at the time of induction into the service was a resident of the territory or state, who had been a resident for not less than one year immediately before his induction, and who returned to the territory or state after discharge as a resident with the intention of remaining in the territory or state; or

(B) who, not being a bona fide resident of the territory or state before his entry into the service, has been a resident of the territory or state for five or more years;

(2) a person who was dependent on a member of the armed forces or a veteran of World War II at the time of the member's or veteran's death if

(A) the member or veteran was a resident of the territory for one year before induction into the service;

(B) he served in the armed forces for at least 90 days between September 16, 1940, and July 25, 1947, but no benefits for loans accrue to dependents of an enlistee or reenlistee for time served after November 1, 1945, regardless of whether the enlistment or reenlistment was before or after November 1, 1945;

(C) he died before the official date of the termination of that war; and

(D) his discharge was not dishonorable;

(3) a person who has served in the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia for not less than six years and who has not received a discharge other than honorable.

(b) The provisions of AS 45.96.430(b) are extended to persons who served other than dishonorably on active duty between June 25, 1950, and January 31, 1955, who served other than dishonorably on active duty between August 4, 1964, and six months after termination of hostilities involving forces of the United States, and to dependents of those persons, subject to the following provisions and eligibility qualifications:

(1) a discharge other than dishonorable from the armed forces of the United States or release to a reserve component;

(2) at the time of entry into the service residency in the territory or state for not less than one year before entry into the service, and return to the territory or state within a reasonable length of time after discharge or separation with the intention of remaining in the territory or state; or lacking residency before entry into the service, residency in the territory or state for at least five years following release from active military service; and

(3) service in the armed forces of the United States for

90 days or more, or service for a lesser period because of injury or disability incurred in line of duty, between June 25, 1950, and January 31, 1955, or service in the armed forces of the United States for 90 days or more or service for a lesser period because of injury or disability incurred in line of duty, between August 4, 1964, and July 1, 1977.

(c) A person who is eligible under more than one of the qualification provisions of (a) and (b) of this section shall have the rate of interest on his loan reduced by one and one-half per cent.

Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from the fund the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan programs as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund created in AS 45.96.020.

* Sec. 7. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 8. AS 14.40.751(a) is amended to read:

(a) There is created a scholarship revolving loan fund. [THE FUND SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUND AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FROM THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

* Sec. 9. AS 14.40.755(b) is amended to read:

(b) A person whose [LOAN OR] grant application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application.

* Sec. 10. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR GRANTS [LOANS]. Only public or nonprofit private corporations are eligible for grants [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. 501(c)(3) and (4) [501(e)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 11. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corporations designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 12. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 13. AS 29.13.100 is amended by adding a new paragraph to read:

(39) AS 29.58.290 (industrial development bonds)

* Sec. 14. AS 29.58 is amended by adding a new section to read:

Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality, home rule or otherwise, may issue a revenue bond which is an industrial development bond under the provisions of the Internal Revenue Code of 1954 (26 U.S.C. 103).

* Sec. 15. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO DIVISION OF TREASURY [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the division of treasury of the Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the division of treasury [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 16. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obli-

gations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

(5) corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Fede .l Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) [AS 03.10 AND AS 26.15];

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements, reverse repurchase agreements, or any trading practice or instrumentalities that may evolve investment management.

* Sec. 17. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the approval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income

and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a · solution concurred in by a majority of the members of each house.

* Sec. 18. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and execution of transactions, in or out of Alaska.

* Sec. 19. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 20. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 21. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in AS 37.10.070, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure state deposits provided for under this section.

* Sec. 22. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury and division of collections are in the classified service and may not be designated as partially exempt;

* Sec. 23. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to municipalities, of up to one-half the nonfederal share of costs of projects described in AS 41.22.010 which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 24. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 25. AS 44.21.020 is amended by adding new paragraphs to read:

(13) provide accounting services for the permanent fund (AS 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable resources development fund (AS 37.11), and all other state funds;

(14) provide detailed accounting of state loans outstanding and securities held by the state.

* Sec. 26. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established

within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking, economics, or another closely related field;

(2) have 10 years of experience in banking or investment management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department, except that the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of these functions.

* Sec. 27. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 28. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 29. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 7 - 12, 23 - 24, and 30 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than January 1, 1980.

* Sec. 30. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771; AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4), 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 31. AS 37.10.065, 37.10.075(b) - (d), 37.10.079; and AS 44.25.-020(2) are repealed.

* Sec. 32. Sections 1 - 6, 13 - 22, 25 - 29, and 31 of this Act take effect June 30, 1979. The unobligated general fund surplus as of June 30, 1979 shall lapse into the unallocated reserve account created in AS 45.96.125 on June 30, 1979.

* Sec. 33. Sections 7 - 12, 23, 24 and 30 of this Act take effect June 30, 1980.

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October 1, 1979

Mr. Peter A. Bushre
Deputy Commissioner
Department of Revenue
Treasury Division
State of Alaska
Pouch SB
Juneau, Alaska 99811

Dear Peter:

Enclosed you will find our draft response to the questions posed in your letter of June 18, 1979 regarding Senate Bill 1. This is a draft so as to afford you and your colleagues an opportunity to comment and suggest additions or revisions prior to our issuing a "final" version to the Bond Committee.

I expect we will want to schedule a review session on my next trip to Juneau. In the interim, don't hesitate to call should you need additional information.

Best regards.

Sincerely,

Tony

Anthony T. Dean
Asst. Vice President

ATD:Lmc

cc: Thomas K. Williams
Commissioner of Revenue

bcc: Sterling Gallagher ✓
Elizabeth Reid
Wally Filkin

The Alaska State Bond Committee has asked that, as financial advisor to the State, we analyze provisions of Senate Bill 1 relating to the Alaska Loan Program Fund and that we respond to several specific questions concerning this legislation.

S.B. 1 attempts to provide a consolidated and comprehensive loan program offering low cost loans for the following purposes and/or borrowers:

(1) Farmers
(2) Commercial fishermen
(3) Local development companies
(4) Statewide development activities
(5) Childcare facilities
(6) Small businesses
(7) Forest products enterprises
(8) Renewable resources activities
(9) Municipal projects
(10) Industrial development by exempt persons
(11) Tourism facilities
(12) Historic restoration activities
(13) Open space acquisition
(14) Residential housing

The resources with which to fund such loans will be derived from a sale of revenue bonds in the tax-exempt market pursuant to approval by the State Bond Committee. Loan repayments will be structured in such a manner as to provide funds sufficient to service the principal and interest payments on the bonds, meet certain insurance premium expenses, provide for servicing and administrative expenses, and fund certain reserve accounts. The bonds are to be secured by a pledge of the notes evidencing the loans, the revenues to be derived pursuant to repayment of the loans, and amounts in the following reserve accounts:

(1) Debt service reserve
(2) Capital reserve
(3) Loss reserve
(4) Fire and casualty reserve, and
(5) Allocated reserve

In addition, the bonds may be secured by a guarantee from the Permanent Fund Corporation to the extent of Permanent Fund income. As currently drafted, S.B. 1 provides that servicing of loans will be handled by a collections division within the Department of Commerce and Economic Development.

S.B. 1, in its current state, represents a preliminary and conceptual attempt to achieve the goal of a consoldiated and expanded state loan program. With respect to certain aspects of the program, appropriate

authority is not included in the legislation, whereas in developing loan criteria and other operating procedures, the legislation is entirely too specific and detailed to provide a workable basis for the structuring of a marketable revenue bond. As a result, it may be that the authors of the legislation can resolve many of our concerns by more careful drafting. In any event, our response will deal with the bill as it is now drafted.

STRUCTURE OF AN ALASKA LOAN PROGRAM REVENUE BOND

Pool Structure

At the outset it is important to consider whether the loan program revenue bonds will be issued against a previously orginated pool of loans or will fund a blind pool of loans to be originated at some future time in accordance with preestablished credit criteria.

In the former case, investors can evaluate the security represented by the loan agreements, assess the credit-worthiness of the borrowers and evaluate the security enhancements associated with certain third party guarantees or personal guarantees which may further secure the loans in the pool. The use of a blind pool requires that investors place considerable reliance on the administrative skills of those civil servants administering the program and that certain criteria be established for each type of loan category to better ensure that all loans subsequently placed in the loan pool will meet the credit requirements of potential investors.

In addition, if separate series of bonds are issued to finance single purpose loan pools (e.g. single family housing or commercial loans to renewable resource enterprises) a different approach would be appropriate for each type of loan. Residential mortgage loan pools are typically created from bond proceeds in accordance with the criteria established prior to issuance, whereas commercial loans might be better financed as a known pool rather than a blind pool. The Connecticut Development Authority issues its industrial project bonds against a known pool of loans to qualifying business enterprises. The Pennsylvania Industrial Development Authority and the Puerto Rico Industrial Company issue bonds against blind pools which authority staff will originate pursuant to preestablished criteria.

Loan Criteria

In whatever manner the underlying loan pools are assembled, loan criteria will be required to assure potential investors that loans being originated will meet certain minimum standards of credit-worthiness. In addition, because the loan fund is authorized to participate in the financing of such a wide range of activities, no general standards or criteria can be established applying to all potential loan categories.

As a result, it is likely that separate series of revenue bonds will have to be issued to finance loans for each category. Along lines of a broad division between bonds issued to finance residential housing, those issued to finance commercial loans, and those issued to finance municipal improvements, the rating agencies will likely perform separate and distinct analyses, assigning separate and distinct ratings to each such category.

Because of these complicating factors, loan criteria should not be set out in the statutory language, but the agency should be authorized to establish such loan criteria as are consistent with sound financial practices. The rating agencies and the market will dictate the criteria to be incorporated in the underlying legal documents. Such criteria may well include loan to value ratios, maximum loan limits, showings of historic and/or projected loan repayment coverage, limitations on the permitted indebtedness of borrowers, requirements for additional security including pledge of assets not being financed by the loan, personal guarantees or guarantees by third parties and, where available or appropriate, requirements for private mortgage insurance, casualty and special hazard insurance.

Servicing

Servicing the underlying loan agreements will involve considerably more than simply collecting loan repayments as they become due. Of primary importance to potential purchasers of the revenue bonds will be administrative provisions and experience in monitoring a substantial portfolio of diverse loans. The Collections Division must have the administrative flexibility and capability to move promptly to prevent losses. For different types of loans, different servicing arrangements will be appropriate and, where possible, private financial institutions should be used.

Term and Rate

The legislation provides specific direction regarding loan maturities and interest rates, matters which would better be left to the discretion of the commissioner and market. It can be assumed that loan maturities will match the economic life of the facilities being financed. Relatively liberal prepayment provisions and procedures for assumption of debt would be included in most loan agreements. It should be noted, however, that the uncertain repayment schedule for such a loan pool would require mandatory call provisons for the revenue bonds, which in turn may lead to a slight premium in the market.

Loans would bear interest at rates which would vary according to the function, purpose, or issuer served within the broad menu of loan programs to be funded under this legislation. There are substantial differences in financial strength and ability to repay among the universe of borrowers to be served and these distinctions would be reflected in

interest rate and credit rating. Any attempt to pool stronger credits with weaker credits will serve to penalize the stronger credits in order to subsidize weaker credits and do so inefficiently, since investors may well focus on the weaknesses rather than the strengths. In addition, IRS rulings severely limit the policy of industrial development loans. It is for this reason that separate series of bonds would be necessary to accommodate the wide variety of underlying credit standards.

Arbitrage

The relationship of the interest rate on the bonds and the interest rates on the loans is subject to the applicable arbitrage regulations of the Federal Internal Revenue Service and several specific provisons of the proposed statute. Under present arbitrage regulations, the allowable yield on the loans is limited to the cost of borrowing except when bond proceeds are invested in obligations that carry out the purpose of a governmental program. To satisfy the requirements of a "governmental program," the loans purchased with bond proceeds must be loans to a substantial number of persons representing the general public, loans to exempt persons within the meaning Section 501(C)(3), or loans to provide housing and related facilities. Where these requirements are met, the loan may bear an interest rate which is 150 basis points (i.e., 1 1/2%) above the yield on the revenue bonds (as calculated in accordance with IRS regulations). The allowed 150 basis points of arbitrage spread must be sufficient to meet servicing expenses, trustee's fees, administrative expenses charged to the program by state agencies, insurance premiums for policies required by the terms of the revenue bond offering and the funding of any special reserves. These costs cannot be added over and above the 150 basis point spread.

Where the 150 basis point arbitrage spread is not allowed, these same expenses must be met from other sources of revenue. Even should all loan programs presently contemplated by the legislation qualify for the 150 basis point spread, such treatment is not indefinitely assured. Legislation now before the U.S. Congress would serverely restrict the use of tax-exempt revenue bonds to finance residential housing and curtail the use of arbitrage to meet program expenses. Legislation or regulation with a similar effect on other types of loan programs may be promulgated in the future.

The legislation allows for rates of interest upon the loans less than those allowed by the arbitrage regulations or less than the yield on the revenue bonds, if the Renewable Resource Development Fund or another state fund agrees to pay the difference between the cost of money for the state and the interest rate to be charged program participants. Agricultural loans are specifically authorized at a rate of 1% below the allowed arbitrage rate with any deficiencies to be made up by the Agricultural Revolving Fund. The effect of these provisions will be to cause investors to look beyond the loan pool securing such a series of

revenue bonds and scrutinize carefully the resources available to the revolving fund or other state funds which have been pledged to meet interest deficiencies.

Security

The revenue bonds, the proceeds of which will fund these different loan programs, will necessarily be issued in different series to reflect the varying financial strength of the participants and the functional uses of the funds as well as to reflect the various structural arrangements which have become customary in each functional area of revenue bond financing. For example, the market will expect a bond issue secured by single family mortgage loans to be structured similarly to other housing issues and would not expect that a bond issue secured by commercial loans have comparable features especially in consideration of IRS small issue limitations. Security provisions certainly will vary according to the strength of the ultimate borrowers.

The legislation provides for a complex set of reserves which are described in brief summary in the following table.

FUND	CONTROL	SOURCES	USES
A. General Fund			
1. Allocated Reserve	Trustee	-1/2 of income from Permanent Fund	-Capital Reserve Account
		-Appropriation from Unallocated Reserve	-Fire & Casualty Insurance Acct.
			-Loss Reserve Acct.
2. Unallocated Reserve	State of Alaska	-All amounts in General Fund in excess of $100 million at end of the fiscal year	-By appropriation to fund allocated reserve

FUND	CONTROL	SOURCES	USES
3. Comprehensive Loan Fund Reserve	State of Alaska	-15% of state mineral leases, rentals of state lands, mineral lease bonus and royalty income	-By appropriation to the allocated reserve account or account or to any other purpose
B. Debt Service Reserve Fund	Trustee	-Bond Proceeds (to limit allowed in arbitrage rulings)	-Interest -Principal
C. Capital Reserve	Trustee	-Allocated Reserve Fund (to amount equal to 5% of principal amount of bonds out standing)	-Principal -Interest -Redemption -Premium
D. Loss Reserve	Trustee	-Allocated Reserve Fund	-To meet losses on loans
		-1% arbitrage earnings on loans, if any	-To repay allocated reserve from amounts in excess of 5% requirements
		(Required to equal 5% of principal amount of loans oustanding)	-To earned income account

FUND	CONTROL	SOURCES	USES
E. Fire & Casualty Reserve	Trustee	-6/10's of 1% from borrowers -Allocated Reserve	-To meet fire and casualty losses on uninsured loan collateral
F. Municipal Bond Capital	Trustee	-Allocated Reserve (Equal to 5% of outstanding Municipal issues which are guaranteed or issued under this chapter)	-To pay principal and interest -To redeem Bonds

With respect to each separate issue of bonds, arbitrage regulations would appear to limit the debt service reserve fund (that portion eligible to earn an unrestricted yield) to an amount which when combined with the portion of the Capital Reserve and Loss Reserve allocated to the specific bond issue, would equal 15% of the bond proceeds.

Potential sources of additional security which may be required to enhance marketability of certain series of loan program revenue bonds, include: (1) a Permanent Fund guarantee based on Permanent Fund income, but not principal; (2) a pledge (moral obligation) of the State to replenish the reserve fund accounts by appropriation from the Unallocated Reserve and from the comprehensive loan program reserve account, and (3) purchase of AMBAC or MBIA bond insurance. The value of a Permanent Fund guarantee will be in direct proportion to the relationship between annual income of the Fund, potential liabilities under the state loan program, and the extent of other guarantees written against Permanent Fund income. The security value of the moral obligation pledge will depend on the credit standing of the State, its general financial condition, and the past practices of the State in meeting similar "contingent" liabilities.

Bond insurance, if available, would improve marketability of weaker series of loan program revenue bonds providing a AA or AAA rating for AMBAC and MBIA, respectively. The availability of bond insurance would be enhanced by structuring revenue bond issues against a known pool of loans which could be carefully analyzed by the insurance underwriters. It is also possible that strict loan originations criteria would serve the same purpose.

INTRINSIC SECURITY, THIRD PARTY GUARANTEES, AND ALASKA'S CREDIT STANDING

In attempting to evaluate the credit underlying a revenue bond issue, analysts and investors will look first to the quality and realiability of the pledged revenues, which are expected to be the primary source of interest and principal payments. It is also possible to augment or substitute security where certain risks may impair the reliability of the revenue flow and where legal and constitutional circumstances allow such additional security. Additional security features such as those described in the preceeding section may so strengthen the market perception of the issue that overall borrowing costs are reduced in return for the issuer's accepting certain tangible and intangible costs. Such substitute security is workable to the extent that investors feel confident it will be readily available when needed, sufficient in amount to cover all conceivable types of risks (based on resources not otherwise committed), and subject to quick mechanical implementation not subject to discretion or delay.

Of course, in the event enterprise revenues are insufficient to meet principal and interest payments and additional security features must be called upon to prevent default, expectations and attitudes quickly change. The revenue stream will be severely discounted and security analysis will focus on the substitute security. An aura of mismanagement will attach to the enterprise and may spread to the third party guarantors. Any additional financing or reorganization financing may command extremely high rates even with the substitute security features thus, creating the worst of both worlds: high cost of money and a general obligation type liability for the State.

The likelihood that the Alaska State Loan Program could stand alone and not call on general state credit, will depend on several factors, the most important of which are the following:

1) Adherence to strict loan underwriting criteria supported by thorough fact finding and investigatory procedures and reviewed by an external credit committee.

2) Servicing procedures and loan surveilliance policies, which insure detailed, timely updates as to the status of each loan and prompt action to handle developing problem loans. Placing these responsibilities with private institutions, is generally better received than creating state agencies to accomplish the same function.

PROPOSED LEGISLATION

In the spring of 1979, several bills were introduced into the U.S. Congress to restrict the use of tax-exempt revenue bonds to finance residential, single-family mortgage loans. One such bill has been reported out of the House, Ways and Means Committee and action is expected during this session. For Alaska, the effect of the Committee bill would be to limit issuance of mortgage subsidy revenue bonds in Alaska to an annual par amount of $50 million. In addition, a variety of eligibility standards with respect to both the mortgagors and the areas to be served would be imposed. Similar standards and critiera would also affect any multi- family project to be financed through tax-exempt revenue bonds. The overall effect, then, would be to severely curtail the volume of tax-exempt financing for housing generally and to reduce that portion of the Alaska loan program which would be comprised of loans for residential housing.

This legislation was introduced in response to the rapidly growing use of a financing program that was felt to be an abuse of the tax-exempt option. Fears of excessive income tax losses for the Federal treasury and a judgment that such mortgage subsidy programs benefitted a group of our citizens not necessarily deserving of such benefits also motivated the bill's introduction. In addition, the Internal Revenue Service has for many years opposed tax-exempt financing for any purpose. Programs proposed in Senate Bill 1 would not inevitably or even necessarily incite a similar response from either Congress or the IRS. However, were programs of this type to become widespread and constitute a significant portion of tax-exempt bond financing, one can reasonably expect some Federal response.

Coverage

Coverage requirements would be different for each distinct series of bonds. For a pass-through type of financing, e.g. single-family mortgages, municipal purpose, or certain industrial loans, coverage is not as relevant a measure of financial strength as are loan criteria, pool composition, insurance provisions, asset coverage, and the strength of servicing arrangements. In the case of commercial loan programs, where the state has also provided strong back up security, as in Connecticut and New York, coverage is less important than is the magnitude and frequency of loan losses, delinquencies and reserves. In such pool, pass through type financings, the "coverage" is found in the number of times each borrower's cash flow exceeds principal and interest obligations on its loan.

Where a substantial portion of a lending agency's assets have been financed from other than bond proceeds, annual net revenue on the loan portfolio may have to cover maximum annual debt service on the outstanding bonds by a factor of 1.5 to 2.0, as in Pennsylvania and Puerto Rico.

COMPARABLE ISSUES

Market reaction to the proposed Alaska Loan Program Revenue Bond will be determined by both an analysis of the intrinsic characteristics of the bonds and a comparative analysis of similar issues. For purposes of illustration, we have selected four issuers whose activity and market standing cover a wide range. These include the Puerto Rico Industrial Development Company, the Connecticult Development Authority, the Pennsylvania Industrial Development Authority, and the New York Job Development Authority.

Puerto Rico Industrial Development Company

Purpose: The Puerto Rico Industrial Development Company was created in 1942 to stimulate the development of local industry and to encourage mainland and foreign firms to establish operations in Puerto Rico. To accomplish this goal, PRIDCO builds and purchases facilities for lease or sale to qualified private industrial investors and makes loans to and investments in private industrial enterprises.

Funding: PRIDCO obtains funds for capital improvements from various sources in addition to borrowings. Such sources include Federal and Commonwealth grants, retained earnings, and appropriations. As of the end of 1977, total capitalization of approximately $360,000,000 was composed of $122,000,000 in long-term debt, $171,000,000 in contributed capital and $65,000,000 in retained earnings.

Lending Experience: As of June 30, 1977, the loan portfolio amounted to $41,216,790 of which 84% was secured by senior or junior mortgages on real property or equipment. At that date, the total reserve for loan losses was $8,850,796. PRIDCO has a policy of including in its appropriation request to the Commonwealth legislature any amounts necessary to reimburse it for losses previously incurred from local industrial loans and investments. Historically, the legislature has approved such appropriations for PRIDCO and as of February 28, 1978, $5.6 million had been appropriated, but undisbursed by the legislature for the losses incurred through fiscal year 1977.

Bond Security: The bonds are payable from the gross revenues received by PRIDCO from certain of its revenue-producing real properties, machinery or other equipment, first mortgages on real property or first mortgage bonds, all of which are specified by PRIDCO to be trusteed properties. The gross revenues from trusteed properties are deposited with the trustee without deduction for any other expenses or charges. From such gross revenues the trustee makes deposits into the various accounts sufficient to meet its semi-annual debt service requirements and to maintain the debt service reserve account. Any remaining balance is available for any lawful corporate purpose.

Protective Covenants: If the gross revenues from the trusteed properties, during any consecutive 12 months, are less than 150% of the maximum annual debt service requirements on all the bonds then outstanding, PRIDCO will immediately designate as trusteed properties such other of its properties eligible to be trusteed as may be necessary in order that the gross revenues of the trusteed properties will be at least 150% of the maximum annual debt service requirements.

Additional parity bonds may be issued provided that gross revenues from the trusteed properties during the most recent 12 preceding months are equal to not less than 150% of the maximum annual debt service requirements on all bonds then outstanding plus those proposed to be issued.

Coverage: Historical debt service coverage by gross revenues on a cash basis received from trusteed properties and properties eligible to be trusteed, equalled 2.70 times as of the end of 1977. At no time during the period 1973 through 1977 did this coverage drop below 2.0 times. Projected revenues are estimated to equal, or slightly exceed, 2.0 times. During the most recent 12 months, gross revenues from trusteed properties only (excluding properties eligible to be trusteed) provided 1.64 times coverage.

Ratings: A $40,000,000 issue, dated April 1, 1978, was assigned a rating of BAA 1 by Moody's and a BBB by Standard and Poor's.

The Connecticut Development Authority

Purpose: The Authority was created in 1973 as a subdivision within the Department of Commerce of the State of Connecticut for the purpose of stimulating industrial and commercial development within the state through various financial assistance and other programs. The Authority is authorized to assist in financing the cost of acquiring, constructing, and improving and equipping plants and other facilities, for the furnishing of water available for public use, for the control of pollution, for the acquisition of ferryboats or for the development of recreational facilities. The Authority has, to date, established three separate programs. Through its umbrella program, the Authority makes financial assistance available to qualified applicants only for the financing of facilities or machinery and equipment to be used for manufacturing, warehousing, research and pollution control.

Under its insurance program, the Authority insures loans by lending institutions to companies for qualified projects located within the state. Insurance claims are payable from a special insurance fund created by the Act for the funding of which general obligations bonds of the state may be issued. All loans financed under the umbrella program are also eligible for insurance under the insurance program. The Authority has also implemented its self-substaining program through which it provides assistance to companies through the issuance of special obligation bonds which are payable solely from revenues derived from the assisted project.

Funding: Loans under the umbrella program are funded from bond proceeds. The insurance fund currently has assets in excess of $2.5 million and the State Bond Commission has authorized the issuance of general obligation bonds in the aggregate amount of $35,000,000 when required to satisfy claims against the insurance funds.

Lending Experience: Since the establishment of the umbrella program in 1972, 470 firms have submitted applications for financing; 173 of these firms have submitted formal applications of which 86 have been approved and of which 67 have closed loans. It has been the Authority's policy in connection with all loans closed to date, to provide loans to industrial real property only in the form of a first mortgage loan with a maturity not exceeding 25 years and to provide loans for machinery and equipment with a maturity not exceeding 10 years only upon receipt of prior perfected security interest. The Authority generally requires further security such as life insurance payable to the Authority, a personal note or guarantee of the loan or a first or second mortgage on other property of the applicant, although the Act would permit the Autority to make loans on an unsecured basis in appropriate circumstances.

Applicants for financing must prepare preliminary applications which are screened for legal eligibility and financial viability. Upon determination of eligibility, a formal application is filed, reviewed and inspected by Authority staff; the business premises of each applicant are inspected; management is interviewed; the project site is visited, and an appraisal of the underlying value of all real estate projects is prepared. The summary report on the project is submitted to an independent credit committee consisting of three persons chosen on a rotating basis from a group of 13 current or former senior loan officers of Connecticut financial institutions. In addition to the recommendation of the credit committee, the Authority currently orders two investigative reports (one from a credit service and one from a general investigative agency) in connection with each application. The Authority has no delinquent umbrella program loans and is not aware of any other default with respect to its umbrella program loans.

Bond Security: The bonds are general obligations of the Authority secured by pledged receipts, including loan payments and advance payments, various funds and accounts, including the insurance fund and a special capital reserve fund. This special capital reserve fund is funded from bond proceeds in an amount not less than the maximum amount of principal and interest becoming due in any succeeding calendar year. Should there be any deficiency in the capital reserve fund, there shall be appropriated from the State General Fund such funds as are necessary to restore the reserve fund to its minimum requirement. Such appropriations, in the opinion of Bond Counsel do not require further legislative approval.

Ratings: The Series 1975 A through Series 1975 X Bonds were rated Aa by Moody's Investor's Service and AA by Standard and Poor's. The 1977 A through Series 1977 L bonds were rated A 1 by Moody's and AA by Standard and Poor's. Subsequently, Moody's upgraded the rating to Aa. Bonds issued in 1977 carried an average interest rate of 6%.

The Pennsylvania Industrial Development Authority

Purpose: The Pennsylvania Industrial Development Authority was created in 1956 to alleviate unemployment and economic stagnation within the Commonwealth by the promotion and development of industrial and manufacturing enterprise and research and development facilities in those areas of the state where conditions of critical unemployment exist. The Authority is authorized to make loans to local non-profit industrial development agencies which are to be used with other local monies to finance industrial development projects which are sold or leased to responsible buyers or responsible tenants.

Funding: In addition to approximately $85 million in outstanding revenue bonds, the program has been financed by nearly $210,000,000 of direct legislative appropriations. As of June 30, 1978, the Authority had over $280,000,000 of loans outstanding in addition to approximately $30 million of investment securities. Authority activities are also supported by surplus revenues generated by the Authority's Loan and Investment portfolio.

Lending Experience: As of June 30, 1978, the Authority had $280,000,000 of loans outstanding. The Authority loan loss experience has been small relative to the total amount of loans made since 1956, but the amount of write-offs has increased substantially in the last two years. Prior to 1976, the total amount of loans written off was $50,790, but since 1975 $1.1 million in loans have been written off. In addition, approximately $4.8 million of loans were 90 days or more delinquent as of June 30, 1978. The Authority has also granted moratoriums with respect to either principal or principal and interest on loans having a remaining principal due of $11,803,000.

The Authority makes loans to local industrial development agencies which in turn make loans approved by the Authority for an industrial development project. Generally, the Authority's loans to the agencies are secured by a second mortgage on the agency's freehold interest in the industrial development project. The first mortgagee would generally be a local bank or group of banks. The loans made by the Authority are restricted by the Act depending on the type of project to be financed. Generally, the Authority is limited to a certain percentage of the total project cost, and commitments are required to be in place for the remainder of the financing.

Bond Security: All revenues received from loans made by the Authority are pledged to the payment of the bonds. Each bond issue is divided into bond lots of no more than $1 million each. Repayments of loans made from each bond lot are pledged solely for the payment of bonds of that lot; in addition, all bonds are secured by the pledged of repayments from loans made from any funds other than bond proceeds. The Authority reserves the right to merge all accounts and secure all bonds from all of its revenue regardless of bond lot, if the applicable Internal Revenue Service regulations are amended to permit the Authority to do so.

Protective Covenants: Additional parity bonds may be issued, provided that revenues estimated to be received in future years are at least equal to 200 percent of annual debt service requirements on all series of bonds. The Authority also covenants that its revenues shall at all times be sufficient to meet principal and interest requirements on its bonds, to meet all sinking fund installments, and to make all required reserve fund payments.

Coverage: Interest rates on loans made by the Authority range from 7/8 of 1% to 4% per annum below the rates paid on the Authority's bonds. The negative interest spread is made up by the cash flow generated from the loans made with funds provided from State appropriations. The revenues which were expected to be received from loans made under the program were well in excess of the 2 0 times coverage required by the bond resolution. At the time the 1978 Series bonds were sold, coverage was projected to be approximately 2.4 times maximum annual debt service on the bonds then outstanding and to be issued.

Ratings: All recent series of the Authority's bonds have been rated A by both Moody's and Standard and Poor's.

New York Job Development Authority

Purpose: The Authority was created in 1962 to improve employment opportunities within the State by making secured loans to local development corporations, which in turn lend to industrial manufacturing and research and development firms and other eligible business enterprises. Funds borrowed from the Authority are utilized to finance the construction of new plants, the acquisition, rehabilitation or improving of existing plants and the acquisition of machinery and equipment.

Funding: As of May, 1979, the Authority had issued $108 million bonds and $18 million bond anticipation notes of which obligations, $84,715,000 are currently outstanding.

Lending Experience: Since its creation, the Authority has approved 959 loans in original principal amounts totaling $151,186,807, of which 885 have been disbursed with original principal amounts totaling $133,845,322. During the Authority's 17- year history, it has had total

net losses of $1,812,670 representing a total of 1.4% of all loans disbursed by the Authority. As of March 31, 1979, 32 loans were delinquent 60 days or more, with a principal amount outstanding of $4,077,615 and representing 4.9% of total loans outstanding.

Bond Security: Each series of bonds constitutes an issue of special obligations of the Authority payable solely from (1) pledged revenue with respect to such series and (2) to the extent that such revenues are insufficient other available special purpose funds of the Authority. Each series of bonds is additionally secured by a debt service reserve fund equal to approximately 11% of the aggregate principal of the underlying loans for each such series. Recoveries of principal with respect to any loan are to be used to make additional loans, the payments on which will be applied to the payment of debt service on the series of bonds authorized by such resolution. The punctual payment of the bonds is fully and unconditionally guaranteed by the State of New York as to both principal and interest. The guarantee by the State is authorized by the Act and Section 8 of Article 10 of the Constitution of the State of New York.

Coverage: In compliance with the requirements of the Internal Revenue Code, the interest on each loan except during any applicable temporary period, must not exceed the yield on notes or bonds of the Authority issued to finance the loans by more than 1 1/2%.

Ratings: For the most recent issue of the Authority, Moody's assigned a rating of A and Standard and Poor's assigned a rating of AA.

CONCLUSIONS AND RECOMMENDATIONS

1. While access to tax-exempt financing will benefit certain Alaska residents, a pooling of all types of financing is neither feasible nor desirable since stronger credits and established programs would pay higher interest costs with little, if any, reduction in the borrowing costs for the weaker credits and more risk oriented programs.

2. State guarantees and similar security devices can be effectively employed to improve market acceptance and thereby reduce borrowing costs. However, guarantees for economically marginal projects will accurately be viewed as a contingent liability against the State's general credit with an above average probability of becoming a direct liability. To the extent these pessimistic expectations are confirmed by events, investors will discount any security value in the pledged revenues and look exclusively to the State's General Fund for repayment.

3. Industrial development financing with tax-exempt bonds has been restricted and thoroughly regulated. Legislation now before the Congress proposes to accomplish similar ends with regard to

tax-exempt financing of residential housing. Senate Bill 1 will not invite retaliatory national legislation, but continuing Federal opposition to all forms of tax-exempt financing may restrict the program's operations at some future date.

4. With the possible exception of housing, all programs to be financed would qualify for the full 1 1/2% arbitrage margin authorized for "governmental programs." Arbitrage for housing programs will be limited to 1% under proposed legislation. These amounts have been sufficient in the past to meet costs of servicing, insurance and administration, but certain costs may exceed prior experience in which case the State and the program participants would be required to assume the additional charges.

5. Debt Service coverage is only one measure of financial strength. For a program of this type, adequate asset relationships and access to the resources of third parties would be important prerequisites for market acceptance.

6. In reaching these conclusions, we have consulted with the rating agencies and major underwriters of Alaska securities.

For the reasons enumerated above, we would not support SB 1 in its current form.

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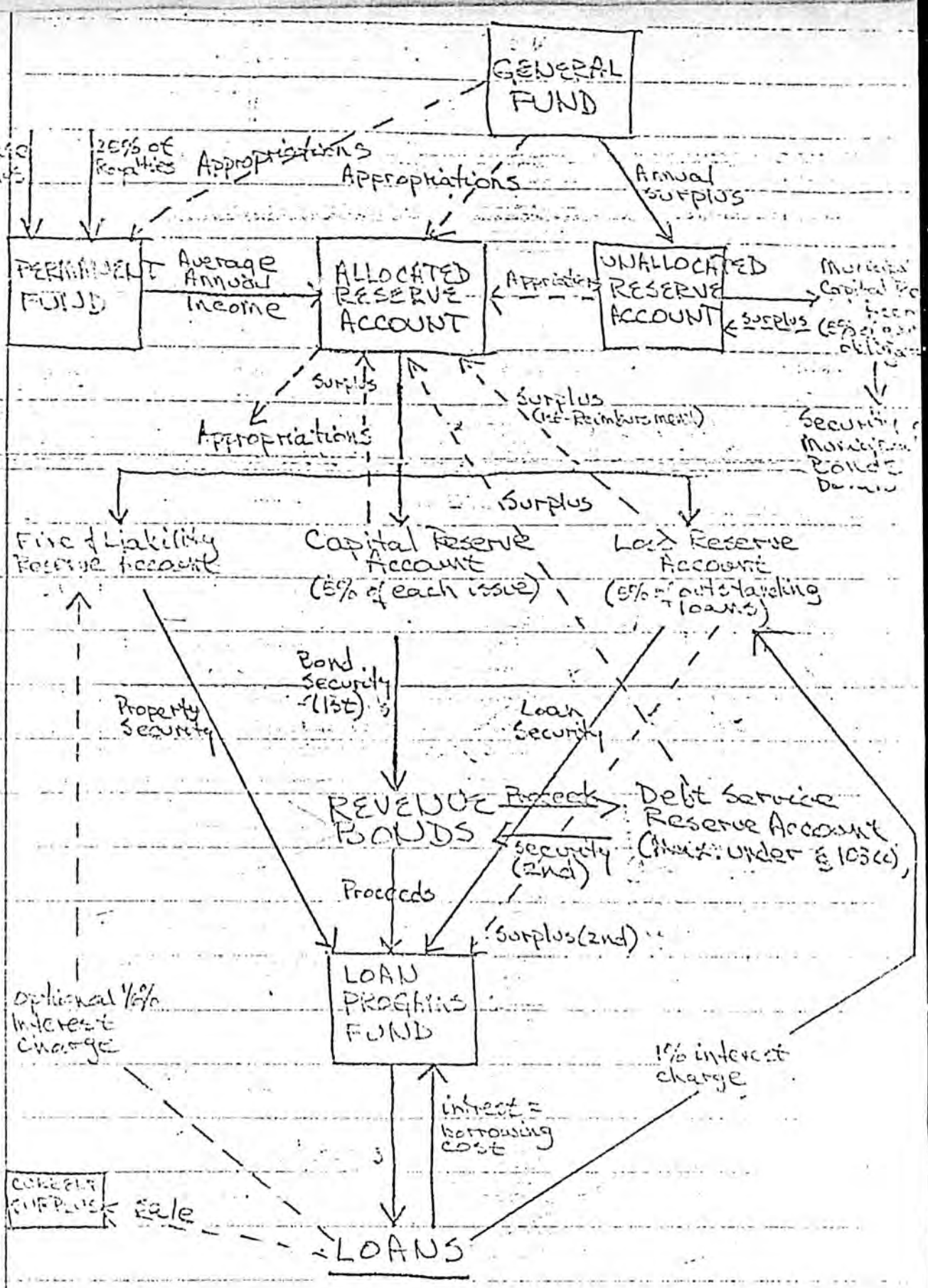

Commercial	Housing	Municipal
Farming	Construction/ Mortgage	Small Issuers
Fishing	Single Family/ Multi-Family	Nonprofit Corporations (Exempt only)
Forestry		
Resources		
Tourism		
Business		
SBA Dealer Cos.	Scholarship	Historical
Child Care		
Exempt Activities		Public/Private
Outdoor Recreation		

Hugh
For your information
& use as you see fit -
Chet

PERMANENT FUND QUESTIONS TO PUBLIC

I. As you know the Constitution provides for two funds: a)The General Fund b)The Permanent Fund

1. The constitution permits the withdrawal of monies from the general fund only when authorized by law - by the legislature.
2. The constitution prevents the withdrawal of monies from the Permanent Fund. The Legislature cannot appropriate monies from the permanent fund.
3. The earnings from the Permanent Fund constitutionally shall be deposited in the general fund and handled accordingly.

So do you think the Permanent Fund should be handled with extra care?

II. a)Would you be willing to give someone else the full authority to use your money or even earnings from your money for loans to projects you know will fail and force default on the loan?

b)Are you willing to give someone else the full authority to select the quality of loan or investment for which to use your money? Or do you want to reserve that right?

c)If you reserve that right - would you put your money in secure investments or in investments with little if any chance of paying you back?

III. Do you think the Permanent Fund should become a bank which will provide for poor quality-low interest loans with a high risk of default.?

IV. All revenue projections indicate the General Fund balance will be two or three times greater than the Permanent Fund balance. If you knew you could get the low interest loans from the General Fund - would that be enough? - or would you want the Permanent Fund to also be able to secure loans?

V. Why should the State Government have both a General Fund and a Permanent Fund? Or should we propose a constitutional amendment to repeal the Permanent Fund?

VI. Do you have an opinion on how the earnings from the Permanent Fund are used? Should it be distributed to the people? Should it all go into the General Fund? or should it all go into the Permanent Fund?

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REX MANUEL
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INVESTING MONTANA'S MINERAL SEVERANCE TRUST FUNDS

During the past decade, Montanans have shown an acute awareness of the transient nature of our nonrenewable natural resources. The best proof of this awareness is the four trust funds that were created during these years to save a portion of the severance taxes collected.

In 1973, the legislature enacted a 1/2 of 1% tax on the gross value of all minerals extracted in the state and dedicated the funds collected to the resource indemnity trust. The purpose of the trust is, in the legislature's words, "to provide security against loss or damage to our environment from the extraction of nonrenewable natural resources...in order that the people and resources of Montana may long endure." In 1975, the legislature allocated portions of the newly enacted coal severance tax to two trust funds:

1) 10% to the education trust fund for the support of Montana's public schools and universities; and
2) 2 1/2% to a parks and cultural projects trust fund, 2/3 of the interest from which may be used to purchase and maintain state parks and 1/3 of which is used for various cultural projects.

The citizens of Montana have shared with the legislature this concern over extraction of nonrenewable resources. In 1976, 179,000

voters (63% of those voting) approved a constitutional amendment creating a permanent coal tax trust fund. The amendment provided that the legislature would appropriate not less than 25% and beginning January 1, 1980, not less than 50% of the severance tax collected to a trust fund. The principal of the trust was to remain "forever inviolate" unless appropriated by a 3/4 vote of the members of each house. However, the interest earned from the fund could be appropriated during each legislative session.

Supporters of the amendment argued that the trust would:

1) free the state from undue dependence on coal production by:
   a) allowing research and development of alternative, renewable energy sources; and
   b) encouraging a diversified, stable economy in the state.
2) allow us to share Montana's heritage of nonrenewable natural resources with future generations, who would have no such legacy. In other words, something would remain when the coal was gone.

Montana voters evidently concurred in these goals and created the trust fund. Thus, beginning January 1, 1980, 62.5% of Montana's coal severance tax goes into trust funds.

The funds in these trusts have mounted steadily over the past several years. To date, $12 million has been deposited in the resource indemnity trust fund, $25 million in the education trust fund, and $3 million in the parks and cultural projects trust. By far the largest account is, however, the coal tax trust fund.

Currently, there is nearly $300 million in the trust. By the end of 1985, the trust should - by conservative estimates - contain $300 million. Those who are brave enough to project long-range energy production have estimated the fund may contain between $3 and $4 billion by the year 2000.

These staggering sums make clear that Montanans of this decade face a new task. In the 1970's the Montana legislature and citizens exercised great foresight in creating these trust funds and research accounts. Now, in the 1980's we must exercise equal foresight in determining how these funds should be invested or spent to insure a lasting legacy remains when the coal and other nonrenewable resources are gone.

Two questions central to this task are:

1) How can we foster a stable, diversified economy through investment and spending?
2) How can we share our heritage of natural resources with future generations?

As those who have observed the last two sessions of the Montana legislature know, the prospective answers to these questions are diverse, representing a whole range of philosophical and political positions. Bills were introduced in 1977 to require that all coal tax trust funds be invested in Montana financial institutions, that the funds be used to subsidize home mortgages and promote energy conservation for lower income Montanans, that a state bank be created to house the trust and other state funds, and that the

interest from the trust be reinvested until the year 2000 when the next generation could vote on how the funds should be spent.

After much debate, the 1977 legislature rejected all these bills and voted to place the trust funds in the state's unified investment plan for investment under the modified prudent man statute.

Since most states invest public funds under a modified prudent man statute, many of you are no doubt familiar with its provisions. Montana statutes require the citizen board and professional staff that invest state funds to consider two guidelines:

1) a list of permissable investments.

   Montana law contain a lengthy list of types of securities in which the Board may invest public funds. The list is varied enough to give the Board considerable latitude. One notable exception is, however, common and preferred corporate stock. The Board of Investments may invest only state retirement funds in stock, not any trust funds.

2) the prudent man rule.

   Montana law further directs the Board to invest public funds

   > ...with that degree of judgement and care...which men of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income.

This, of course, is a restatement of a famous 1830 Massachusetts Supreme Court case that has come to be called the prudent man rule and which forms the basis of 40 states' investment programs.

The importance of the rule is that it gives trustees discretion to use their judgement and react to changes in the investment field, allowing an aggressive, dynamic investment program.

However, critics of the rule have objected to some of its features. One, it places great emphasis on two elements of an investment: its security and its rate of return. Investments to subsidize social projects, direct investment in businesses, or venture capital loans have no place under this investment rule. Two, the modified prudent man rule limits the amount of state funds that can be invested in Montana. Although the 1974 legislature passed a bill requiring the Board of Investments to seek in-state investments as much as possible and the Board has made efforts to increase the number of Montana mortages and CD's it buys, only 16% of all state funds are currently invested in Montana. [This figure construes Montana investment narrowly, counting only those investments in corporations headquartered in Montana, mortgages on Montana real property, and CD's in Montana banks and savings and loans. If investments in corporations having offices in Montana - like Beneficial Finance or Continental Oil - were included, the percentage would be higher.]

The Board of Investments notes that specific provisions of state law limit increased in-state investment:

1) <u>Eligibility</u>

The statutory list of permissible investments allows the Board to invest in only those corporate bonds rated among the top third of their quality category and in the

commercial paper of corporations having net income averaging $1 million or more for each of the past five years. Very roughly, this translates into corporations listed in Fortune's 500 and only one or two firms of this size are incorporated in Montana.

2) Return.

Historically, treasury notes and utility bonds have produced more income and had no more risk than Montana mortgages and certificates of deposit. The Board argues that under the prudent man rule, a trustee would be remiss to choose the less profitable investment.

3) Diversification.

The Board has argued that large scale investment in Montana would increase risk for the funds because a statewide catastrophe - such as a sustained drought - could jeopardize all in-state bonds, CD's, or mortgages. Investments throughout the U.S. and Canada lessen these risks.

Because of these considerations, the Board has invested less than 10% of the coal tax trust fund and the resource indemnity trust fund in-state. As of June 30, 1979, 80% of the funds were invested in bonds issued by corporations, utility companies, and financial institutions headquartered outside the state and 10% in federal securities. The only in-state investment is the approximately 9% invested in Montana CD's.

The Board of Investments has defended the current method of investment before the legislature - and won many supporters - with the following arguments:

1) The interest rate earned in recent years on the state's unified investment program is one of the highest in the nation and adds nearly $70 million a year to the state's general fund. During this biennium, over $5 million in interest will be earned on the coal tax trust fund alone. These funds can be used for tax relief or to finance new state programs.
2) The state's aggressive investment program imports capital into the state, thereby improving our economy and our rating in national bond markets.
3) Since the Board seeks to purchase more Montana mortgages and CD's than are offered to it, Board members question whether capital gaps or lack of capital really existed in Montana. Existing financial institutions and federal programs such as SBA and FmHA are fulfilling the needs for capital.

These arguments were discussed at some length in 1977-78 when the Coal Tax Oversight Committee of the Montana Legislature undertook an in-depth study of various alternatives for investing the coal tax trust fund and other state funds. The 1977 Legislature, which voted to invest the coal tax trust fund under the prudent man rule, requested and funded this study to explore whether alternative methods of investment could be used to increase the supply of lower-income housing in the state and help young Montanans get a start in business or agriculture.

For over a year, the Coal Tax Oversight Committee analyzed the current investment policy, solicited testimony on capital needs in the state, studied other states' and other countries' experience with investment

programs, and considered various economic theories on the topic. As a result of this work, the Committee concluded:

1) Need does exist in the state for investment capital for product development, small-scale manufacturing, and farm ownership loans. Existing programs do not meet these needs.
2) While the Board of Investments is doing a commendable job of investing under the prudent man statute, this statute is too narrow to meet the state's needs as it seeks to promote a diversified state economy and independence from nonrenewable natural resources. In other words, the current investment program may import capital into the state, but that capital does not seem to get to where it is most needed.

Therefore, the Committee proposed a three-tiered program to the 1979 Legislature:

1) Amend the prudent man rule to require in-state investment if the investment a) has an interest rate within 1% of an out-of-state investment and b) would not have a higher risk.
2) Establish direct loan programs to stimulate product development and farm ownership. This proposal would leave the trust funds under the prudent man investment program, but use the interest it generates to support two programs.
   a) Montana Product Development Corporation

      This bill would have created a nonprofit corporation with the authority to advance funds to inventors and developers of new products in return for a percentage of any profits later earned on the product. The bill was patterned on

Connecticut's Product Development Corporation and the British National Research and Development Council, which has existed for over 30 years and become self-sustaining.

While the Committee's bill would have appropriated $2 million of the interest from the coal tax trust fund to the program, members hoped that the corporation would eventually become self-sufficient and, in fact, return to the state the original $2 million investment.

b) Homestead Land Program

Senator Towe, a Coal Tax Oversight Committee member, introduced an individual bill to establish a lease and loan program for young farmers. Under this program, the state would have purchased agricultural land and leased it to qualified young farmers for periods up to 15 years. If a qualified farmer chose to purchase the land, the state would allow him a mortgage of up to 60 years at a low rate of interest.

As introduced, the bill would have funded this program by state general obligation bonds backed by interest from the coal tax trust fund.

3) Increase investment in secondary loan markets. In its research, the Committee received extensive testimony that Farmers Home Administration and the Small Business Administration could increase the number of loans made in the state if the Board of Investments purchased their guaranteed loans and participated in FmHA real estate mortgages. The Committee sponsored two joint resolutions urging the Board to increase its investment in the secondary loan market.

As many of you know, this three-tiered program did not fare well in the 1979 Legislature. The bills to increase in-state investment and establish direct loan programs were killed. Opponents of the bills expressed real concern at the thought of state involvement in real estate, product development, and other private markets. Several argued that increased public investment in-state would simply drive out private funds and, thus, weaken the state's economy. These legislators and citizens said they were satisfied with the current investment plan under the prudent man rule. The only part of the Committee's program that passed were the resolutions urging the Board to invest more funds in Montana's secondary law market. The Board is currently preparing a policy and procedure for implementing these resolutions.

The defeat of the Committee's bills does not mean, however, that debate on this topic is over. As the amount of money in the coal tax and indemnity trust funds grows, the interest they produce increases and supplies of fossil fuel energy decrease, legislators will face increasing pressure to invest and spend these funds for a variety of purposes.

Wise investment of these funds depends, I think, on two elements: continued research into alternative methods of investment and economic development and increased public discussion and analysis of these alternatives. Detailed study of the extent of capital gaps in Montana, the segments of the economy most in need of capital infusions, and the best means of stimulating stable, diversified growth will enable

legislators to refine the current investment program or design new programs that will achieve these ends. Public involvement in the study and analysis of alternatives is vital if the investment program is to meet the needs of Montana society and economy as they grow and mature. Gatherings such as the conference today are a vital first step in accomplishing these tasks.



Teresa Olcott Cohea, Staff Researcher
Coal Tax Oversight Committee
Revenue Oversight Committee

Speech delivered at Conference on Alternative State and Local Policies Meeting in Billings, February 9, 1980

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU 99801

TO: Honorable Bill Miles
Co-Chairman
House Resources Committee

DATE: February 14, 1979

FROM: Milt Barker MB
Fiscal Analyst

SUBJECT: Reserve for Energy Facilities

Chapter 168 SLA 1978, which created the reserve for energy facilities took effect on October 15, 1978.

The Department of Natural Resources is following a practice of making monthly deposits. They made their first deposit on October 30, 1978 of September royalties. On this basis the reserve is estimated to total $11.3 million on June 30, 1979. It totaled $3.5 million on January 31, 1979.

However, because the wording, now codified as AS 37.05.158(b), identifies the reserve as "five per cent of the annual receipts from mineral lease bonuses and rentals for state land and royalties", one could argue that an allocation should be made to the account on June 30, 1978 of 5% of the total receipts for the fiscal year. On this basis, the account would total $15.1 million on June 30, 1979. In any event, the FY 80 allocation is estimated at $18.2 million, these estimates being based on the Department of Revenue's "Revenue Sources" booklet.

There is no mention of the reserve for energy facilities in the Governor's budget. The Governor has chosen not to comply with AS 37.05.158(c) (attached) which says "plans for expenditures from the account shall be submitted by the Governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation." His reasons for not doing so seem to be:

1) The state can't spare the funds. The administration points out that the FY 79 and 80 allocations for capital outlay would be $75 and 91 million and that for energy facilities $15 and 18 million. Yet according to AS 37.05.157(c) (attached) there is no requirement for the executive to include the capital outlay account in his budget, only the energy facilities.

The Governor has submitted a capital budget request that includes $3 million for the power project revolving loan fund from general funds. Certainly this could have been funded from the energy facilities account, as well as the proposed Susitna special appropriation of $8,178,000 and possibly other items, without affecting the state's general fund balance;

2) The account is not a dedication of funds which would be unconstitutional if it were. See page 3 of attached memo of July 12 and related comments in attached memo of October 12; and

3) The Legislature can't tell the Governor how to submit his budget. See page 2, paragraph 3 of July 12 memo which seems to relate.

Sec. 37.05.158. General fund; "reserve for energy facilities development" account. (a) There is created within the general fund the "reserve for energy facilities development" account.

(b) Five per cent of the annual receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be allocated to the reserve for energy facilities development account.

(c) The proceeds of the reserve for energy facilities development account shall be subject to annual appropriation by the legislature. Plans for expenditures from the account shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation. (§ 11 ch 168 SLA 1978)

Sec. 37.05.160. Property records. The Department of Administration shall direct the use of inventory records by all state agencies to show all fixed and movable property of the state. The records shall be based on a physical inventory and charged with all subsequent purchases and shall be reduced by all property traded in, condemned, or disposed of. The accuracy of the property record shall be verified periodically by actual inspection of the property by the department. The state agencies may be required to take physical inventory of properties annually and at other times as the department directs. (§ 4 art III ch 82 SLA 1955; am § 5 ch 186 SLA 1957)

Sec. 37.05.170. Obligations. No payment may be made and no obligation incurred against any fund unless the Department of Administration certifies that its records disclose that there is a sufficient unencumbered balance available in the fund and that an appropriation or expenditure authorization has been made for the purpose for which it is intended to incur the obligation. (§ 5 art III ch 82 SLA 1955; am § 5 ch 186 SLA 1957)

Am. Jur. and ALR references. — 42 Am. Jur., Public Funds, § 56.

Power of state to incur indebtedness for relief of distress due to unemployment or other unusual conditions, 73 ALR 699; 87 ALR 371.

Power of board or officials to depart from literal requirements in respect of deposits or loans of public funds in their control. 104 ALR 623.

Sec. 37.05.180. Two-year limitation on payment of warrants. No warrant upon the state treasury is paid unless presented at the office of the commissioner of revenue within two years of the date of its issuance. All warrants not presented within that time are considered paid and money held at the expiration of that time in a special fund or account for the payment of the warrant shall be transferred to the general fund, except where transfer is prohibited by the federal government for state participation in a federal program. (§ 3 ch 130 SLA 1951; am § 1 ch 128 SLA 1960; am § 1 ch 7 SLA 1961)

Sec. 37.05.150. Funds and accounts. The accounting system shall be in accordance with accepted principles of governmental (fund) accounting and shall include both budgetary and property accounts. The system shall provide records showing at all times by funds, accounts, and other pertinent classifications the amounts appropriated, the estimated revenues, actual revenues or receipts, the amounts available for expenditure, the total expenditures, the unliquidated obligations, actual balances on hand, and the unencumbered balances of appropriations for each state agency. (§ 3 art III ch 82 SLA 1955; am § 5 ch 186 SLA 1957)

Sec. 37.05.155. Special funds. (a) The following funds shall be treated for accounting purposes as accounts in the general fund:

(1) FICA administration fund (AS 39.30.050);

(2) special revolving fund — surplus property (AS 44.71.030(c));

(3) Repealed by § 49 ch 32 SLA 1971.

(4) second injury fund (AS 23.30.040);

(5) the vocational rehabilitation small business enterprises revolving fund (AS 23.15.130);

(6) fishermen's fund (AS 23.35.060).

(b) There shall be created in the general fund for each of the funds designated in (a) of this section a reserve equal to the excess of revenues received by each fund over expenditures made from that fund. (§ 1 ch 5 SLA 1968; am § 49 ch 32 SLA 1971)

Legislative committee report. — For report on ch. 32, SLA 1971 (HB 111 am), see 1971 House Journal, p. 138.

"General fund". — The general fund is not specifically created by statute. Its existence is noted in this section which provides that certain enumerated funds shall be treated for accounting purposes as accounts in the general fund. 1969 Op. Att'y Gen., No. 5.

The general fund in Alaska consists of money received from state taxes and licenses and money received from non-tax or license sources, such as oil and gas royalty payments. 1969 Op. Att'y Gen., No. 5.

All public moneys and revenue coming into the state treasury constitute the general fund of the state. 1969 Op. Att'y Gen., No. 5.

Quoted in Thomas v. Rosen, Sup. Ct. Op. No. 1504 (File No. 3073), 569 P.2d 793 (1977).

Sec. 37.05.157. General fund; "reserve for capital outlay" account. (a) There is created within the general fund the "reserve for capital outlay" account.

(b) Twenty-five per cent of the annual receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be allocated to the reserve for capital outlay account.

(c) The proceeds of the reserve for capital outlay account are subject to annual appropriation by the general appropriation act. (§ 10 ch 168 SLA 1978)

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STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K—STATE CAPITOL
JUNEAU 99811

July 12, 1978

The Honorable Jay S. Hammond
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Re: FCCS SCS HB 222 (e. date failed)
(planning and funding of capital construction projects)
Our File: J-88-164-78

Dear Governor Hammond:

We have as you requested reviewed the subject bill. It presents several problems. The first is with its title.

The constitution requires that every bill be confined to one subject and that the subject be expressed in the title. Alaska Const., art. II, sec. 13. While a stringent application of the first part of this rule has been obviated by the Alaska Supreme Court in Gellert v. State, 522 P.2d 1120 (Alaska 1974), it may yet retain some vitality.

The bill at hand is an amalgam of three bills: HB 222 (Malone and Gardiner), the subject of which was "public scrutiny of the budget formulation process"; SB 510 (Senate Special Permanent Fund Committee), the subject of which was "the state budget and state bonding"; and SB 539 (Senate Special Permanent Fund Committee), the subject of which was the "eligible costs for state grants for capital improvement projects."

As it now stands, the bill is in possible violation of both the single-subject and descriptive-title rule.

On the one hand, the bill is not confined to one subject but rather pertains to at least two and possibly three distinct subjects. Nevertheless, the bill's subjects are sufficiently related to meet the rather loose standards set in Gellert.

On the other hand, by not referring in the slightest to the many substantive provisions of the bill which relate to matters not indicated by the term "planning and funding of capital construction projects", the bill's title fails to express its subject. We are inclined to the view that this failing is not an indication of sloppy drafting, but rather a confession that the bill is not confined to one subject; i.e., if the three subjects covered by the bill were expressed in the title, it would be obvious that the bill is not confined to one subject. To avoid this, the bill's title is made about as vague and all-inclusive as is possible while still retaining some reference to the subject matter.

The better reasoned opinion is that, as a general rule, the interrelated requirements of confining bills to a single subject and expressing that subject in the title are reasonable and prudent safeguards against the abuse of power by legislative committees or blocs which piggyback unrelated or loosely related subject matter onto other bills to secure their enactment. Where, as here, the practice is not guarded against, there is no opportunity for determining whether a given measure on a subject would have been adopted on its own merits and, had it been so adopted, in what form it might have emerged from the legislative process. The package either goes or it does not. No one questions the legitimacy of legislative packages on a single subject. It is the packages which mix diverse subjects which offend the constitutional restriction. We do not believe that this bill will be the vehicle for the court's overruling Gellert, but certainty of prediction is not possible.

The bill provides for a number of capital budgeting and capital planning procedures which we are inclined to believe are impracticable, if not impossible. It provides in great detail how these matters will be accomplished and makes those details mandatory. In doing so, the bill appears to tread upon the executive's plenary power over the preparation of the state budget. Alaska Const., art. IX, sec. 12. For the most part, it should not have the effect of impairing that power, but to the extent that it may have that effect, it should be unconstitutional. In other words, the legislature cannot so hamstring the executive's preparation of the budget that it is no longer his but rather another's budget. The constitution places both the authority and the responsibility for the budget's preparation on one person, the chief executive.

The bill sets up special "accounts" for capital improvements and energy development, utilizing mineral-resource revenues for funding. No dedication is made of the money. It is merely accounted for and is available for appropriation for those purposes and for any other purpose. Accordingly, there is no violation of the prohibition against dedicated funds on the face of the bill. Alaska Const., art. IX, sec. 7. As a practical matter, if the actual effect of the bill were to result in a dedication, then it would likely be held to be unconstitutional. That is, if succeeding legislatures never used the money for other purposes and used it only for capital improvements and energy facilities, even though the funds held a surplus and other needs were going unmet, then there would be, in effect, a prohibited dedication.

The most ambitious -- probably overly ambitious -- part of the bill relates to the "State Public Facilities Plan." Sec. 14, pp. 7-9. It makes it mandatory for the commissioner of the Department of Transportation and Public Facilities to "develop and annually revise a statewide comprehensive facility procurement plan for public facilities of the state and its municipalities." It then goes on to detail how this "shall" be done. One is reminded of Mort Sahl's well known, late 1950's dictum on government: "If they didn't know what they were doing, they wouldn't be in Washington [pause], and they're not there." There is also the lesser known Rod Pegues-Joe Matyi dictum from the same era on borough government in Alaska: "We have seen the future [pause], and that doesn't work either." Both seem appropriate here.

It is possible that the proposed new system will work. It is its mandatory nature which concerns us. If the commissioner is under a duty to perform as prescribed, our court will likely find that his duty runs to some member of the public and that any significant failure on his part to perform that duty will allow the person to whom the duty runs to block any governmental action until the duty has been performed. That is the underlying rule in United States Smelting Ref. & Mining Co. v. Local Boundary Comm., 489 P.2d 140 (Alaska 1971); State v. Aleut Corp., 541 P.2d 730 (Alaska 1975); and State v. Lewis, 559 P.2d 630 (Alaska 1977). Hence, this new legislation can furnish the grounds for legal guerilla warfare against state and local capital construction projects. From a policy standpoint, that may or may not be a good thing. From a legal standpoint, it is on the whole -- pretty much a bad thing.

The courts, in effect, will be brought into what should be a joint legislative-executive formulation of policies and programs.

Finally, the bill amends the several statutes relating to state financial assistance to local governments, villages, and nonprofit corporations for various public or quasi-public facilities. The principal effect of the amendments is to allow any and all conceivable costs, without limitation as to their reasonableness, to be eligible for matching or supporting grants.

Most of the aid is to be made available at the discretion of the head of the state agency involved. This provides some safeguard for the public treasury. But once a project is approved, there is no additional discretion, as a general rule, by which the cost may be limited, unless it has been limited either by regulation or by terms of the grant. We will discuss each program in turn. The references are to sections, pages, and lines on the pages of the engrossed version of the bill.

1. Secs. 17-19 (p. 13, lines 1-29, p. 14, lines 1-8) (aid to airports). The program is discretionary; therefore, there should be no problem. However, once the state agrees to provide a match grant, the grantee appears to be eligible, i.e., to have a right, to receive as much money as is necessary to match his costs as defined under the new AS 02.15.155.

2. Secs. 20-21 (p. 14, lines 9-29, p. 15, line 1) (aid to agricultural and industrial fairs). This program is also discretionary; therefore, it too should present no problem. The capital improvement aid, AS 03.20.035, is closely controlled by the commissioner's discretion, so it appears to be no problem. However, the definition provided by new AS 03.20.080 could well cause runaway costs.

3. Sec. 22 (p. 15, lines 2-17) (urban renewal as disaster assistance). This is subject to discretion and should cause no problem. Again, however, once the decision to make the grant is made, runaway costs may occur and the state will be stuck with them.

4. Sec. 23 (p. 15, lines 18-29, p. 16, lines 1-4) (access roads). This should present no problem because it is subject to discretion, to availability of funds, and

to a $50,000 maximum. In addition, AS 19.30.040(d) makes the developer liable for costs in excess of those agreed upon. That kind of provision should be in all of these.

5. Sec. 24 (p. 16, lines 5-20) (aid for various municipal purposes). Under AS 43.18.010(j), state aid continues for construction of health care facilities until it "equals 25 per cent of the total project cost." The new material would allow Dr. Mike Beirne or any future Dr. Mike Beirne to justify pretty much all of his claims. AS 43.18.020 limits these to the funds available, declares that there is no debt of the state, and requires pro rata distribution when eligible claims exceed available money. The problem is that, if the money has been appropriated, the developers will make their score.

6. Sec. 25 (p. 16, lines 21-29, p. 17, lines 1-8) (school construction). This has the same safeguards.

7. Sec. 26 (p. 17, lines 9-25) (convention and recreation facilities). This has the same safeguards.

8. Sec. 27 (p. 17, lines 26-29, p. 18, lines 1-13) (sports facilities). These are subject to a direct appropriation; and therefore, require legislative approval as a safeguard.

9. Secs. 28-29 (p. 18, lines 14-29, p. 19, lines 1-16) (visitor information centers). These are made "within the limits of . . . appropriations and considering the needs of other qualified applicants."

10. Secs. 30-31 (p. 19, lines 17-29, p. 20, lines 1-17) (municipal water and sewer systems). There are no safeguards for non-federally funded projects, except that the projects must be constructed in accordance with plans and specifications approved by DEC.

11. Sec. 32 (p. 20, lines 18-29, p. 21, lines 1-4) (village safewater systems). There are no local costs and no safeguards whatsoever. The new amendment opens the door to a total ripoff. The department can control it only by self-enforcing contractual provisions -- which are usually nonexistent -- in the grants. However, having to take over the ownership and operation locally imposes some restraint on misadventures.

12. Secs. 33-34 (p. 21, lines 5-29, p. 22, lines 1-4) (alcoholism facilities). These have a $50,000 single-grant maximum and departmental discretion not to fund.

The basic danger the amendments create is that local developers will overcharge for their own goods and services which they place into a project, claiming an offsetting amount from the state. This can be avoided, at least in part, by grant conditions (or agency regulations) which delimit the amount of those kinds of charges by making them conform to the rates and amounts charged for the same or similar goods and services on similar projects. All in all, however, the legislature's definition of "costs" is an invitation, if not to steal, at least to be wasteful. We are not at all sure that the state agencies involved are equipped to prevent either result.

More than most, this bill has its share of good and bad points. From a legal standpoint, i.e., from how it can and probably will affect the state's legal relationships and problems, we would prefer another version and would just as soon that this one were vetoed. For us, it simply has too many uncertainties and unknowns which, if answered wrong, will work against the public interest. We admit, however, that if they are answered correctly, no harm will occur and -- with respect to operational and capital budgeting -- a more rational approach may be developed.

Please note, however, that you have authority as the state's budget officer to effect almost all, if not all, those budgeting and procurement changes on your own with respect to the state government's budgeting and capital planning. Hence, this is not an all-or-nothing proposition.

Sincerely yours,

Avrum M. Gross
Attorney General

by Arthur K. Peterson

AMG:pjg:RWP

Administrative Committee on
Renewable Resources Development

October 12, 1977

AVRUM M. GROSS
ATTORNEY GENERAL

Renewable Resources
Funds

By:
Rodger W. Pegues
Assistant Attorney General

This confirms our recent discussions on this subject.

First, "renewable resources" are whatever the Alaska Supreme Court says they are. It is our best judgment that, as with "capital improvements," the court would not adopt a general definition but rather would judge each proposition on its own merits. Cf., City of Juneau v. Hixson, 373 P.2d 743 (Alaska 1962). As will be explained later, however, we doubt any ruling will ever be made. The administration, however, should use the same ad hoc test as the court would.

Second, investments are governed by the prudent man rule, i.e., to make money. AS 37.11.020, 060 and AS 37.10.070 (investment of surplus funds).

Third, expenditures may be made only by way of the budget-appropriation process. AS 37.11.030, 070.

The Alaska Renewable Resources Development Fund and Permanent Fund are not true dedications of revenues, i.e., there is no fund which is actually dedicated for a special purpose. There is a conditional, standing appropriation of surpluses, if any, from the development fund to the permanent fund. AS 37.11.040, 060. But that merely moves money from one fund to another, without expending it on a special purpose. Except for replacement of losses of principal from fund income (also a conditional, standing appropriation), that is the only source of income for the latter fund. If there is no surplus in a given year, there is no income to the fund for that year. A true dedicated fund has a regular source of income and the authority to expend money, without further appropriation, on its special purpose, e.g., education.

Additionally, there is no legal impediment against any legislature's appropriating from either fund for any public purpose whatsoever, without regard to its contributing to the development or management of a renewable natural resource. No legislature, with an exception not applicable here, may bind another to a given law or policy. With or without an express

amendment to AS 37.11, any future legislature may appropriate as it sees fit, subject only to an item veto. That includes appropriations from the principal of the permanent fund.

Legally, the funds may be viewed as special accounts to facilitate a legislative policy. So long as succeeding legislatures are in accord with the policy, the funds afford a way of providing fairly substantial amounts of money for the management of renewable natural resources without having to overcome the annual inertial resistance of the budget-appropriation process. The executive is bound by the policy as long as it remains law. But each and every legislature possesses the plenary power to annul the policy -- expressly by repeal or impliedly by not following it.

If the legislature changes the policy by not following it, e.g., appropriates from the development fund to build a road to exploit mineral resources of the Seward Peninsula, we doubt that a court would overturn the legislature's action. We believe, rather, that it would rule that the establishment of the fund and its terms by the Eighth State Legislature does not bind, say, the Eleventh State Legislature. There is a rule to the effect that the constitutional limitation of appropriation bills to appropriations precludes their being used to enact or amend other substantive law. E.g., Opinion to the Governor, 239 So.2d 1, 11 (Fla. 1960). However, we apprehend this rule to apply solely to conditions or restrictions attached to appropriations and not to the appropriations themselves.

Accordingly, it is unlikely -- so long as expenditures require an appropriation -- that the courts will ever rule on what is or is not a "renewable natural resource." Of course, if AS 37.11 were amended so as not to require appropriations for future expenditures, then it probably would be a true dedication of revenues and become unconstitutional. Alaska Const., art. IX, §7; Op. Atty. Gen., Dedication of Revenues Derived from Lease or Sale of State Natural Resources (May 2, 1975).

RWP/pjg

ALLOCATIONS OF PROJECTED OIL & GAS ROYALTIES
($ millions)

Fiscal Year	Oil & Gas Royalty 1/	Permanent Fund 25%	Renewable Resources 2/ Development Fund 2-1/2%	Renewable Resources 2/ Investment Fund 2-1/2%	Reserve for Energy Facilities 5%	Reserve for Capital Outlay 25%	Native 3/ Claims 16%	Mental Health Trust 1-1/2%	University Trust 1/2%	Public School Fund 1/2%	Unallocated Balance
79	297.6	74.4	7.4	7.4	14.9	74.4	47.6	4.5	1.5	1.5	63.9
80	360.3	90.1	9.0	9.0	18.0	90.1	57.6	5.4	1.8	1.8	77.5
81	425.7	106.4	10.6	10.6	21.3	106.4	68.1	6.4	2.1	2.1	91.6
82	476.4	119.1	11.9	11.9	23.8	119.1	76.2	7.1	2.4	2.4	102.4
83	529.7	132.4	13.2	13.2	26.5	132.4	84.7	7.9	2.6	2.6	113.9
84	587.3	146.8	14.7	14.7	29.4	146.8	94.0	8.8	2.9	2.9	126.3
85	648.1	162.0	16.2	16.2	32.4	162.0	46.6	9.7	3.2	3.2	196.6
86	713.6	178.4	17.8	17.8	35.7	178.4		10.7	3.6	3.6	267.5
87	783.4	195.8	19.6	19.6	39.2	195.8		11.7	3.9	3.9	293.7
88	858.1	214.5	21.4	21.4	42.9	214.5		12.9	4.3	4.3	321.7
89	937.6	234.4	23.4	23.4	46.8	234.4		14.0	4.7	4.7	351.5
90	1022.3	255.5	25.5	25.5	51.1	255.5		15.3	5.1	5.1	383.3
TOTAL CONTRIBUTIONS:		1909.8	190.7	190.7	382.0	1909.8	474.8	114.4	38.1	38.1	2389.9
FY 78 BALANCE:		54.5					25.2				
FY 90 BALANCE:		1964.3					500.0				

FOOTNOTES:

1. Based on assumptions of no gas line, Sadlerochit production at 1.16 million barrels per day, 6.5% annual increase in oil prices, and no new fields produced, and no lease bonuses.
2. Allocations to both Renewable Resources Funds cease when the Investment Fund reaches $250,000,000.
3. Payments cease when $500,000,000 has been paid.

PREPARED BY:

LEGISLATIVE FINANCE
March 8, 1979

Article 1. Alaska Renewable Resources Development Fund.

Section
10. Alaska renewable resources development fund
20. Fund authorization level
30. Fund utilization
40. Fund balances

Sec. 37.11.010. Alaska renewable resources development fund. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by § 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.020. Fund authorization level. Not less than five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the Alaska renewable resources development fund. These deposits shall be invested in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.030. Fund utilization. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.040. Fund balances. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be transferred

to the Alaska renewable resources investment fund. (§ 1 ch 130 SLA 1974; am § 4 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" at the end of the section.

Editor's note. — Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of $250,000,000, AS 37.11.010 — 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Article 2. Alaska Renewable Resources Permanent Fund.

Section
50. Alaska renewable resources investment fund
60. Fund principal
70. Utilization of fund income
80. Protection of principal
90. Investments

Cross reference. — As to the Alaska Renewable Resources Corporation, see AS 37.12.

Sec. 37.11.050. Alaska renewable resources investment fund. There is established as a separate fund the Alaska renewable resources investment fund. Funds apportioned by § 60 of this chapter for deposit in the investment fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans. (§ 1 ch 130 SLA 1974; am § 5 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" in the first and second sentences.

Sec. 37.11.060. Fund principal. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the investment fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with § 90 of this chapter. (§ 1 ch 130 SLA 1974; am § 6 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund" at the end of the first sentence and "§ 90 of this chapter" for "AS 37.10.070 (investment of surplus state funds)" at the end of the second sentence.

Sec. 37.11.070. Utilization of fund income. (a) Income received from investment of investment fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable

resources programs. The primary purpose of the programs shall be to restore the renewable resources of the state for common beneficial uses.

(b) Plans for expenditures from fund income shall be prepared in detail by the cooperative efforts of the Departments of Natural Resources, Fish and Game, Environmental Conservation, and Commerce and Economic Development, and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. Not less than 80 per cent of the total plan submitted each year shall be apportioned for direct capital expenditures or investments (§ 1 ch 130 SLA 1974; am § 7 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment designated provisions of this section as subsection (a), substituted "investment fund" for "permanent fund" in the first sentence of subsection (a), rewrote the second sentence of subsection (a), and added subsection (b).

Sec. 37.11.080. Protection of principal. A transaction involving investment fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended. (§ 1 ch 130 SLA 1974; am § 8 ch 179 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "investment fund" for "permanent fund."

Sec. 37.11.090. Investments. Investment responsibility for the Alaska renewable resources investment fund shall reside with the treasury division of the Department of Revenue. The treasury division may invest the Alaska renewable resources investment fund in any investments authorized in AS 39.35.110 so long as its investment policy is consistent with the prudent-man rule. (§ 9 ch 179 SLA 1978)

Article 3. Alaska Economic Disaster Impact Fund.

Section
100. Alaska economic disaster impact fund

Sec. 37.11.100. Alaska economic disaster impact fund. (a) There is established a separate fund known as the Alaska economic disaster impact fund which shall be administered by the Department of Commerce and Economic Development. Funds designated in this section and apportioned by statute for deposit in the Alaska economic disaster impact fund are for grants or loans to assist economically impacted communities within areas designated by a proclamation under AS 44.33.285. The Department of Community and Regional Affairs, in

Sec. 37.12.020. Allocation. (a) There shall be allocated to the corporation from the receipts described in AS 37.11.020 five per cent of the total receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land. Payments of the amount allocated by this section shall be made to the corporation by the Department of Revenue on a monthly basis.

(b) Fifty per cent of all actual receipts of the corporation, from whatever source except receipts from the corporation's investments, shall be deposited into the renewable resources investment fund (AS 37.11.050). (§ 3 ch 179 SLA 1978)

Sec. 37.12.025. Board of trustees. A board of trustees of the corporation is established as its governing body. (§ 3 ch 179 SLA 1978)

Sec. 37.12.030. Composition of the board of trustees. The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session. The board shall annually elect a chairman from among its members. A chairman may not succeed himself. (§ 3 ch 179 SLA 1978)

Sec. 37.12.035. Term of office. The members of the board of trustees shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. The initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years. (§ 3 ch 179 SLA 1978)

Sec. 37.12.040. Removal and vacancies. (a) The governor may remove a board member from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a board member may not participate in board business and may not be counted for the purpose of establishing a quorum. A suspended member shall continue to receive his salary as a board member until the legislature in joint session consents to his removal. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of members of the legislature in joint session. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

Revisor's note (1978). — Both § 4, ch. 181, SLA 1978 and § 4, ch. 182, SLA 1978 enacted chapters designated AS 37.14 establishing a mental health fund. As chapter 182, SLA 1978 is both the later enacted law and contains additional material and more comprehensive treatment of trust funds, the chapter contained in § 4, ch. 182, SLA 1978 has been treated as superceding the one contained in § 4, ch. 181, SLA 1978.

Effective date of chapter. — Section 27, ch. 182, SLA 1978, makes article 2 effective on the date that the Board of Regents votes to approve the matters under consideration as provided in § 24 of the act. Section 28 of ch. 182, makes articles 1, 3, and 4 effective July 1, 1978.

Editor's note. — Section 24, ch. 182, SLA 1978, effective July 19, 1978, provides: "ELECTION BY BOARD OF REGENTS. The Board of Regents shall hold a special meeting not later than September 1, 1978 to determine whether it is in the best interests of the University of Alaska to relinquish the authority to approve of the management and disposal of university land by the Department of Natural Resources, and to accept the benefits of the university fund established in AS 37.14.060 — 37.14.100 contained in sec. 4 of this Act. The Act of approval or disapproval shall be recorded by resolution of the Board of Regents. A majority of the whole board shall determine whether the matter under consideration is approved or disapproved."

Article 1. Mental Health Fund.

Section		Section	
10.	Mental health fund established	30.	Powers and duties of board
20.	Mental health fund advisory board created	40.	Fund utilization
		50.	Contributions

Effective date. — See effective date note following the chapter analysis.

Sec. 37.14.010. Mental health fund established. (a) There is established as a separate fund the mental health fund.

(b) The principal of the fund established in (a) of this section consists of sums transferred under § 50 of this chapter.

(c) The income of the fund established in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.020. Mental Health Fund Advisory Board created. (a) There is created in the Department of Revenue the Mental Health Fund Advisory Board composed of the director of the division of mental health, the chairman of the Mental Health Advisory Council, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of that board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.030. Powers and duties of board. The board created in § 20 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the total principal and income of the fund established in § 10 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 10 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.040. Fund utilization. The principal of the fund established in § 10 of this chapter shall be retained in that fund for investment as specified in § 170 of this chapter. The income of the fund may not be appropriated for a purpose other than the support of the state mental health program. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.050. Contributions. During each fiscal year, subject to legislative appropriation of sufficient funds, the commissioner of the Department of Revenue shall transfer to the fund established in § 10 of this chapter a sum equal to one and one-half per cent of the total revenue derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Article 2. University Fund.

Section		Section	
60.	University fund established	80.	Powers and duties of board
70.	University fund advisory board created	90.	Fund utilization
		100.	Contributions

Effective date of article. — Section 27, ch. 182, SLA 1978, makes article 2 effective on the date that the Board of Regents votes to approve the matters under consideration as provided in § 24 of the act.

Editor's note. — See editor's note following chapter analysis.

Sec. 37.14.060. University fund established. (a) There is established as a separate fund the university fund.

(b) The principal of the fund established in (a) of this section consists of

(1) the balance of the trust fund established in AS 14.40.400 on July 1, 1978; and

(2) sums transferred under § 100 of this chapter.

(c) The income of the fund established in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.070. University Fund Advisory Board created. (a) There is created in the Department of Revenue the University Fund Advisory Board composed of two members appointed by the Board of Regents of the University of Alaska from the membership of the Board of Regents, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of that board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.080. Powers and duties of board. The board created in § 70 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the total principal and income of the fund established in § 60 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 60 of this chapter. (§ 4 ch 181 SLA 1978; § 4 ch 182 SLA 1978)

Sec. 37.14.090. Fund utilization. (a) The principal of the fund established in § 60 of this chapter shall be retained in the fund for investment as specified in § 170 of this chapter.

(b) The income from the fund established in § 60 of this chapter may not be appropriated for a purpose other than the support of programs of the University of Alaska.

(c) No part of the principal and income of the fund established in § 60 of this chapter may be used for the support of a sectarian or denominational college or school. (§ 4 ch 182 SLA 1978)

Sec. 37.14.100. Contributions. During each fiscal year the commissioner of the Department of Revenue shall transfer to the fund created in § 60 of this chapter a sum equal to one-half of one per cent of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 182 SLA 1978)

Article 3. Public School Fund.

Section	Section
110. Public school fund established	130. Powers and duties of board
120. Public school fund advisory board created	140. Fund utilization
	150. Contributions

Effective date. — See effective date note following chapter analysis.

Sec. 37.14.110. Public school fund established. (a) There is established as a separate fund the public school fund.

(b) The principal of the fund established in (a) of this section consists of

(1) the balance of the public school permanent fund on July 1, 1978; and

(2) sums transferred under § 150 of this chapter.

(c) The income of the fund created in (a) of this section consists of the interest and dividends earned from investments of the principal of that fund under § 170 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.120. Public School Fund Advisory Board created. (a) There is created in the Department of Revenue the Public School Fund Advisory Board composed of the commissioner of the Department of Education, three members elected by the Board of Education from among its membership, and the commissioner of the Department of Revenue.

(b) The board created in (a) of this section shall elect a chairman from the membership of the board. Members serve without compensation but are entitled to per diem and travel expenses authorized by law for other boards. (§ 4 ch 182 SLA 1978)

Sec. 37.14.130. Powers and duties of board. The board created in § 120 of this chapter has the following powers and duties:

(1) to hold regular meetings and special meetings considered necessary;

(2) to have prepared an annual accounting of the principal and income of the fund established in § 110 of this chapter; and

(3) to prepare long-range investment plans for the fund established in § 110 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.140. Fund utilization. The principal of the fund established in § 110 of this chapter shall be retained in the fund for investment as specified in § 170 of this chapter. The income of the fund may not be appropriated for a purpose other than for the support of public education programs. (§ 4 ch 182 SLA 1978)

Sec. 37.14.150. Contributions. During each fiscal year the commissioner of the Department of Revenue shall transfer to the fund created in § 110 of this chapter a sum equal to one-half of one per cent of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds,

and federal mineral revenue-sharing payments or bonuses. (§ 4 ch 182 SLA 1978)

Article 4. Custody and Investment of Trust Funds.

Section
160. Duties of commissioner of revenue
170. Investments

Effective date. — See effective date note following chapter analysis.

Sec. 37.14.160. Duties of commissioner of revenue. The commissioner of revenue is the treasurer of the funds created in §§ 10, 60, and 110 of this chapter and shall

(1) act as official custodian of the cash and securities belonging to those funds and provide adequate safe deposit facilities for each of them;

(2) receive cash belonging to those funds;

(3) collect the principal on securities acquired for each fund established under §§ 10, 60, and 110 of this chapter and credit each fund accordingly;

(4) collect interest and dividends earned on investments of the funds established under §§ 10, 60, and 110 of this chapter and credit the income reserve account of each fund accordingly;

(5) invest and reinvest the principal of each fund in accordance with § 170 of this chapter. (§ 4 ch 182 SLA 1978)

Sec. 37.14.170. Investments. (a) The commissioner of revenue, with the approval of each advisory board created in §§ 20, 70, and 120 of this chapter, may invest the principal of the funds created in §§ 10, 60, and 110 of this chapter in the same manner as specified for the investment of surplus pension funds under AS 39.35.110.

(b) The commissioner of revenue may

(1) invest and reinvest the principal of the funds;

(2) sell, exchange, convey, transfer, or otherwise dispose of investments of the funds by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the funds;

SCOMM

#18:22A

02-001B (Rev. 10/76)

STATE of ALASKA

MEMORANDUM

Singer
#18:22A

TO: Frances A. Ulmer, Director
Div. of Policy Development & Planning

DATE: April 11, 1979

FILE NO: J-66-614-79

TELEPHONE NO:

FROM: AVRUM M. GROSS
ATTORNEY GENERAL

SUBJECT: Use of Permanent Fund income as debt guarantee, HB 414

By:
Rodger W. Pegues
Assistant Attorney General

You have asked us to review HB 414, and to advise whether the legislature may provide for the use of the income from the Permanent Fund to guarantee bonds, notes, and other indebtedness issued to finance public power projects.

While HB 414 will require substantive amendment, the income from the permanent fund probably can be used for this purpose.

The constitutional amendment establishing the permanent fund provides in pertinent part that "[a]ll income from the permanent fund shall be deposited in the general fund unless otherwise provided by law." Alaska Const., art. IX, § 15. */ The concluding clause: "unless otherwise provided by law" was intended to give the legislature maximum flexibility in using the fund. 1976 H. Jour. 684-685. It may be that the record of proceedings before the several committees which considered the amendment and of proceedings on the floor of the legislature would show its purpose in more detail. Its purpose is not discussed in the ballot summary or voter's pamphlet. Both simply advised the electorate that the income would go into the general fund and be available for appropriation unless otherwise provided by law. The title of the joint resolution by which the legislature proposed the amendment makes no reference to the disposition of the Permanent Fund's income. Disposing of it so as to establish still another dedicated fund probably encompasses a whole new and different subject from establishing the

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*/ The clause, "unless otherwise provided by law" was added to the proposed constitutional amendment by a House Judiciary Committee Substitute. Compare SSHJR 39, 1/15/76, with CSSS HJR 39, 3/24/76. It was dropped by SCS CSSS HJR 39, 4/7/76 (which would have authorized additional dedications), and restored by SCS CSSS HJR 39 (Res), 5/21/76. It remained in SCS CSSS HJR 39 (Res) am S, 5/21/76, the final version.

Alaska Permanent Fund. As a general rule, separate subjects must be treated separately in adopting constitutional amendments, and each must be summarized for the voters. Our conclusion is, therefore, that the clause does not exempt the fund's income from the prohibition against dedicated funds.

We turn to the question of whether the clause permits the legislature to provide for the Permanent Fund's income to be pledged as a guarantee for financing public power projects. While we doubt that the clause exempts the fund's income from the prohibition against dedications for a special purpose, we believe that neither repaying debts nor guaranteeing their repayment comes within the constitution's prohibition against dedicated funds and that, therefore, the income can be used as a security to repay or guarantee the repayment of a debt for a given capital improvement. */

The next question is whether an appropriation is required to make payments on the debt as may become necessary.

The relevant provisions of the constitution provide as follows:

> No money shall be withdrawn from the treasury except in accordance with appropriations made by law.

Alaska Const., art. IX, § 13. **/

It appears that an appropriation would be necessary either to make the guaranty at the outset or subsequently to make payments. A guaranty is a promise that payment will be made in accordance with its terms. Aside from those

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*/ This conclusion is based on a reading of the Minutes of the Constitutional Convention and the files of the Convention's Committee on Finance and Taxation. The wording, "proceeds of any tax or license," in article IX, section 7, of the constitution was intended to allow exemptions for pension fund payments, bond proceeds, sinking fund receipts, and the like. 1975 Op. Atty. Gen. No. 9, 6-9.

**/ A related provision, article II, § 13, requires appropriations to be made in bills that are confined to appropriations.

the promise is unconditional. However, any promise to pay made by the state is necessarily conditioned on the appropriation of the monies to be paid. Id. In order to meet this constitutionally imposed condition, an appropriation is necessary. It can be made at the outset as a conditional appropriation, e.g., "$x million is appropriated annually to pay the guaranty on the condition that it becomes due." It can be made, as is done for general obligation bonds, as the payments become due, i.e., in the case of a guaranty, an annual, conditional appropriation.

While there is authority that no money can be paid from the treasury even on a judgment, United States v. Commonwealth, 288 S.W.2d 664 (Ky. 1956), the better view is that the provisions of a state constitution requiring an appropriation to be made by law must give way under the combined effect of the federal constitution's contracts and supremacy clauses. */ Cf., Virginia v. West Virginia, 246 U.S. 565 (1918). A guaranty is a contract and cannot be impaired. The legislature's refusal to honor it would constitute its impairment. A court would render judgment for the debtor and levy on the fund's income to enforce the judgment. Therefore, no appropriation would be required in order to enforce payment. Nevertheless, to avoid the necessity for obtaining a judgment, an appropriation should be made.

It appears that the concluding clause of the 1976 amendment authorizes the legislature to make an appropriation from the income on a continuing basis for the purpose of paying or guaranteeing payment of a debt for a public power project, i.e., provide in a single Act for a given sum of monies to be expended annually from the income of the fund. Thus, a conditional appropriation could be made at the time the guaranty is made, and no further appropriations would be required. With respect to a guaranty, our best guess is that a continuing appropriation would probably be upheld. The guaranty would probably include a promise not to repeal the appropriation so long as the guaranteed debt remains outstanding. Any repeal would then be invalidated by a court.

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*/ U.S. Const., art. VI, cl. 2; Amend. V, XIV, § 1.

The next question is whether the guaranty must be made by law and approved by the voters. Because the guaranty would be a contract for a conditional debt which could result in the state's being, in effect, in debt to the creditor, it appears that the approval of the electorate would be required to make the guaranty. Article IX, section 7, of the Alaska Constitution prohibits contracting debt unless it is for a capital improvement and is ratified by the electorate. The court places a great premium on this ratification. Thomas v. Rosen, 522 P.2d 1120 (Alaska 1974). The constitutional exceptions from the requirement of ratification do not expressly apply to a guaranty. Alaska Const., art. IX, § 11. Our best guess is that the requirement, therefore, applies to guaranties and that any proposed guaranty would have to be presented to the voters as a ballot proposition. It would almost certainly, therefore, require as well that, as with a bond issue, the guaranty be authorized by law in the first instance and then submitted to the voters. Enactment of a law is what the language of the 1976 amendment requires on its face.

We do not believe that a one-time-only ratification by the voters of an Act generally authorizing the Permanent Fund's managers to guarantee debts for public power projects would satisfy the constitutional requirement for contracting debt. However, it might aid the court in deciding that those requirements do not apply to a guaranty which is based solely on the Permanent Fund's income. There is a line of cases which hold that debt restrictions similar to those contained in article IX, section 8, of the Alaska Constitution apply solely to debts which the state's full faith and credit is pledged to pay. The likelihood that the rationale of these cases would be applied by the Alaska Supreme Court to a guaranty based solely on the income from the Permanent Fund could possibly be increased by the voter's having ratified the concept. Nothing prevents the legislature from making the statutory authorization for guaranties contingent on voter approval. Accordingly, while we do not believe it will be valid, a general authorization for the Permanent Fund managers to make guaranties could be enacted and then tested in court.

Finally, the constitution provides that the "public credit [cannot] be used except for a public purpose." Alaska Const., art. IX, § 6. We believe that only the most

irrational of power projects would be barred under this provision. E.g., Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970). We assume that the projects would be public works. Whether the income from the Permanent Fund could be used to guarantee financing for private works is an entirely different question which involves entirely different issues.

RWP/pjg

cc: Jerry Reinwand
Office of the Governor

Ron Lind
Div of Budget & Management

Keith Specking
Office of the Governor

bcc: Tom Singer
Div of Policy Development
& Planning

M E M O R A N D U M

March 10, 1980

SUBJECT: Eligibility for state benefits determined by durational residency

TO: Representative Hugh Malone

FROM: James L. Baldwin
Legislative Counsel

You have asked if the state and federal constitutions permit the enactment of a law which conditions the payment of state benefits on the length of time a person has been a resident of the state.

This type of durational residency requirement creates separate classes of state residents who participate unequally in the benefits provided by the state. The federal constitution provides that a state may not deny a person within its jurisdiction the equal protection of the law. Section I of Amendment XIV, Constitution of the United States. The state constitution provides

". . .that all persons are equal and entitled to equal rights, opportunities, and protection under the law,. . . ."

Article I, section 1, Constitution of the State of Alaska.

Federal Equal Protection Determinations

A federal court determines the validity of a durational residency requirement by isolating the right impaired by the challenged state statute. If the federal court finds that the right impaired is fundamental to state or federal citizenship, the durational residency requirement is valid only if the state has a compelling interest which requires the discrimination based on length of residency. See, Oregon v. Mitchell, 400 U.S. 112 (1970). Alternatively, if the federal court finds that the right impaired is not fundamental to state or federal citizenship, the durational residency requirement is valid only if the legislature had a rational

basis for discriminating between classes of state recidents. This rational basis standard was announced by the United States Supreme Court in F.S. Royster Guano Co. v. Virginia, 253 U.S. 412, 415 (1920). In that case the Court explained that for a statute to survive judicial scrutiny

> [It must] be reasonable not arbitrary, and must rest upon some ground of difference having a fair and substantial relation to the object of the legislation, so that all persons similarly circumstanced shall be treated alike.

Alaska Equal Protection Determinations

The Alaska Supreme Court has adopted a standard of review for alleged equal protection violations which differs from the federal standards. The Court announced the state standard in State v. Erickson, 574 P.2d 1 (Alaska 1978). The Court explained its standard of review as follows:

> Such a test will be flexible and dependent upon the importance of the rights involved. Based on the nature of the right, a greater or lesser burden will be placed on the state to show that the classification has a fair and substantial relation to a legitimate governmental objective. Where fundamental rights or suspect categories are involved, the results of this test will be essentially the same as requiring a "compelling state interest"; but, by avoiding outright categorization of fundamental and non-fundamental rights, a more flexible, less result-oriented analysis may be made.

State courts apply the equal protection test adopted in Erickson by

> (1) determining the purposes for which the challenged legislation is intended and whether those purposes are within the power of the state to promote;
>
> (2) examining the means used to achieve the purpose of the legislation and whether the means directly achieve the purpose; and
>
> (3) balancing the importance of the state's interest in the means used to accomplish the legislative purpose against the nature of the personal right which is impaired.

Alaska Durational Residency Cases

The Alaska Supreme Court has had more than one occasion to test the validity of durational residency requirements. A brief summary of these cases follows:

(1) State v. Van Dort, 502 P.2d 453 (Alaska 1972), -- a 75-day durational residency requirement for voting in state elections was found to be unconstitutional as a violation of the fundamental right of interstate travel and a 30-day residency requirement for voting was expressly approved;

(2) State v. Wylie, 516 P.2d 142 (Alaska 1973) -- a one-year state residency preference for state employment was found to be unconstitutional as a violation of the fundamental right of interstate travel;

(3) State v. Adams, 522 P.2d 1125 (Alaska 1974) -- a one-year durational residency requirement for the initiation of divorce proceedings was found to be a violation of the state constitution;

(4) Gilbert v. State, 526 P.2d 1131 (Alaska 1974) -- a three-year durational residency requirement for legislative office was upheld as supported by the compelling state interest of assuring that legislators are well acquainted with state conditions and the needs of the voters; the court also found that less restrictive alternatives to achieve these interests were unavailable;

(5) Hicklin v. Orbeck, 565 P.2d 159 (Alaska 1977), rev'd on other grounds, 437 U.S. 518, 57 L.Ed.2d 397 (1978) -- a one-year durational residency requirement for pipeline jobs was found to be unconstitutional as an unjustified impairment of the right to interstate travel; and

(6) Castner v. City of Homer, 598 P.2d 953 (Alaska 1979) -- a one-year durational residency requirement for seeking municipal office was found to be constitutional. The Court relied heavily on Gilbert v. State, supra.

It is difficult to predict the outcome of a case involving a challenge to a classification of state residents determined by length of residency in the state similar to those contained in CSSB 122 (Rules) and CSHB 696 (State Affairs). Essentially, these two bills establish five separate classes of state residents who receive varying amounts as a refund of taxes (CSSB 122) or a residency payment (CSHB 696) determined by years of residency of the person receiving the refund or payment.

The Alaska Supreme Court was presented with a challenge to an extended durational residency requirement in Thomas v. Bailey, 595, P.2d 1 (Alaska 1979). That case involved the Beirne Homestead Initiative which created four classes of residents consisting of (1) those persons who have resided in the state for less than three years and who were ineligible for state land; (2) those persons who have resided in the state for more than three years but less than five years who were entitled to one grant of forty acres of land; (3) persons who have resided in the state for more than five years but less than ten years, who were entitled to two forty-acre grants of state land totalling eighty acres; and (4) residents of ten years or longer who were entitled to receive four grants of forty acres each, or a total of 160 acres of state land.

The validity of the durational residency classification was argued before the Court. However, the Court chose to rest its decision on a determination that a conveyance of land by initiative is an appropriation and barred by Article XI, Section 7 of the state Constitution. The majority of the Court did not reach the durational residency issue because the finding of a violation of the initiative process was sufficient to dispose of the case.

However, Justice Rabinowitz authored a separate concurring opinion in which he concluded that the residency classifications in the Beirne Initiative were in violation of the equal protection requirements of Article I, Section 1 of the state Constitution. He expressed his conclusion as follows:

> In light of the consistent pronouncements by this court concerning the fundamental nature of the right to travel under our state constitution in prior cases, I believe there is a strong case presented in favor of continuing

> to apply the most stringent standard of review to durational residency classifications under the new, flexible equal protection test adopted in State v. Erickson, 574 P.2d 1 (Alaska 1978). However, even starting from the premise that the least intensive scrutiny available under Erickson applies, I do not think that the classification of Alaska residents into four groups of dissimilarly treated individuals based on duration of residency for purposes of disbursing grants of state land is "reasonable, not arbitrary" and "rest[s] upon some ground of difference having a fair and substantial relation to the object of the legislation, so that all persons similarly circumstanced [are] treated alike."

(Citing Isakson v. Rickey, 550 P.2d 359, 366 (Alaska 1976)). (footnotes omitted)

The view of Justice Rabinowitz may foreshadow the possible conclusion of the Alaska Supreme Court on the question of durational residency classifications.

Application to Pending Legislation

Two arguments have been proposed to support a classification of state residents by length of residence. They are:

> (1) a state benefit based on the number of past years of state residency equalizes the cost of government between short-term and long-term residents; and
>
> (2) the state has broad authority to pay benefits derived from the permanent fund because the permanent fund represents revenue from natural resources exclusively owned by the state.

The first argument set out above will fail unless some direct relationship exists between the governmental cost and the contributions of state residents. An example of a durational residency requirement which achieves a proper cost equalization is a durational residency requirement for resident tuition at state universities and colleges. Starns v. Malkerson, 326 F.Supp. 234 (D. Minn. 1970) aff'd, 401 U.S. 985, 28 L.Ed 2d 527 (1971). Starns upheld a one-year residency requirement for resident tuition at the University of Michigan. In that

case the Court reasoned that the residency requirement was justified as a partial cost equalization since the challenged statute required nonresidents to be taxpayers for a reasonable period before they become eligible for resident tuition while attending public educational institutions. However, it should be noted that (1) there is a direct connection between the payment of taxes and the cost of public education which is partially supported by taxes; (2) nonresident students are not prevented from attending state educational institutions if they pay nonresident tuition; and (3) after the required period has elapsed, nonresidents may become eligible for resident tuition. I have difficulty finding a direct connection between state benefits paid from the permanent fund and any public costs associated with the accumulation or distribution of the permanent fund. I conclude from Starns that something more than glittering generalities about the past suffering of long-term residents is needed to support a cost equalization argument. The legislature must develop a cost analysis of the actual dollars that are recovered for state residents through a durational residency requirement.

The second argument set out above is grounded on the ancient case of McCready v. Virginia, 94 U.S. 391, 24 L.Ed. 248 (1877) which involved a law limiting commercial fishing in intra-state waters to state residents. The challenged law was upheld in McCready on the ground that the fishery was not an interstate activity; i.e. solely in intra-state waters -- and that a state may limit the use of its resources to its own residents. The proponents of this argument claim that the state may deny benefits to nonresidents and may distribute income from the permanent fund to residents unequally because this income is derived from petroleum resources owned by the state. The Alaska Supreme Court relied on McCready in the Hicklin case and stated at page 169 of that opinion

> Accepting the premise that the United States has and should have one common economy, we do not accept the offered conclusion that the government of Alaska can never make benefits available to citizens of Alaska in preference to citizens of other states.

Hicklin was appealed to the U.S. Supreme Court. There the appellant job seekers argued that the state's discrimination against nonresidents in hiring for petroleum related jobs violated the Privileges and Immunities Clause contained in

Article IV, section 2 of the U.S. Constitution and that the state ownership of petroleum resources did not justify this discrimination. The Supreme Court reversed the holding of the Alaska Supreme Court and expressed the current law regarding the McCready doctrine as follows:

> "We do not agree that the fact that a state owns a resource, of itself, completely removes a law concerning that resource from the prohibitions of the [privileges and immunities] clause. Although some courts, including the [Alaska Supreme] court below, have read McCready as creating an 'exception' to the Privileges and Immunities Clause, we have just recently confirmed that '[i]n more recent years . . . the Court has recognized that the States interest in regulating and controlling those things they claim to "own" . . . is by no means absolute."

(Citing Baldwin v. Montana Fish and Game Comm'n, 436 U.S. at 385, 56 L Ed. 2d 354) Hicklin v. Orbeck, 437 U.W. 518, 523 57 L Ed. 2d 397, 406 (1979)

The Alaska Supreme Court's interpretation of McCready only supports certain preferences for residents as against non-residents. It does not support classifications which create inequalities among classes of state residents determined by length of residence. It is unlikely that a state court will cite McCready as justification for unequal treatment of state residents especially in light of the equal protection guarantee for the disposal of natural resources contained in Article VIII, section 17 of the state Constitution which provides:

> Laws and regulations governing the use or disposal of natural resources shall apply equally to all persons similarly situated with reference to the subject matter and purpose to be served by the law or regulation.

It is my opinion that classifications of state residents by length of residency are of questionable constitutional validity and that the Alaska Supreme Court will uphold a durational residency classification which discriminates against nonresidents if

> (1) there is a compelling state interest which justifies the discrimination;

(2) the length of residency is reasonable; and

(3) the personal right of nonresidents which is impaired by the residency requirement is not a privilege of national citizenship under the U. S. Constitution.

JLB:jdn

July 5, 1977

Hon. Terry Gardiner
Alaska State Legislature
P. O. Box 6092
Ketchikan, Alaska 99901

Re: Permanent Fund

Dear Terry:

We have finally come out from under long enough to give you a short answer to your questions on this. In order of your inquiries, the answers are as follows:

(1) The creation of the permanent fund did not legally obligate the legislature to keep the income of the fund abreast of inflation. There almost certainly is an implied obligation to manage as a prudent person, which means that reasonable efforts to make profitable investments with an eye on inflation are probably a legal requirement. We confess that we cannot be sure. We will have to compare the language establishing our permanent fund with that of others and see what the cases say.

(2) Appropriations made to the permanent fund by law may not be withdrawn even though they are in excess of the amount required by the constitution. Only the income of the fund is available from the fund. Of course, a standing appropriation could be repealed, and if so, no further money would go into the fund from it.

Please advise if you require more on this. We realize that there will be hundreds of questions. We cannot conduct unlimited research on all of them. For the most part, we believe it will be best to limit our research to the issues which are of practical application. Even then, we will be stretched.

Sincerely,

AVRUM M. GROSS
ATTORNEY GENERAL

By:
Rodger W. Pegues
Assistant Attorney General

RWP:chp

cc: Clark Gruening
Fran Ulmer

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 15, 1979

SUBJECT: Permissible General Fund Investments (W.O. #6681)

TO: The Honorable Russ Meekins
Chairman, House Finance Committee

FROM: Larry Eppenbach
Senior Policy Analyst

What are permissible general fund investments? The short answer; almost anything.

Section 37.10.070 of the Alaska Code currently lists 13 categories in which the Commissioner of Revenue may invest surplus funds (surplus = general funds). Some of these categories specifically identify single investments such as "(3) notes issued by the Farmer's Home Administration." Some specifically identify a class of investments such as "(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States."

One category, however, opens the door to almost any potential investment. It reads "(6) other securities, including corporate securities." Securities are defined in this section as "... bonds, notes, debentures and all other forms of indebtedness; common stock, preferred stock and all other forms of equity capital; investments in stocks and equity capital may not exceed 33-1/3% of the unappropriated surplus as of the end of the previous fiscal year."

Personal IOU's and similar examples of unsecured indebtedness may qualify as a legal investment under this category since the definition of security includes the expression "all other forms of indebtedness". The actual meaning of this expression is ambiguous and invites a case-by-case legal opinion with respect to new investments. That may have been the objective of the 1971 legislature which added this category to the list of qualifying investments. Another and more likely interpretation is that in an attempt to make common stock a qualifying investment for the general fund, this language was written into the Code not realizing the range of possible investments that it would qualify.

The attached list briefly describes the amount held in each of the investment categories listed in AS 37.10.070. If you would like additional comments about this list, or our suggestions for revision to it, we would be pleased to provide them.

LE:lmk
Attachments

Sec. 37.10.070. INVESTMENT OF SURPLUS FUNDS. (a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, the surplus shall be invested in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agenices or instrumentalities of the United States;

U. S. Treasury bills, U.S. notes and bonds, and the notes and bonds of federal agencies are all included in this category. In addition, state treasury places repurchase agreements in this category. Repurchase agreements or "repos" are short-term investments purchased under an agreement to resell the security -- usually the next day. The repo is collateralized or secured by the delivery of a U.S. or corporate note or bond. As of January 1, 1979, a total of 125.5 million dollars was invested in investment instruments described by this category. An additional $28.5 million was invested in repurchase agreements secured by collateral which fit in this category.

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

The notes and bonds of organizations such as the International Bank for Reconstruction, the InterAmerican Bank and the Asian Development Bank, each of which the United States is a member, are covered in this category. Currently there are no investments of surplus funds in this category.

(3) notes issued by Farmer's Home Administration;

The Farmer's Home Administration is a federal agency which has in the past offered notes which were unique because they had an annual interest payment and a variable amortization pay back. None of these investments have been held for many years and further this entire category appears to be redundant with Category (1).

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

This category includes both deposits in Alaska banks and those in banks outside the state. The Alaska bank deposits are secured by collateral (notes, bonds, municipal bonds, and

Alaska mortgages) as determined by the Commissioner of Revenue. Deposits in banks outside the state are typically not collateralized. By policy, the treasury has limited such deposits outside the state to major banks in the U.S. issuing time certificates of deposit that are freely traded in a secondary market. As of January 31 a total of $56.9 million of surplus funds were invested in short-term TCD's of major outside banks. Another $26.9 million of surplus funds were deposited in Alaska banks under this category. (These amounts are in addition to $27.8 million of bond construction funds and $17.8 from the International Airport Revenue Fund, also on deposit with Alaska banks.)

(5) corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization;

This category includes both corporate notes and bonds and also short-term general obligations of corporations called "commercial paper". Prime is an obsolete term once used to describe first quality commercial paper. Notes and bonds are rated by Standard and Poors, Moodys, and possibly Fitch (although there is some question to Fitch's national recognition) on an ABC rating scale. Although the rating requirements are ambiguous, the treasury interprets them to limit investment to "investment grade" securities. At the present time there are no surplus general funds invested in these corporate obligations.

(6) other securities, including corporate securities;

This is the catch-all category that invites a case-by-case legal ruling on each investment. It is always a matter of opinion as to which investment may qualify and only a judgment can be made about the amount of present state funds so invested. First, a number of loan programs, such as, commercial fishing, fisheries enhancement, small business, tourism, and child care facilities, are likely in this category and these now total $96.3 million as of January 31, 1979. In addition, all investments in the Bank Loan Incentive Program not covered in other categories would fall here (this is an old program by treasury to increase Alaska bank mortgage lending now totals $7.5 million dollars.) Finally, the obligations of state corporations held in the general fund may also be in this category and such obligations now total an additional $36.0 million for a grand total of $139.8 million.

(7) Federal Housing Administration mortgages;

These are mortgages guaranteed by the Federal Housing Administration and, by policy decision of the treasury, are limited to Alaska mortgages. However, nothing in the code imposes that limitation. Some of these mortgages exist in the Bank Loan Incentive Program and some are obligations that are now pledged to the Alaska Housing Finance Corporation (AHFC) to secure

their bonds. A total of $12.5 million of these mortgages in the general fund are currently pledged to the AHFC.

(8) Federal Veterans Administration mortgages;

See Category (7) above.

(9) loans made under the provisions of AS 03.10 and AS 26.15;

AS 03.10 is the Agricultural Loan Act and refers to loans made in amounts up to $200,000. As of January 31, 1979 a total of $683,700 of the state's surplus funds were invested in these loans. AS 26.15 refers to the major veterans' loan program administered by the Division of Veteran's Affairs. As of January 1, 1979 a total of $278.6 million dollars were invested here.

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

Alaska banks selling conventional mortgages to the general fund are required under this provision to retain a quarter of the mortgage in their own portfolio. At the present time no conventional residential mortgages are held in the general fund.

(11) other secured loans if the offering financial institution retains at least 33-1/3 per cent of the mortgage;

Similar to Category (10) this category refers to business loans rather than residential loans. Currently there are no such loans in the general surplus funds.

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

The Alaska Rural Rehabilitation Corporation is unknown to personnel in the state treasury and may no longer be in operation. In any case, to their knowledge, no such mortgages have ever been purchased.

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200 million.

Bankers acceptances are notes issued by banks to finance international shipments. These notes are secured by the value of the shipments as well as the assets of the bank. Limiting the bank to those with $200 million dollars of capital and surplus effectively limits the investment to the top 25 banks in the country.

"June 4, 1975

CSHB 324 am S

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

The Alaska Legislature has adopted and sent to me for action Committee Substitute for House Bill No. 324 amended Senate, an Act establishing a permanent Mineral Lease Bonus Fund. The bill requires that 50 per cent of the receipts paid the State from all mineral lease bonuses be deposited in the Fund. The deposits are to be invested as surplus state funds or in state loan programs which are eligible for permanent fund investments. Only the income from the investment fund would be subject to general appropriation.

The purpose of the bill is, in my view, laudatory. I personally believe that we have an obligation to insure that we do not waste the State's non-renewable resources, which belong to all Alaskans present and future, to meet the obligations of present-day government. My feeling is magnified by the experience the State has undergone with the 900 million dollar bonus fund from the North Slope. This enormous sum has been expended for a vastly increased state government and now, but six years after that mineral wealth was leased, the bonus fund is nearly gone.

I would like to sign HB 324 into law. But were I to do that, I would have to flatly ignore the Alaska Constitution and the advice of my Attorney General, who deems it clearly unconstitutional. Article IX, Section 7, of the Constitution provides:

> "The proceeds of any state tax or license shall not be dedicated to any special purpose, except when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska."

I have been advised by the Attorney General that this provision applies to proceeds from lease bonus sales and that accordingly, HB 324 is contrary to the Constitution. In light of that opinion, I have reluctantly concluded from the minutes of the Constitutional Convention that the framers of the Constitution did intend that mineral lease bonuses be covered by the Constitutional proscription.

This decision of the framers of our Constitution was not made in a vacuum. The question of dedicated funds was discussed extensively at the Constitutional Convention. Advocates for dedicating state proceeds used many of the same arguments as are being used today--that the state government would be profligate and that resources belonging to all state residents, present and future, should not be used to fund present government expenses. These arguments were rejected. The Convention overwhelmingly concluded that neither the governor nor the legislature should be deprived of real control over the finances of the State. It expressly sought to avoid the situation in which many states now find themselves--the situation where an ever-increasing percentage of revenues is tied up and an ever-decreasing amount of revenue is available for appropriation to ongoing state programs.

The situation the Convention sought to avoid is precisely the situation which seems to be developing in Alaska. HB 324, the proposed fund for parks and recreation (SB 147), and the proposed funds for hydroelectric projects (HB 171 and 185) demonstrate a trend toward dedication of an ever-increasing percentage of the State's revenues. The trend toward dedication of funds is particularly glaring at this time when the State is going through difficult financial times and maximum flexibility should be permitted in the planning and expenditure of our finances.

It may be that the policies considered persuasive by the Constitutional Convention when it determined to prohibit dedicated funds are less persuasive now that the citizens of the State have seen the actual operation of the state government. Certainly, the expenditure of the 900 million dollars has caused more than a few people to question the prohibition against dedicated funds. But it is a question which, once having been resolved by the people in their Constitution, can only be changed by the people through a Constitutional amendment. My personal preference, while recognizing the original arguments against dedication, is to favor a Constitutional change which would permit the legislature to establish such permanent funds from mineral lease bonus monies. In any event, the question is one which should be and must legally be submitted to the people. I have, accordingly, today introduced a Constitutional amendment which, if enacted by the legislature, will be placed before the people at the next general election in 1976. That amendment would authorize the legislature to do what they have unsuccessfully attempted to do in HB 324. I can assure you that if the amendment is adopted by the people and similar legislation is again adopted by the legislature, I will sign it willingly. In the absence of such a Constitutional amendment and legal authorization for a fund such as that established by HB 324, I must reluctantly veto the measure.

Sincerely,

Jay S. Hammond
Governor"

HJR 39 HOUSE JOINT RESOLUTION NO. 39 by the Rules Committee by request of the Governor

Proposing an amendment to the Constitution of the State of Alaska to authorize an additional exception for a dedication of revenues

was introduced, read the first time and referred to the Committee on Finance.

The Governor's transmittal letter on HOUSE JOINT RESOLUTION NO. 39 appears as follows:

"June 5, 1975

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature, I am transmitting a joint resolution for an amendment to the State Constitution.

The proposed amendment would change Article IX, Section 7, of the Constitution to provide an additional exception from the prohibition against dedicated funds to allow the dedication of proceeds from mineral lease bonuses or so-called royalty bonuses.

The effect of the proposed amendment would be to allow the legislature to provide for the dedication of a single source of revenue. It will give the legislature a free hand to establish special funds and provide for their administration. Subsequent legislatures will, of course, be able to alter the funds' administration or purposes as new needs arise or old needs disappear. The per cent of the proceeds to be dedicated is left to the legislature's discretion.

Sincerely,

Jay S. Hammond
Governor"

CONSIDERATION OF THE DAILY CALENDAR

SECOND READING OF HOUSE RESOLUTIONS

HCR 61 HOUSE CONCURRENT RESOLUTION NO. 61 (paving of a certain portion of the Denali Highway) was read the second time with the State Affairs Committee report (page 1178 of the journal) and the Finance Committee report (page 1638 of the journal).

The question being: "Shall HOUSE CONCURRENT RESOLUTION NO. 61 pass the House?" On voice vote, it passed the House and was referred to the Chief Clerk for engrossment.

HJR 34 HOUSE JOINT RESOLUTION NO. 34 (state and federal fishery management arrangements) was read the second time with the Resources Committee report (page 1318 of the journal).

Mr. Miller moved and asked unanimous consent that HOUSE JOINT RESOLUTION NO. 34 be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered and the resolution was read the third time.

The question being: "Shall HOUSE JOINT RESOLUTION NO. 34 pass the House?" The roll was taken with the following result:

Yeas:	33	Anderson, H. Beirne, M. Beirne, Bowman, Bradner, Brown, Buchholdt, Cotten, Cowper, Davis, Duncan, Eliason, Gardiner, Gruening, Guy, Hackney, Hershberger, Itta, McKinnon, Malone, Miller, Naughton, Osterback, Ostrosky, Parker, Parr, Rhode, Smith, Specking, Sullivan, Swanson, Urion, Wallis.
Nays:	0	
Excused:	7	Bradley, Fischer, Freeman, Haugen, Huntington, Kelley, Ose.

And so, it passed the House and was referred to the Chief Clerk for engrossment.

HJR 35 HOUSE JOINT RESOLUTION NO. 35 (child support programs under P.L. 93-647) was read the second time with the Finance Committee report (page 1283 of the journal) and the Judiciary Committee report (page 1626 of the journal).

Mr. Miller moved and asked unanimous consent that HOUSE JOINT RESOLUTION NO. 35 be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered and the resolution was read the third time.

Hugh: OK both with Berrier and AG's office

JAN 16 1980

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

January 16, 1980

SUBJECT: Appropriations to the Permanent Fund

TO: Representative Oral Freeman

FROM: Billy G. Berrier
Director
Division of Legal Services

You have asked whether money appropriated to the permanent fund in excess of the amount required to be deposited in the fund under sec. 15, Art. IX of the Alaska Constitution could later be withdrawn from the fund.

In my opinion money appropriated to the fund becomes fund principal in the same manner as money deposited in the fund under sec. 15. Neither can be withdrawn or used other than as provided in that section without an authorizing amendment to the constitution.

Section 15 reads:

> SECTION 15. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

Effectively, this does two things. It requires that a specified minimum percentage of certain state receipts be deposited in a permanent fund. It then limits the use of the principal of the fund and provides for use of the income.

It is very clear from the amendment language that there is no intent to preclude money in excess of the minimum required amount from becoming a part of the permanent fund and there is no language in the section which suggests either that the principal of the fund be limited to amounts required to be deposited or that the limitations on the prinicpal be so limited.

The term "permanent" as used three times in the body of the amendment and in the title of the fund would be read in the normal sense of that word since the reading is consistent with the context, with the legislative and public discussion of the amendment proposing the fund and with the understanding that the voters would be presumed to have had in approving the amendment. There can be no legitimate question that the objective of the permanent fund is preservation of the principal of the fund for the long term use of the state and its people.

The section distinguishes between principal of the fund and income from the fund; in my opinion no further distinction between one type of principal and another depending on how the money came to the fund can be implied from the language. Further, such a distinction would be incompatible with the objective of the fund.

In my opinion once money from whatever source is placed in the permanent fund by deposit or by appropriation, the money becomes part of the principal subject to the constraints of the section. Therefore, the money could not be withdrawn.

The Department of Law examined this question and in an opinion dated August 31, 1977, reached the same conclusion. A copy of that opinion is enclosed.

BGB:jdn

Enclosure

August 31, 1977

Hon. Clark Gruening
Chairman
House Special Committee on
the Permanent Fund
528 West Fifth, Suite 270
Anchorage, Alaska 99501

Re: Permanent fund, irretrievability of money appropriated to; our file J-66-106-78

Dear Representative Gruening:

You have asked whether money appropriated to the permanent fund in excess of the amount required by the constitution is irretrievable.

Section 15 of article IX of the Alaska Constitution, as added by the 1976 amendment to the constitution, reads as follows (emphasis added):

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

Your question really is whether the limiting language of section 15 applies not only to the mandatory 25 percent of mineral revenues placed in the permanent fund but also to any additional money placed in the fund.

We believe that the answer is yes.

The language of the amendment providing for the permanent fund is clear enough. There is to be a permanent fund. At least 25 percent of the enumerated mineral revenues are to be placed in it. The use of the words "[a]t least" clearly contemplates that additional monies may well be placed in the fund. Once there, they form the fund's principal. That principal "shall be used only" for income-producing investments. Hence, on its face, what becomes a part of the principal may no longer be withdrawn for another purpose. Only the income from investments of the principal is available.

It is a universal principle that the legislature's law-making power is plenary except as limited by the state or federal constitutions. In order to hold that the legislature may not appropriate additional monies to the permanent fund and also provide for their subsequent withdrawal, the courts must find an express or implied prohibition against its doing so. Facially, the constitution's restriction on the use of the fund's principal seems to constitute such an implied restriction, i.e., the principal may be invested but nothing else, including a withdrawal, may be done with it.

It could be possible, one might argue, for the legislature to make appropriations to the fund by law and specify that they are made on the condition that they are intended to be retrievable and are null and void ab initio if ruled not to be. The problem is that the courts would likely rule that the condition itself is so inconsistent with the provisions of section 15 that it is absolutely void, i.e., that the legislature is prohibited from withdrawing from the principal both directly and indirectly.

Or the legislature could appropriate to the fund and specify that the monies appropriated are not to be considered a part of the fund's "principal" in the sense of the constitution, i.e., as monies available solely for investment, but rather are to be considered as a temporary addition to the fund which is to be used for investment but which shall be accounted for separately and may be withdrawn. Again, the problem is that the courts would likely rule that such legislation is so inconsistent with the provisions of section 15 that it is void. Either there is a permanent fund or there is not.

We are dealing here with a peculiar--perhaps unique--quasi-trust. Unlike most trusts, the principal may not be reached whatever, either now or in the future. No one has a future right to the principal. Instead, the principal is to be invested in perpetuity to produce income.

Only the income from investments may be reached. Absent still another constitutional amendment, we see no way around this result. A permanent fund was intended, and a permanent fund appears to have been achieved.

Accordingly, we doubt very much that any money appropriated to the permanent fund may subsequently--without a constitutional amendment--be withdrawn.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By:
Rodger W. Pegues
Assistant Attorney General

RWP:chp

Opinion 1977-27

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

SUBJECT: Permanent fund

TO:

FROM: Billy G. Berrier, Director
Division of Legal Services

You have requested my comments on the legal implications of the words "permanent" and "income producing" as used in the constitutional amendment authorizing the permanent fund on the legal standards and guides the legislature may wish to establish in legislation.

The relevant provision is Section 15, of Article IX which reads:

> "Section 15 ALASKA PERMANENT FUND. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law".

It is clear from the wording of the amendment itself and from the surrounding context that the concept is that a fund be created in which a portion of the mineral revenues of the state would be set aside in order to insure preservation for the future of that portion of the revenue. There can be no legitimate question that the objective is preservation of that portion as capital for the long term use of the state and its people and prevention of uses which are expedient in the short term but which would dissipate the capital of the fund. The paramount consideration must be the probable safety of the capital of the fund to be invested.

The term "permanent" as used three times in the body of the amendment and in the title of the fund would be read in the normal sense of that word since that reading is consistent with the context of the amendment, with the legislative and public discussion of the amendment, and with the understanding that the voters would be presumed to have in approving the amendment.

While the permanent fund is not a trust in the technical legal meaning of the term, the protection of capital required has substantial similarities to the requirements binding upon a trustee. This requirement is commonly referred to as the prudent-man rule. There have been numerous cases on this rule and many commentators have set out reasonable similar statements of the rule. A good statement is found in Scott on Trusts 3rd Ed in Sec. 227 (pages 1805 - 1806) which reads:

> "The only general rule which can be laid down as to investments is that the trustee is under a duty to make such investments as a prudent man would make of his own property having primarily in view the preservation of the estate and the amount and regularity of the income to be derived. In various forms this rule has been stated in innumerable cases. It involves three elements, namely care and skill and caution. The trustee must exercise a reasonable degree of care in selecting investments. He must exercise a reasonable degree of skill in making the selection. He must, in addition, exercise the caution which a prudent man would exercise where a primary consideration is the preservation of the funds invested."

This rule would seem to adequately set out the general parameters constitutionally required for permanent fund investments of principal. It would apply at two stages of the process. The legislature would be bound to apply it in exercising the duty to circumscribe and delineate investments required under the limitation in the constitution reading:

> "...the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investment. (emphasis added)

The managers of the fund are given no constitutional discretion under this clause. The discretion is lodged exclusively in the legislature; and, if the objectives of the permanent fund are to be attained, investments specifically designated by law as eligible for permanent fund investment must also meet the criteria of having as a primary consideration the preservation of the funds invested.

The legislation, however, would not be expected to detail the permissable investments. It would presumably designate specific investment catagories and create a management structure for the fund which would make the specific decisions as to which investments are to be made. Here again, the prudent-man rule would be applicable. In addition to designating specific catagories of investment, any legislation should also establish guidelines for the fund management which are consistent with the objective of the fund. The need for this arises because within a class which as a class meets the objectives of preservation of the funds invested, some specific investments would still not be made by a prudent man. Possibly this could be largely avoided by using an ultra restrictive approach to allowable catagories of investment but this approach would create or exacerbate other problems.

The primary difficulty with an ultra restrictive approach to allowable investments is that, as a matter of law, the problem of inflation would not be a factor in investment decisions. It can be reasonable assumed that inflation to some degree may be anticipated.

The argument has been made that inflation can realistically be anticipated to occur, that if principal is not increased in an amount to compensate for inflation the real value of the principal will decline even though the nominal value is maintained and that the duty of a prudent investor is to maintain the real value of the principal. Therefore, failure to account for inflation in investment policy violates the prudent-man rule of investment. I have found no authority to support this argument as a legal requirement. Factually, the argument would fail here. The constitutional amendment makes a clear distinction between principal which is permanent and income which is subject to expenditure by the normal appropriation process unless the legislature directs otherwise. At the time the amendment was adopted, inflation had occurred at an extremely high rate in the immediate past so it must be assumed that both the legislature and the public were conscious of inflationary effect. It would therefore, to support this argument, require assuming that investments which would have a capital appreciation, entirely apart from income earned, which is at least equal to inflation are the only permissable investments. This does not seem reasonable.

The argument that inflation must be taken into account does not seem valid here but that does not mean that inflation may not, or even that it should not, be taken into account. There is no reason that legislation establishing the management of the permanent fund and the disposition of fund income should not address this problem directly. I have suggested earlier that the legislation needs to establish standards for investments to avoid having to specify only ultra restrictive investments. The legislation could also require that the possible effects of inflation be a consideration in investment decisions made by the fund managers.

The term "income-producing" as used in the amendment presents serious conceptual difficulties. In context, this could simply be a restatement of the normal duty to make productive investments. In relation to trusts this has been stated:

> "It is the duty of a trustee to preserve the trust property and make it productive. It is ordinarily his duty to invest trust funds in such a way as to receive an income without improperly risking the loss of principal." (Scott on Trusts 227 p. 1805)

However, as stated earlier, the permanent fund is not a trust in the technical legal sense. Simply carrying over the trustee's duty could be misleading.

The term "income-producing" is not a term of art and has no fixed legal meaning differing from the conventional meaning of the term. It is possible that a court would hold that the term implies that maximum income consistent with safety of principal must be the exclusive criteria for investment. This would be consistent with trust law but it appears that the amendment contemplates broader considerations as well. It would appear more likely that other considerations, such as the effect particular investments would have on furthering public purposes other than maximization of income, could also be given weight. Some examples of other public purposes are providing jobs, improvement of the Alaskan economy and economic diversification.

It is clear that production of income is a necessary goal of each investment; it is probably that maximization of income consistent with safety of principal must be a major goal, ; but it appears unlikely that a court would hold that this must be the exclusive goal of permanent fund investment policy.

While the investment of the permanent fund differs from investment of state treasury surplus funds in several respects including the specific requirement of income producing investment of permanent fund principal, both have as major goals protection of principal and production of income. It is interesting to note that state treasury surplus fund investment specifies policy goals additional to the primary goals. On this point AS 37.10.075(f) provides:

> (f) Investment policy shall be formulated by the commissioner of revenue who shall be advised by a committee appointed by the governor which shall contain representation from the legislature. In formulating investment policy they shall consider maximum income and safety as governed by the prudent-man rule and the benefit to the private and public sectors of the economy in terms of increased housing and commercial credit, stimulated business activity, increased employment, support of the market for state and local bonds, increased public revenue together with the possible inflationary effect of the investment, and (h) and (i) of this section.

The question of what the term means as a matter of law will almost certainly be decided by the courts on a case by case basis. The questions involved are complex and change over time. In reasonably similar instances, the courts have refused to provide a general definition. For example the Alaska court in dealing with the term "capital improvements" as used in the Alaska Consitution said:

> "We believe it would be unwise for this court to attempt to provide an abstract definition of "capital improvements." We have concluded that it is beyond human ability to permanently circumscribe with mere words at a given point in time a concept which though limiting in aspect, is otherwise intended to provide a broad, permanent and continuing authority for municipalities to finance present as well as unforeseeable future needs." (Juneau v. Hixon 373 P2d 743 (Alaska 1962))

While it is my opinion the courts will be liberal in sustaining the reasonable expectations of the legislature and the fund managers, they are unlikely to allow investments which cannot reasonably be anticipated to produce maximum current income consistent with safety of principal modified by application of other permissable public policy considerations. It appears certain that investments which cannot reasonably be anticipated to produce direct income would not be allowed.

BGB:jpd

LAWS OF ALASKA

1977

Source	Chapter No.
HB 210	6

AN ACT

Providing for interim management of the Alaska Permanent Fund; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.10 is amended by adding a new section in art. 3 to read:

Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).

Approved by the Governor: March 22, 1977
Actual Effective Date: March 23, 1977

#18:22A

LEGISLATIVE HEARING - STATE OF ALASKA PERMANENT FUNDS

What are the Primary Considerations i olving the role of the Permanent Fund in Alaska's future?

1. Preserve as much of the incoming oil wealth as possible in a permanent investment program for the benefit of future Alaskans.

What this does

A) Changes a depletable asset (development of oil) into a permanent benefit for all citizens of the State.

B) Provides stability when looking at the future. The availability of income from investments allowing better long term planning.

C) The availability of the permanent fund should help minimize future economic problems.

What it can't do

A) Be spent currently for tourism and business development, building homes and other buildings.

2. Need for a Permanent Fund to be separate from day-to-day activities of running the State's affairs.

Want to Avoid

A) Permanent Fund being used to cover day-to-day operating costs

B) Confusing Permanent Fund with Development or Enterprise Fund.

C) Having the proceeds from the "oil receipts" readily available to cover fiscal shortfalls.

D) Confusing the Permanent Fund with other activities of the State Government.

Want to Achieve

A) Lower future costs of State Government through improved and stable credit standing.

B) Long term program that will improve the living and working style of the State.

C) A legacy for future Alaskans and treated as a permanent fund in trust for the future.

3. The objectives of the Permanent Fund and its relationship with other programs need to be understood by all citizens of Alaska.

Robert E. Greeley
Vice President
Merrill Lynch White Weld
One Liberty Plaza
New York, New York 10080

SCOMM

#18:23

31 01LH

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU 99801

M E M O R A N D U M

TO: Honorable Clark Gruening
Chairman
House Permanent Fund Committee

DATE: September 22, 1977

FROM: Milt Barker MB
Fiscal Analyst
Legislative Finance

SUBJ: Permanent & General Fund Projections

At your request, I am enclosing six computer scenarios which display projected budget surpluses or deficits, followed by end-of-year permanent fund and general fund balances, and finally a column entitled "revenue required for general fund balance of $0 million". This last column may also be interpreted as the required reduction in expenditures for a zero general fund balance.

However, visualizing it as additional required revenue, Table 1 was developed. In this table, the required permanent fund balance is determined by dividing the required revenue from the computer report by .07, the earnings rate on the permanent fund, to find the additional fund principal required to produce this revenue, and adding that to the projected balance. However, in those cases where 50% of the permanent fund earnings go to Alaska, Inc., the additional required principal will be twice as large.

The required Alaskan economy in terms of personal income to continue funding the budget is determined by dividing the additional required revenue by .079 and adding this additional personal income base required to the projected base shown on Table 1. The projected base was determined by dividing "other revenue" shown in the assumptions by .079; "other revenue" consists of all unrestricted revenue less severance taxes, property taxes, state and federal resource revenue, and Prudhoe income taxes. In other words, all those items which may relate somewhat to personal income. In FY 76, "other revenue" was roughly $286.1 million which was 7.9% of the FY 76 personal income of $3.6 billion.

The first scenario is a best guess of what will be with no statutory changes. It assumes 25% of royalty goes to the permanent fund and 5% to the renewable resources fund. Conceivably, the 5% could stop once $250 million is reached. In all scenarios 2% of royalty goes to native claims until $500 million is reached. The required general fund balance of $0 million assumes the sale, transfer to the permanent fund, or liquidation of the state's unmarketable loan portfolio; this is one assumption you might want changed.

Scenario 2 adds Alaska Inc. at 50% of permanent fund earnings which moves forward the date of insolvency by one year. However, increasing the royalty contribution to 50% moves insolvency forward five years as in Scenario 3. If the rate were then cut back to 30%, the permanent fund would stand $489.3 million higher in 1982, providing an additional $17 million a year in revenue after deducting Alaska, Inc. Looking back to Scenario 2, it is clear that this will not cover the projected deficits beyond 1982. With 100% of royalties put in the permanent fund, as in Scenario 3A, the situation only gets worse.

As long as deficits or borderline surpluses are envisioned, it makes no sense to sock away a greater proportion of royalties, since in the mid-term at budget growth rates of 15%, we are relying on royalties to fund such budgets. If we could hold budget growth to some lower level, a greater proportion of royalties could be put in the permanent fund, thus reducing deficits in the long run when oil revenue halts.

A lower growth rate than 15% may be necessary anyway since, as table one indicates, the required permanent fund, or Alaskan economy given the present tax structure, to sustain such growth appears unrealistic. Yet, the compound growth rate from FY 68's general fund appropriation of $103 million to FY 78'3 of $819 million has been 23% per annum.

Scenarios 4 and 5 allow none of the permanent fund earnings to be used to support the budget, 4 by retaining all earnings in the permanent fund, 5 by paying all earnings to Alaska, Inc. Of course, the idea with 4 would be at some point to begin putting the earnings back in the general fund. If this is done at the point at which the general fund balance reaches zero, scenario 4 is then essentially the same as scenario 1, except that earnings and surplus are carried in the permanent fund rather than the general fund and, as a consequence of locking up these amounts, the general fund reaches zero a little sooner.

Scenario 6 retains 10% of the budget appropriation in the general fund balance where surpluses permit, all the rest of the general fund balance being transferred to the permanent fund. If you would rather the program maintain the general fund balance at the specified percentage of budget, regardless of surpluses or deficits, showing the additional revenue required to do so, this modification could be made.

Please let me know if you desire any additional scenarios using different assumptions.

MB:bf

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

1

21-SEP-77

COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF 50 MIL
1977										4.0	652.7	
1978	794.0	56.4	850.4	853.8	0.0	0.0	119.0	972.8	-122.5	81.6	530.2	0.0
1979	1100.8	60.3	1161.1	981.9	0.0	0.0	206.9	1188.8	-27.7	216.6	502.6	0.0
1980	1269.1	70.7	1339.8	1129.2	0.0	0.0	237.8	1367.0	-27.2	374.9	475.4	0.0
1981	1583.2	87.7	1670.9	1298.5	0.0	0.0	261.4	1559.9	110.9	548.5	586.3	0.0
1982	1745.4	109.7	1855.1	1493.3	0.0	0.0	283.9	1777.2	78.0	738.0	664.3	0.0
1983	1925.9	130.2	2056.1	1717.3	0.0	0.0	327.6	2044.9	11.2	954.4	675.5	0.0
1984	2069.7	150.1	2219.8	1974.9	0.0	0.0	242.5	2217.4	2.4	1169.9	677.9	0.0
1985	2251.2	167.7	2418.9	2271.1	0.0	0.0	254.9	2526.0	-107.1	1444.8	570.8	0.0
1986	2403.9	176.6	2580.5	2611.8	0.0	0.0	274.5	2886.3	-305.8	1719.3	264.9	0.0
1987	2563.4	182.0	2745.4	3003.6	0.0	0.0	295.1	3298.7	-553.3	2014.4	-0.0	288.3
1988	2732.3	200.5	2932.8	3454.1	0.0	0.0	316.7	3770.8	-838.1	2331.1	-0.0	838.1
1989	2810.2	230.7	3140.9	3972.2	0.0	0.0	339.4	4311.6	-1170.7	2670.5	-0.0	1170.7
1990	3096.8	263.6	3360.4	4568.0	0.0	0.0	363.3	4931.3	-1570.9	3033.8	-0.0	1570.9

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

2

21-SEP-77

COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF PERMANENT FUND EARNINGS TO ALASKA INC = 50.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1977										4.0	652.7	
1978	794.0	56.3	850.3	853.8	0.0	0.0	120.5	974.3	-124.0	81.6	528.7	0.0
1979	1100.8	60.0	1160.8	981.9	0.0	0.0	212.2	1194.0	-33.2	216.6	495.5	0.0
1980	1269.1	69.8	1338.9	1129.2	0.0	0.0	248.2	1377.3	-39.4	374.9	457.1	0.0
1981	1583.2	85.7	1668.9	1298.5	0.0	0.0	277.6	1576.1	92.9	548.5	550.0	0.0
1982	1745.8	106.2	1851.6	1493.3	0.0	0.0	306.4	1799.7	52.0	738.0	601.9	0.0
1983	1925.9	124.6	2050.5	1717.3	0.0	0.0	357.2	2074.5	-24.0	954.4	577.9	0.0
1984	2069.7	141.6	2211.3	1974.9	0.0	0.0	280.0	2254.9	-43.6	1189.9	534.4	0.0
1985	2251.2	155.6	2406.8	2271.1	0.0	0.0	301.0	2572.1	-165.3	1444.8	369.0	0.0
1986	2403.9	160.2	2564.1	2611.8	0.0	0.0	329.9	2941.7	-377.5	1719.3	0.0	8.5
1987	2563.4	172.7	2736.1	3003.6	0.0	0.0	360.5	3364.0	-627.9	2014.4	0.0	627.9
1988	2732.3	200.5	2932.8	3454.1	0.0	0.0	392.8	3846.9	-914.1	2331.1	0.0	914.1
1989	2910.2	230.7	3140.9	3972.2	0.0	0.0	426.9	4399.1	-1258.2	2670.5	-0.0	1258.2
1990	3096.8	263.6	3360.4	4568.0	0.0	0.0	463.1	5031.1	-1670.7	3033.8	0.0	1670.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF PERMANENT FUND EARNINGS TO ALASKA INC = 50.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLEMENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL $0 MIL
1977										4.0	652.7	
1978	794.0	56.3	850.3	853.8	0.0	0.0	173.2	1027.0	-176.7	133.4	476.0	0.0
1979	1100.8	59.8	1160.6	981.9	0.0	0.0	305.5	1287.4	-126.7	358.3	349.3	0.0
1980	1269.1	69.3	1338.4	1129.2	0.0	0.0	360.6	1489.7	-151.3	622.2	197.9	0.0
1981	1583.2	84.5	1667.7	1298.5	0.0	0.0	404.0	1702.5	-34.8	911.5	163.1	0.0
1982	1745.4	104.0	1849.4	1493.3	0.0	0.0	447.6	1940.9	-91.5	1227.3	71.6	0.0
1983	1925.9	125.1	2051.0	1717.3	0.0	0.0	521.2	2238.5	-187.5	1588.1	-0.0	115.9
1984	2069.7	152.5	2222.2	1974.9	0.0	0.0	461.9	2436.8	-214.5	1980.5	0.0	214.5
1985	2251.2	185.3	2436.5	2271.1	0.0	0.0	501.6	2772.7	-336.2	2405.4	0.0	336.2
1986	2403.9	221.0	2624.9	2611.8	0.0	0.0	549.7	3161.5	-536.6	2862.9	0.0	536.6
1987	2563.4	259.7	2823.1	3003.6	0.0	0.0	600.7	3604.2	-781.2	3354.7	0.0	781.2
1988	2732.3	301.7	3034.0	3454.1	0.0	0.0	654.5	4108.6	-1074.6	3892.6	0.0	1074.6
1989	2910.2	347.2	3257.4	3972.2	0.0	0.0	711.4	4683.6	-1426.2	4448.2	-0.0	1426.2
1990	3096.8	396.5	3493.3	4568.0	0.0	0.0	771.7	5339.8	-1846.5	5053.6	-0.0	1846.5

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 79
MEDIUM REVENUES (HAGGART-CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = %100 %
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF PERMANENT FUND EARNINGS TO ALASKA INC = 50.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR BAL	REVENUE REQ FOR GF BAL OF $0 MIL
1977										4.0	652.7	
1978	794.0	56.2	850.2	853.8	0.0	0.0	304.8	1158.6	-308.4	252.7	344.3	0.0
1979	1100.8	59.9	1160.7	981.9	0.0	0.0	538.9	1520.7	-360.0	712.5	-0.0	15.7
1980	1269.1	84.2	1353.3	1129.2	0.0	0.0	641.5	1770.6	-417.4	1240.3	-0.0	417.4
1981	1583.2	125.3	1708.5	1298.5	0.0	0.0	720.0	2018.6	-310.1	1819.0	-0.0	310.1
1982	1745.4	170.3	1915.7	1493.3	0.0	0.0	800.6	2293.9	-378.2	2450.5	-0.0	378.2
1983	1925.9	220.8	2146.7	1717.3	0.0	0.0	931.1	2648.4	-501.7	3172.1	-0.0	501.7
1984	2069.7	277.2	2346.9	1974.9	0.0	0.0	916.7	2891.6	-544.7	3957.0	-0.0	544.7
1985	2251.2	338.5	2589.7	2271.1	0.0	0.0	1003.1	3274.2	-684.5	4806.7	-0.0	684.5
1986	2403.9	405.1	2809.0	2611.8	0.0	0.0	1099.2	3711.0	-902.1	5721.7	-0.0	902.1
1987	2563.4	477.0	3040.4	3003.6	0.0	0.0	1201.2	4204.7	-1164.3	6705.4	-0.0	1164.3
1988	2732.3	554.7	3287.0	3454.1	0.0	0.0	1308.9	4763.0	-1476.0	7761.1	-0.0	1476.0
1989	2910.2	638.5	3548.7	3972.2	0.0	0.0	1422.6	5394.8	-1846.2	8892.3	0.0	1846.2
1990	3096.8	728.8	3825.6	4568.0	0.0	0.0	1543.3	6111.4	-2285.8	10103.2	0.0	2285.8

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE 11)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %
% OF SURPLUS TO PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL $0 MIL
1977										4.0	652.7	
1978	794.0	56.2	850.2	853.8	0.0	0.0	122.0	975.8	-125.6	84.6	527.1	0.0
1979	1100.8	59.9	1160.7	981.9	0.0	0.0	217.6	1199.5	-38.7	230.2	488.4	0.0
1980	1269.1	69.9	1339.0	1129.2	0.0	0.0	259.5	1388.6	-49.6	410.2	438.8	0.0
1981	1583.2	86.3	1669.5	1298.5	0.0	0.0	296.2	1594.7	74.8	693.4	438.8	0.0
1982	1745.4	107.5	1852.9	1493.3	0.0	0.0	339.0	1832.3	20.6	959.6	438.8	0.0
1983	1925.9	127.1	2053.0	1717.3	0.0	0.0	402.3	2119.6	-66.5	1249.7	372.2	0.0
1984	2069.7	146.0	2215.7	1974.9	0.0	0.0	338.2	2313.1	-97.4	1580.9	274.9	0.0
1985	2251.2	162.5	2413.7	2271.1	0.0	0.0	374.5	2645.6	-231.9	1955.4	43.0	0.0
1986	2403.9	184.6	2588.5	2611.8	0.0	0.0	421.0	3032.8	-444.3	2376.4	-0.0	401.4
1987	2563.4	218.7	2782.1	3003.6	0.0	0.0	471.8	3475.3	-693.2	2846.2	-0.0	693.2
1988	2732.3	258.8	2991.1	3454.1	0.0	0.0	527.2	3981.3	-990.1	3375.4	-0.0	990.1
1989	2910.2	303.8	3214.0	3972.2	0.0	0.0	587.5	4559.7	-1345.8	3962.9	-0.0	1345.8
1990	3096.8	354.1	3450.9	4568.0	0.0	0.0	653.4	5221.4	-1770.6	4616.3	-0.0	1770.6

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF PERMANENT FUND EARNINGS TO ALASKA INC = % 100 %
% OF SURPLUS TO PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1977										4.0	662.7	
1978	794.0	56.2	850.2	853.8	0.0	0.0	122.0	975.8	-125.6	81.6	527.1	0.0
1979	1100.8	59.7	1160.5	981.9	0.0	0.0	217.4	1199.2	-38.7	216.6	488.4	0.0
1980	1269.1	69.0	1338.1	1129.2	0.0	0.0	258.5	1387.7	-49.6	374.9	438.8	0.0
1981	1583.2	83.8	1667.0	1298.5	0.0	0.0	293.7	1592.3	74.8	623.3	438.8	0.0
1982	1745.4	102.6	1848.0	1493.3	0.0	0.0	334.1	1827.4	20.6	833.3	438.8	0.0
1983	1925.9	118.3	2044.2	1717.3	0.0	0.0	393.5	2110.8	-66.5	1049.8	372.2	0.0
1984	2069.7	132.0	2201.7	1974.9	0.0	0.0	324.2	2299.1	-97.4	1285.3	274.9	0.0
1985	2251.2	141.8	2393.0	2271.1	0.0	0.0	353.8	2624.9	-231.9	1540.2	43.0	0.0
1986	2403.9	155.5	2559.4	2611.8	0.0	0.0	391.9	3003.7	-444.3	1814.7	0.0	401.4
1987	2563.4	179.4	2742.8	3003.6	0.0	0.0	432.5	3436.0	-693.2	2109.8	0.0	693.2
1988	2732.3	207.1	2939.4	3454.1	0.0	0.0	475.5	3929.6	-990.1	2426.5	0.0	990.1
1989	2910.2	237.3	3147.5	3972.2	0.0	0.0	521.1	4493.3	-1345.8	2765.9	0.0	1345.8
1990	3096.8	270.3	3367.1	4568.0	0.0	0.0	569.6	5137.6	-1770.6	3129.1	-0.0	1770.6

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
ALCAN
TAPS BUILDUP RESUMES MARCH 78
MEDIUM REVENUES (HAGGART CASE II)

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%
% OF PERMANENT FUND EARNINGS TO ALASKA INC = 50.00%
RESERVE AS % OF BUDGET ADDED TO REQUIRED GF BALANCE = 10.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1977										4.0	652.7	
1978	794.0	56.3	850.3	853.8	0.0	0.0	120.5	974.3	-124.0	524.9	85.4	0.0
1979	1100.8	59.5	1160.3	981.9	0.0	0.0	227.7	1209.5	-49.3	659.9	36.1	0.0
1980	1269.1	68.8	1337.9	1129.2	0.0	0.0	263.7	1392.9	-55.0	818.2	0.0	18.9
1981	1583.2	84.2	1667.4	1298.5	0.0	0.0	293.1	1591.6	75.8	991.8	75.8	0.0
1982	1745.4	103.4	1848.8	1493.3	0.0	0.0	321.9	1815.2	33.7	1181.3	109.4	0.0
1983	1975.9	120.4	2046.3	1717.3	0.0	0.0	372.7	2090.0	-43.7	1397.7	65.8	0.0
1984	2069.7	136.1	2205.8	1974.9	0.0	0.0	295.5	2270.4	-64.6	1633.2	1.1	0.0
1985	2251.2	155.1	2406.3	2271.1	0.0	0.0	316.5	2587.7	-181.4	1888.1	0.0	180.2
1986	2403.9	178.3	2582.2	2611.8	0.0	0.0	345.4	2957.2	-374.9	2162.6	0.0	374.9
1987	2563.4	203.8	2767.2	3003.6	0.0	0.0	376.0	3379.5	-612.4	2457.7	-0.0	612.4
1988	2732.3	231.5	2963.8	3454.1	0.0	0.0	408.3	3962.4	-898.6	2774.4	-0.0	898.6
1989	2910.2	261.7	3171.9	3972.2	0.0	0.0	442.4	4414.6	-1242.7	3113.8	-0.0	1242.7
1990	3096.8	294.6	3391.4	4568.0	0.0	0.0	478.6	5046.7	-1655.2	3477.1	0.0	1655.2

TABLE 1

PROJECTED ECONOMY ($ MILLION PERSONAL INCOME)	FY	SCENARIO 1		SCENARIO 2		SCENARIO 3		SCENARIOS 4 & 5		SCENARIO 6	
		REQUIRED PERMANENT FUND ($ MILLION)	REQUIRED ECONOMY ($ MILLION PERSONAL INCOME)	REQUIRED PERMANENT FUND ($ MILLION)	REQUIRED ECONOMY ($ MILLION PERSONAL INCOME)	REQUIRED PERMANENT FUND ($ MILLION)	REQUIRED ECONOMY ($ MILLION PERSONAL INCOME)	REQUIRED PERMANENT FUND ($ MILLION)	REQUIRED ECONOMY ($ MILLION PERSONAL INCOME)	REQUIRED PERMANENT FUND ($ MILLION)	REQUIRED ECONOMY ($ MILLION PERSONAL INCOME
2,845.6	78										
3,120.2	79										
3,550.6	80										
3,860.7	81									1,358.2	3,789.8
3,932.9	82										
4,073.4	83					4,899.5	5,540.4				
4,392.4	84					8,109.0	4,695.6				
4,770.8	85					12,011.1	9,026.5				
5,068.8	86			1,952.1	5,116.3	18,194.3	11,801.2	Not	10,089.8	7,036.6	7,051.8
5,259.8	87	6,133.0	8,909.2	19,954.4	13,207.9	25,674.7	15,148.4		14,034.4	12,874.0	9,754.3
5,522.7	88	14,303.9	16,131.5	28,448.2	17,093.6	34,585.4	19,125.2	Applicable	18,055.6	19,954.8	13,011.6
5,798.9	89	19,394.7	20,617.8	38,619.1	21,725.4	45,196.7	23,852.1		22,834.3	28,448.6	16,897.3
6,088.8	90	25,475.2	25,973.6	50,768.1	27,236.9	57,810.7	29,462.2		28,501.4	38,619.5	21,529.2
										50,768.5	27,040.6

ASSUMPTIONS

	1	2	3	4	5	6	7	8	9	10	11	12
FY	LA PRICE $	LOWER 48 TRANSPORT $	TAPS TARRIF $	INCOME TAX PRUDHOE ($ MILLION)	PRUDHOE PRODUCTION MMB	OIL & GAS PROPERTY TAX ($ MILLION)	$ FLOOR PRICE FOR OIL SEVERANCE TAX	OTHER REVENUE ($ MILLION)	GAS SALES MM/MCF	GAS SALE PRICE ¢/MCF	COOK INLET OIL ROYALTY ($ MILLION)	COOK INLET OIL SEVERANCE ($ MILLION)
78	13.75	1.50	5.40	35.0	262.5	157.3	6.53	225.8	17.0	39.8	33.1	16.3
79	14.44	2.00	5.40	51.0	474.5	170.6	6.53	346.5	20.4	39.8	31.3	14.4
80	15.16	2.50	5.40	54.0	547.5	193.2	7.18	280.5	26.4	41.6	29.5	12.7
81	15.92	2.50	5.40	55.0	547.5	226.7	7.18	305.0	34.0	44.2	27.9	10.9
82	16.71	2.50	5.40	56.0	547.5	251.8	7.90	310.7	37.6	46.8	26.4	9.1
83	17.55	2.50	4.90	58.0	547.5	257.0	7.90	321.8	111.6	50.9	24.6	7.3
84	18.43	2.50	4.90	59.0	547.5	261.4	8.69	347.0	117.4	73.1	22.9	5.5
85	19.35	2.50	4.90	60.0	547.5	295.9	8.69	376.9	122.0	77.1	21.2	3.7
86	20.31	2.50	4.90	62.0	547.5	310.7	9.55	395.7	122.0	77.1	19.7	1.9
87	21.33	2.50	4.90	63.0	547.5	326.2	9.55	415.5	122.0	77.1	18.4	.1
88	22.40	2.50	4.90	64.0	547.5	342.5	10.51	436.3	122.0	77.1	17.1	--
89	23.52	2.50	4.90	66.0	547.5	359.7	10.51	458.1	122.0	77.1	16.0	--
90	24.70	2.50	4.90	67.0	547.5	377.6	11.56	481.0	122.0	77.1	14.9	--

FOOTNOTES:

1. Haggart Case II (5% annual increase) July 14, 1977 Memo
2. Haggard Case II
3. Haggart Case II as revised for FY 78-82 in his July 15, 1977 memo for pump station no. 8 slowdown
4, 5. Haggart Case II revised for FY 78 for pump station no. 8 slowdown
6. Haggart Case II revised for FY 78 for missing pump station no. 8
7. Haggart (10% increase every two years)
8. Department of Revenue; "Alaska's Oil & Gas Tax Structure"; p. IV-32; Alcan scenario
9-12. Haggart

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	527.2	2164.7	2820.3	1418.1	6616.2	0.0
1983	4778.0	929.1	5707.1	1883.1	0.0	0.0	618.5	2501.6	3205.5	2036.6	9821.7	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	728.1	2893.7	3623.4	2764.6	13445.0	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	924.7	3415.1	4691.3	3689.3	18136.3	0.0
1986	6187.0	2267.4	8454.4	2864.0	0.0	0.0	988.0	3852.0	4602.4	4677.3	22738.7	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	1067.2	4360.9	4532.9	5744.5	27271.5	0.0
1988	5906.0	3286.4	9272.4	3787.7	0.0	0.0	1145.8	4933.5	4338.9	6890.3	31610.5	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	1177.9	5533.7	3612.3	8068.2	35222.8	0.0
1990	4928.0	4170.4	9098.4	5009.2	0.0	0.0	1228.2	6237.4	2861.0	9296.4	38083.8	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	1281.1	7041.7	1925.5	10577.5	40009.3	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	1417.0	8041.7	1415.9	11994.4	41425.2	0.0
1993	4679.0	5039.4	9718.4	7618.4	0.0	0.0	1544.2	9162.6	555.8	13538.7	41981.0	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	1703.6	10464.8	-398.6	15242.3	41582.4	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	1886.5	11961.8	-1580.4	17128.8	40002.0	0.0
1996	4836.0	5284.3	10120.3	11586.6	0.0	0.0	2033.6	13620.2	-3499.9	19162.4	36502.2	0.0
1997	4785.0	5094.6	9879.6	13324.6	0.0	0.0	2234.2	15558.7	-5679.1	21396.5	30823.0	0.0
1998	4937.0	4720.6	9657.6	15323.3	0.0	0.0	2442.1	17765.4	-8107.7	23838.6	22715.3	0.0
1999	5082.0	4128.5	9210.5	17621.8	0.0	0.0	2466.2	20088.0	-11077.4	26304.8	11637.9	0.0
2000	5304.0	3405.3	8709.3	20265.0	0.0	0.0	2920.1	23185.1	-14475.8	29424.9	-0.0	2837.9

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

March 10, 1980

M E M O R A N D U M

TO: Honorable Ernie Haugen
House Finance Committee

FROM: Milt Barker, MB Fiscal Analyst
Legislative Finance Division

SUBJECT: Funds Available for Appropriation

As indicated by the attached projection of general fund balances from page 17 of the Governor's "Executive Budget" book, an estimated $2,554.8 million in liquid general funds are estimated to be available for appropriation in excess of the Governor's budget. There are total new capital appropriations of $220.1 million proposed in the Governor's budget, including the $162.1 million supplemental capital budget.

If you assume the following:

1) $900 million permanent fund appropriation
2) $110 million native claims appropriation (in excess of obligatory FY 80 and FY 81 payments)
3) $220 million for suspension of income tax as of January 1, 1980
4) $200 million permanent fund dividends - FY 81
5) $400 million additional illiquid loans - FY 80 (HCR 33)
6) $585 million additional illiquid loans - FY 81 (continuation of HCR 33)

then approximately $135 million in the general fund cash balance would still remain after these appropriations.

A $1 billion capital appropriation to the power project revolving fund could thus not be totally paid over during FY 81 assuming that the other appropriations listed have priority. However, as a capital appropriation, it would not lapse but would remain on the books until the total $1 billion was paid over.

The $1 billion appropriation would fall within the limits of funds legally available for appropriation so long as the illiquid loans are held by the general fund and not appropriated to some other fund or entity. Adding the $400 million and $585 million additional illiquid investments listed above to the previous "total investments not readily saleable" shown on the attached projection of fund balances gives total illiquid investments of $1,760 million at the end of FY 81. This plus the $135 million general fund cash balance means $1,895 million is legally available for appropriations in addition to those listed above.

These general fund balances reflect business as usual in the making of loans. Should a GNMA type program be established, it is conceivable that the cash requirements for loans could be reduced in FY 81 although that may be too soon to see the full implementation of such a program.

PROJECTED STATEMENT OF CHANGES IN
GENERAL FUND BALANCE AND
CASH AVAILABLE FOR APPROPRIATIONS
(MILLIONS OF DOLLARS)

		Column I GENERAL FUND BALANCE	Column II CASH AVAILABLE
Total Available General Fund Balance 6/30/79		$ 684.3	$ 684.3
Investments not readily saleable[1]			(485.3)
Cash Available for new Approp. 6/30/79			199.0
FY 80 Operations through 6/30/80			
Revenues[2]	2,159.0		
Appropriations[3]	1,260.4		
To General Fund		898.6	898.6
Additional Investments not readily saleable[4],[5]		-	(173.5)
Total Available General Fund Balance 6/30/80		1,582.9	
Cash Available for New Approp. 6/30/80			924.1
FY 81 Operations through 6/30/81			
Revenues[2]	2,987.7		
Appropriations[3]	1,240.0		
To General Fund		1,747.7	1,747.7
Additional Investments not readily saleable[5]		-	(117.0)
Projected Total Available General Fund Balance 6/30/81		3,330.6	
Cash Available for New Appropriation 6/30/81			2,554.8
Total Investments not readily saleable			775.8
Balance Legally Available for Appropriation			3,330.6

STATE OF ALASKA

THE LEGISLATURE

1980

Source: SCS CSHCR 33

Legislative Resolve No.: LR 1

Requesting the Governor to direct action relating to the investment and loan of the state general fund surplus and relating to the participation of financial institutions with the division of business loans in loan programs of benefit to the state's economy.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the state's economy, like that of the nation, is sluggish, with business and private investment at levels which are well below investment rates that characterized the second half of the 1970's; and

WHEREAS Congressional deliberation on the continued use of tax-exempt state and local government revenue bonds has halted issuance of bonds for purposes of financing housing construction and purchase; and

WHEREAS, while the Second Session of the Eleventh Legislature considers alternatives by which state government investment may overcome the economic slack and assist in making additional money for mortgages available at reasonable interest rates, an interim response to current conditions should be formulated and placed in operation;

BE IT RESOLVED by the Alaska State Legislature that the Governor is respectfully requested to direct the commissioner of revenue and the commissioner of commerce and economic development to take action that will, until the legislature completes action on a comprehensive economic assistance program during the Second Session of the Eleventh Legislature or until June 30, 1980, whichever is later,

(1) require that, in accordance with authority granted by AS 37.10.070(a)(10) and (11), the state purchase not more than $35,000,000 of residential mortgages each month beginning with the month during which this resolution is adopted, subject to the following conditions:

(A) mortgage purchases should be made only from the state general fund;

(B) only mortgages on Alaska residences may be purchased;

(C) mortgage purchases shall include only loans entered into between a financial institution and a borrower after the date of adoption of this resolution, and may not include loans for purposes of refinancing existing loans;

(D) a mortgage loan may not be purchased from a financial institution on a basis other than the order in which loan applications were submitted to the state; and

(E) mortgage purchases should be made on terms so that net mortgage cost to the borrower may not exceed eight percent annual interest;

(2) require that in accordance with AS 37.10.075, the state immediately place on deposit or invest in federal credit unions doing business in Alaska not less than $35,000,000 from the state general fund at the rates and terms which were applied to the placement of surplus state funds on November 15, 1979;

(3) waive the current loan policy of the Department of Commerce and Economic Development, division of business loans, by which financial institutions must participate with the division in the provision of loans;

(4) reopen as soon as possible regional offices of the division of veterans' affairs in Anchorage and Fairbanks to receive and process veterans' loans;

(5) require that mortgage loans purchased by the Department of Revenue from the division of veterans' affairs be made on terms so that net mortgage costs to the borrower do not exceed seven percent annual interest; and

(6) provide for making loans, not to exceed $10,000,000, at interest rates not to exceed 10 percent, to financial institutions in Alaska which are insured by an agency or instrumentality of the federal government if the financial institution agrees to reissue at least 50 percent of the amount loaned to it by the state in the form of mortgage, commercial, and consumer loans to Alaskans.

Alaska State Legislature

1976

Source:

SCS CSSS HJR 39(Resources) am S

HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 7, 1979

M E M O R A N D U M

TO: Representative Bill Miles
Co-Chairman
House Resources Committee

FROM: Milt Barker MB
Fiscal Analyst

SUBJECT: General & Permanent Fund Balance Projections

The attached projections are based on the following assumptions:

1. No gas line construction or gas production.
2. Sadlerochit production remains at approximately 1.2 million BPD through 1990.
3. No production other than Sadlerochit and currently producing Cook Inlet fields.
4. Oil price increases at the refinery as scheduled by OPEC with annual increases of 6.5% beginning in January 1980 thereafter.
5. 6.5% annual inflation in non-petroleum revenues and petroleum corporate income tax.
6. No lease bonus revenue.
7. Interest earned on permanent and general fund investments at 7%.
8. No increase in illiquid general fund investments (Alaska loans) beyond $500 million.

MBB:pw
Attachments

1-01LH

GENERAL FUND AND PERMANENT FUND PROJECTED BALANCES

FISCAL YEAR	TOTAL REVENUE [1]	BUDGET APPROPRIATION [2]	TOTAL EXPENDITURE [3]	SURPLUS OR DEFICIT	END OF YEAR PERMANENT FUND BALANCE	END OF YEAR GENERAL FUND BALANCE	BUDGET CUTS OR ADDITIONAL REVENUE REQUIRED TO MAINTAIN GF BALANCE AT $500 MILLION
1979					128.9	578.5	
1980	1249.1	1030.0	1195.7	53.4	219.0	631.9	0.0
1981	1480.2	1184.5	1380.3	99.8	325.4	731.7	0.0
1982	1663.6	1362.2	1581.3	82.3	444.5	814.0	0.0
1983	1801.4	1566.5	1810.2	- 8.8	576.9	805.2	0.0
1984	1940.1	1801.5	2071.6	-131.5	723.7	673.7	0.0
1985	2080.6	2071.7	2312.6	-232.0	885.8	500.0	58.4
1986	2238.2	2382.5	2596.5	-358.3	1064.2	500.0	358.3
1987	2412.4	2739.8	2974.8	-562.5	1260.1	500.0	562.5
1988	2600.0	3150.8	3408.2	-808.3	1474.6	500.0	808.3
1989	2810.8	3623.4	3904.7	-1093.9	1709.0	500.0	1093.9
1990	3034.4	4166.9	4473.6	-1439.2	1964.6	500.0	1439.2

1. Unrestricted revenues, including 100% of royalties.
2. FY 80 figure is the Governor's general fund request; subsequent years reflect 15% annual compound increase.
3. Total expenditure is budget appropriation plus permanent fund, renewable resources fund, and native claims fund contributions.

Prepared by:
Legislative Finance
February 7,1979

projections

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 25, 1980

ADDENDUM to February 21, 1980 Memo

TO: Honorable Hugh Malone, Chairman
House Permanent Fund Committee

FROM: Milt Barker, Fiscal Analyst MB
Legislative Finance Division

SUBJECT: General and Permanent Fund Projections

Attached are additional projections requested by you which assume all of the permanent fund earnings are paid to the public rather than retained in the permanent fund as was the case with the projections in the February 21, 1980 memo. The scenarios presented here are done in both real and nominal dollars assuming 8% real (15% nominal) budget growth and 25%, 50%, and 75% dedication of mineral bonuses and royalties to the permanent fund.

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.7	2750.7	998.0	0.0	0.0	559.6	1557.6	1193.1	475.5	1877.1	0.0
1981	3500.0	72.5	3572.5	1423.9	0.0	0.0	495.5	1919.4	1653.1	799.3	3530.2	0.0
1982	3650.0	114.8	3764.8	1537.9	0.0	0.0	376.1	1913.9	1850.9	1155.8	5381.1	0.0
1983	3747.0	159.6	3906.6	1660.9	0.0	0.0	391.5	2052.4	1854.2	1520.5	7235.2	0.0
1984	3838.0	204.4	4042.4	1793.8	0.0	0.0	412.2	2206.0	1836.5	1898.5	9071.7	0.0
1985	4311.0	253.0	4564.0	1937.3	0.0	0.0	461.7	2398.9	2165.1	2318.0	11236.8	0.0
1986	3937.0	300.4	4237.4	2092.2	0.0	0.0	427.4	2519.6	1717.8	2695.3	12954.6	0.0
1987	3641.0	338.7	3979.7	2259.6	0.0	0.0	401.3	2661.0	1318.7	3039.3	14273.3	0.0
1988	3344.0	368.1	3712.1	2440.4	0.0	0.0	373.4	2813.8	898.3	3348.8	15171.6	0.0
1989	2823.0	386.0	3209.0	2635.6	0.0	0.0	319.7	2955.4	253.6	3599.0	15425.2	0.0
1990	2423.0	390.8	2813.8	2846.5	0.0	0.0	278.8	3125.3	-311.4	3803.8	15113.8	0.0
1991	2055.0	383.5	2438.5	3074.2	0.0	0.0	240.7	3314.9	-876.4	3966.8	14237.4	0.0
1992	2010.0	367.1	2377.1	3320.1	0.0	0.0	238.9	3559.0	-1181.9	4124.8	13055.5	0.0
1993	1893.0	343.6	2236.6	3585.7	0.0	0.0	228.4	3814.2	-1577.6	4269.3	11477.9	0.0
1994	1835.0	312.3	2147.3	3872.6	0.0	0.0	226.3	4098.9	-1951.6	4408.8	9526.3	0.0
1995	1792.0	273.4	2065.4	4182.4	0.0	0.0	226.8	4409.2	-2343.8	4546.0	7182.5	0.0
1996	1600.0	224.8	1824.8	4517.0	0.0	0.0	210.1	4727.1	-2902.3	4664.0	4280.2	0.0
1997	1474.0	165.1	1639.1	4878.4	0.0	0.0	206.7	5085.0	-3446.0	4776.3	834.3	0.0
1998	1426.0	126.0	1552.0	5268.6	0.0	0.0	199.8	5468.4	-3916.5	4879.5	0.0	3082.2
1999	1381.0	121.3	1502.3	5690.1	0.0	0.0	193.0	5883.2	-4380.9	4974.0	0.0	4380.9
2000	1350.0	124.9	1474.9	6145.3	0.0	0.0	188.4	6333.7	-4858.7	5062.0	0.0	4858.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS

REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.7	2750.7	998.0	0.0	0.0	900.5	1898.5	852.2	813.0	1536.2	0.0
1981	3500.0	72.3	3572.3	1423.9	0.0	0.0	829.2	2253.2	1319.2	1460.5	2855.4	0.0
1982	3650.0	114.4	3764.4	1537.9	0.0	0.0	749.3	2287.2	1477.2	2173.5	4332.5	0.0
1983	3747.0	158.7	3905.7	1660.9	0.0	0.0	780.3	2441.2	1464.5	2903.0	5797.1	0.0
1984	3838.0	203.0	4041.0	1793.8	0.0	0.0	821.6	2615.4	1425.6	3459.0	7222.7	0.0
1985	4311.0	250.8	4561.8	1937.3	0.0	0.0	920.6	2857.8	1704.0	4498.0	8926.7	0.0
1986	3937.0	297.3	4234.3	2092.2	0.0	0.0	852.0	2944.2	1290.1	5252.5	10216.7	0.0
1987	3641.0	334.5	3975.5	2259.6	0.0	0.0	799.9	3059.6	915.9	5940.5	11132.6	0.0
1988	3344.0	362.6	3706.6	2440.4	0.0	0.0	744.0	3184.4	522.2	6559.5	11654.9	0.0
1989	2823.0	379.1	3202.1	2635.6	0.0	0.0	636.7	3272.3	-70.2	7060.0	11584.7	0.0
1990	2423.0	382.4	2805.4	2846.5	0.0	0.0	554.8	3401.3	-595.9	7469.5	10988.8	0.0
1991	2055.0	373.5	2428.5	3074.2	0.0	0.0	478.7	3552.8	-1124.4	7795.5	9864.5	0.0
1992	2010.0	355.3	2365.3	3320.1	0.0	0.0	475.1	3795.2	-1429.9	8111.5	8434.6	0.0
1993	1893.0	330.0	2223.0	3585.7	0.0	0.0	454.1	4039.9	-1816.9	8400.5	6617.7	0.0
1994	1835.0	296.7	2131.7	3872.6	0.0	0.0	449.8	4322.4	-2190.7	8679.5	4427.1	0.0
1995	1792.0	255.8	2047.8	4182.4	0.0	0.0	450.8	4633.2	-2585.5	8954.0	1841.6	0.0
1996	1600.0	217.9	1817.9	4517.0	0.0	0.0	417.4	4934.4	-3116.5	9190.0	0.0	1274.9
1997	1474.0	205.6	1679.6	4878.4	0.0	0.0	410.5	5288.9	-3609.3	9414.5	0.0	3609.3
1998	1426.0	211.4	1637.4	5268.6	0.0	0.0	396.9	5665.5	-4028.1	9621.0	0.0	4028.1
1999	1381.0	217.1	1598.1	5690.1	0.0	0.0	383.3	6073.4	-4475.4	9810.0	0.0	4475.4
2000	1350.0	222.5	1572.5	6145.3	0.0	0.0	374.0	6519.3	-4946.7	9986.0	0.0	4946.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 0% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										130.0	681.0	
1980	2715.0	35.7	2750.7	998.0	0.0	0.0	1241.4	2239.4	511.3	1150.5	1195.3	0.0
1981	3500.0	72.2	3572.2	1423.9	0.0	0.0	1163.0	2586.9	985.3	2121.8	2180.5	0.0
1982	3650.0	113.9	3763.9	1537.9	0.0	0.0	1122.6	2660.5	1103.4	3191.3	3284.0	0.0
1983	3747.0	157.8	3904.8	1660.9	0.0	0.0	1169.0	2829.9	1074.9	4285.5	4358.9	0.0
1984	3838.0	201.6	4039.6	1793.8	0.0	0.0	1231.1	3024.8	1014.7	5419.5	5373.6	0.0
1985	4311.0	248.6	4559.6	1937.3	0.0	0.0	1379.5	3316.7	1242.9	6678.0	6616.5	0.0
1986	3937.0	294.2	4231.2	2092.2	0.0	0.0	1276.6	3368.9	862.3	7809.8	7478.9	0.0
1987	3641.0	330.3	3971.3	2259.6	0.0	0.0	1198.5	3458.1	513.1	8841.8	7992.0	0.0
1988	3344.0	357.2	3701.2	2440.4	0.0	0.0	1114.6	3555.0	146.2	9770.3	8138.2	0.0
1989	2823.0	372.3	3195.3	2635.6	0.0	0.0	953.7	3589.3	-394.0	10521.0	7744.1	0.0
1990	2423.0	374.0	2797.0	2846.5	0.0	0.0	830.8	3677.3	-880.3	11135.3	6863.9	0.0
1991	2055.0	363.4	2418.4	3074.2	0.0	0.0	716.6	3790.8	-1372.3	11624.3	5491.5	0.0
1992	2010.0	343.6	2353.6	3320.1	0.0	0.0	711.2	4031.4	-1677.8	12098.3	3813.7	0.0
1993	1993.0	316.4	2209.4	3585.7	0.0	0.0	679.8	4265.5	-2056.2	12531.8	1757.6	0.0
1994	1835.0	287.9	2122.9	3872.6	0.0	0.0	673.3	4545.9	-2423.0	12950.3	0.0	665.5
1995	1792.0	279.9	2071.9	4182.4	0.0	0.0	674.9	4857.3	-2785.4	13362.0	0.0	2785.4
1996	1600.0	288.8	1888.8	4517.0	0.0	0.0	624.8	5141.8	-3252.9	13716.0	0.0	3252.9
1997	1474.0	297.2	1771.2	4878.4	0.0	0.0	614.4	5492.8	-3721.6	14052.8	0.0	3721.6
1998	1426.0	305.2	1731.2	5268.6	0.0	0.0	593.9	5862.5	-4131.3	14362.5	0.0	4131.3
1999	1381.0	312.8	1693.8	5690.1	0.0	0.0	573.6	6263.7	-4569.9	14646.0	0.0	4569.9
2000	1350.0	320.1	1670.1	6145.3	0.0	0.0	559.6	6704.9	-5034.7	14910.0	0.0	5034.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-60

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.7	2880.7	996.0	0.0	0.0	581.1	1579.1	1301.6	475.5	1985.6	0.0
1981	3500.0	346.4	3846.4	1423.9	0.0	0.0	540.1	1964.1	1882.3	799.3	3867.9	0.0
1982	4383.0	595.8	4978.8	1637.5	0.0	0.0	514.2	2151.8	2827.0	1222.5	6695.0	0.0
1983	4778.0	911.9	5689.9	1883.2	0.0	0.0	593.9	2477.0	3212.9	1685.5	9907.8	0.0
1984	5215.0	1268.8	6483.8	2165.6	0.0	0.0	686.7	2852.4	3631.5	2197.5	13539.3	0.0
1985	5350.0	1701.2	8051.2	2490.5	0.0	0.0	860.6	3351.1	4700.1	2831.8	18239.4	0.0
1986	6187.0	2183.0	8370.0	2864.1	0.0	0.0	893.9	3757.9	4612.1	3443.3	22851.5	0.0
1987	6115.0	2657.2	8772.2	3293.7	0.0	0.0	935.1	4228.7	4543.4	4041.5	27394.9	0.0
1988	5986.0	3119.2	9105.2	3787.7	0.0	0.0	967.0	4754.7	4350.5	4618.8	31745.4	0.0
1989	5387.0	3537.0	8924.0	4355.9	0.0	0.0	943.2	5299.0	3625.0	5123.5	35370.4	0.0
1990	4928.0	3884.1	8812.1	5009.3	0.0	0.0	928.0	5937.2	2874.9	5570.3	38245.3	0.0
1991	4455.0	4151.8	8606.8	5760.7	0.0	0.0	905.5	6666.1	1940.7	5957.0	40186.0	0.0
1992	4658.0	4354.6	9012.6	6624.8	0.0	0.0	955.4	7580.2	1432.4	6358.3	41618.4	0.0
1993	4679.0	4498.6	9177.6	7618.5	0.0	0.0	985.3	8603.7	573.9	6753.5	42192.3	0.0
1994	4853.0	4564.2	9417.2	8761.2	0.0	0.0	1034.7	9795.9	-378.8	7162.0	41813.5	0.0
1995	5072.0	4538.4	9610.4	10075.4	0.0	0.0	1093.7	11169.1	-1558.7	7591.8	40254.8	0.0
1996	4836.0	4376.3	9212.3	11586.7	0.0	0.0	1101.8	12688.5	-3476.2	7992.3	36778.6	0.0
1997	4785.0	4033.2	8818.2	13324.8	0.0	0.0	1146.7	14471.5	-5653.2	8401.3	31125.4	0.0
1998	4937.0	3487.9	8424.9	15323.5	0.0	0.0	1180.9	16504.4	-8079.4	8807.8	23045.9	0.0
1999	5082.0	2705.0	7787.0	17622.0	0.0	0.0	1211.5	18833.5	-11046.5	9208.5	11999.5	0.0
2000	5304.0	1751.7	7055.7	20265.3	0.0	0.0	1250.2	21515.4	-14459.8	9611.8	-0.0	2460.3

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.0	2880.0	998.0	0.0	0.0	933.8	1931.8	948.2	813.0	1632.2	0.0
1981	3500.0	342.8	3842.8	1423.9	0.0	0.0	908.8	2332.8	1510.0	1460.5	3142.2	0.0
1982	4383.0	586.0	4969.0	1637.5	0.0	0.0	1016.0	2653.6	2315.4	2307.0	5457.7	0.0
1983	4778.0	891.9	5669.9	1803.2	0.0	0.0	1175.3	3058.5	2611.4	3233.0	8069.1	0.0
1984	5215.0	1233.7	6448.7	2165.6	0.0	0.0	1361.1	3526.7	2922.0	4257.0	10991.1	0.0
1985	6350.0	1645.1	7995.1	2490.5	0.0	0.0	1708.7	4199.2	3795.9	5525.5	14787.0	0.0
1986	6187.0	2098.8	8285.8	2864.1	0.0	0.0	1775.3	4639.4	3646.4	6748.5	18433.4	0.0
1987	6115.0	2537.0	8652.0	3293.7	0.0	0.0	1857.7	5151.4	3500.6	7945.0	21934.0	0.0
1988	5986.0	2954.7	8940.7	3787.7	0.0	0.0	1921.5	5709.2	3231.4	9099.5	25165.5	0.0
1989	5387.0	3319.1	8706.1	4355.9	0.0	0.0	1873.9	6229.8	2476.3	10109.0	27641.8	0.0
1990	4928.0	3603.5	8531.5	5009.3	0.0	0.0	1843.5	6852.8	1678.7	11002.5	29320.5	0.0
1991	4455.0	3798.8	8253.8	5760.7	0.0	0.0	1798.5	7559.2	694.6	11776.0	30015.2	0.0
1992	4658.0	3919.0	8577.0	6624.8	0.0	0.0	1898.5	8523.2	53.8	12578.5	30068.9	0.0
1993	4679.0	3969.2	8648.2	7618.5	0.0	0.0	1958.1	9576.6	-928.4	13369.0	29140.5	0.0
1994	4853.0	3928.7	8781.7	8761.2	0.0	0.0	2057.0	10818.2	-2036.5	14186.0	27104.0	0.0
1995	5072.0	3783.4	8855.4	10075.4	0.0	0.0	2174.9	12250.3	-3395.0	15045.5	23709.0	0.0
1996	4836.0	3487.0	8323.0	11586.7	0.0	0.0	2191.1	13777.9	-5454.8	15846.5	18254.2	0.0
1997	4785.0	2993.5	7778.5	13324.8	0.0	0.0	2281.0	15605.7	-7827.3	16664.5	10426.9	0.0
1998	4937.0	2281.4	7218.4	15323.5	0.0	0.0	2349.4	17672.9	-10454.4	17477.5	-0.0	27.5
1999	5082.0	1926.2	7008.2	17622.0	0.0	0.0	2410.5	20032.5	-13024.3	18279.0	-0.0	13024.3
2000	5304.0	2046.2	7350.2	20265.3	0.0	0.0	2487.9	22753.2	-15403.0	19085.5	-0.0	15403.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	164.3	2879.3	998.0	0.0	0.0	1286.5	2284.5	594.8	1150.5	1278.8	0.0
1981	3500.0	339.2	3839.2	1423.9	0.0	0.0	1277.5	2701.4	1137.7	2121.8	2416.5	0.0
1982	4303.0	576.2	4959.2	1637.5	0.0	0.0	1517.8	3155.4	1803.8	3391.5	4220.4	0.0
1983	4778.0	871.9	5649.9	1803.2	0.0	0.0	1756.7	3639.9	2010.0	4780.5	6230.4	0.0
1984	5215.0	1198.6	6413.6	2165.6	0.0	0.0	2035.4	4201.0	2212.6	6316.5	8443.0	0.0
1985	6350.0	1588.9	7938.9	2490.5	0.0	0.0	2556.9	5047.3	2891.6	8219.3	11334.6	0.0
1986	6187.0	2014.6	8201.6	2864.1	0.0	0.0	2656.8	5520.8	2680.7	10053.6	14015.3	0.0
1987	6115.0	2416.9	8531.9	3293.7	0.0	0.0	2780.4	6074.0	2457.8	11848.5	16473.2	0.0
1988	5986.0	2790.1	8776.1	3787.7	0.0	0.0	2876.0	6663.8	2112.3	13580.3	18585.5	0.0
1989	5387.0	3101.2	8486.2	4355.9	0.0	0.0	2804.6	7160.5	1327.7	15094.5	19913.2	0.0
1990	4928.0	3322.9	8250.9	5009.3	0.0	0.0	2759.1	7768.3	482.6	16434.8	20395.8	0.0
1991	4455.0	3445.8	7900.8	5760.7	0.0	0.0	2691.6	8452.2	-551.4	17595.0	19844.4	0.0
1992	4658.0	3483.3	8141.3	6624.8	0.0	0.0	2841.5	9466.2	-1324.9	18798.8	18519.5	0.0
1993	4679.0	3439.8	8118.8	7618.5	0.0	0.0	2931.0	10549.5	-2430.7	19984.5	16088.8	0.0
1994	4853.0	3293.2	8146.2	8761.2	0.0	0.0	3079.3	11840.5	-3694.3	21210.0	12394.5	0.0
1995	5072.0	3028.4	8100.4	10075.4	0.0	0.0	3256.2	13331.6	-5231.2	22499.3	7163.3	0.0
1996	4836.0	2609.9	7445.9	11586.7	0.0	0.0	3280.5	14867.2	-7421.3	23700.8	-0.0	258.1
1997	4705.0	2428.1	7213.1	13324.8	0.0	0.0	3415.3	16740.0	-9526.9	24927.8	-0.0	9526.9
1998	4937.0	2574.2	7511.2	15323.5	0.0	0.0	3517.9	18841.3	-11330.1	26147.3	-0.0	11330.1
1999	5082.0	2724.5	7806.5	17622.0	0.0	0.0	3609.6	21231.6	-13425.0	27349.5	-0.0	13425.0
2000	5304.0	2880.7	8184.7	20265.3	0.0	0.0	3725.6	23990.9	-15806.3	28559.3	-0.0	15806.3

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 25, 1980

ADDENDUM to February 21, 1980 Memo

TO: Honorable Hugh Malone, Chairman
House Permanent Fund Committee

FROM: Milt Barker, Fiscal Analyst MB
Legislative Finance Division

SUBJECT: General and Permanent Fund Projections

Attached are additional projections requested by you which assume all of the permanent fund earnings are paid to the public rather than retained in the permanent fund as was the case with the projections in the February 21, 1980 memo. The scenarios presented here are done in both real and nominal dollars assuming 8% real (15% nominal) budget growth and 25%, 50%, and 75% dedication of mineral bonuses and royalties to the permanent fund.

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.7	2750.7	998.0	0.0	0.0	559.6	1557.6	1193.1	475.5	1877.1	0.0
1981	3500.0	72.5	3572.5	1423.9	0.0	0.0	495.5	1919.4	1653.1	799.3	3530.2	0.0
1982	3650.0	114.8	3764.8	1537.9	0.0	0.0	376.1	1913.9	1850.9	1155.8	5301.1	0.0
1983	3747.0	159.6	3906.6	1660.9	0.0	0.0	391.5	2052.4	1854.2	1520.5	7235.2	0.0
1984	3838.0	204.4	4042.4	1793.8	0.0	0.0	412.2	2206.0	1836.5	1898.5	9071.7	0.0
1985	4311.0	253.0	4564.0	1937.3	0.0	0.0	461.7	2398.9	2165.1	2318.0	11236.8	0.0
1986	3937.0	300.4	4237.4	2092.2	0.0	0.0	427.4	2519.6	1717.8	2695.3	12954.6	0.0
1987	3641.0	338.7	3979.7	2259.6	0.0	0.0	401.3	2661.0	1318.7	3039.3	14273.3	0.0
1988	3344.0	368.1	3712.1	2440.4	0.0	0.0	373.4	2813.8	898.3	3346.8	15171.6	0.0
1989	2823.0	386.0	3209.0	2635.6	0.0	0.0	319.7	2955.4	253.6	3599.0	15425.2	0.0
1990	2423.0	390.8	2813.8	2846.5	0.0	0.0	278.8	3125.3	-311.4	3803.8	15113.8	0.0
1991	2055.0	383.5	2438.5	3074.2	0.0	0.0	240.7	3314.9	-876.4	3966.8	14237.4	0.0
1992	2010.0	367.1	2377.1	3320.1	0.0	0.0	238.9	3559.0	-1181.9	4124.8	13055.5	0.0
1993	1893.0	343.6	2236.6	3585.7	0.0	0.0	228.4	3814.2	-1577.6	4269.3	11477.9	0.0
1994	1835.0	312.3	2147.3	3872.6	0.0	0.0	226.3	4098.9	-1951.6	4408.8	9526.3	0.0
1995	1792.0	273.4	2065.4	4182.4	0.0	0.0	226.8	4409.2	-2343.8	4546.0	7182.5	0.0
1996	1600.0	224.8	1824.8	4517.0	0.0	0.0	210.1	4727.1	-2902.3	4664.0	4280.2	0.0
1997	1474.0	165.1	1639.1	4878.4	0.0	0.0	206.7	5085.0	-3446.0	4776.3	834.3	0.0
1998	1426.0	126.0	1552.0	5268.6	0.0	0.0	199.8	5468.4	-3916.5	4879.5	0.0	3082.2
1999	1381.0	121.3	1502.3	5690.1	0.0	0.0	193.0	5883.2	-4380.9	4974.0	0.0	4380.9
2000	1350.0	124.9	1474.9	6145.3	0.0	0.0	188.4	6333.7	-4858.7	5062.0	0.0	4858.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS

REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.7	2750.7	998.0	0.0	0.0	900.5	1898.5	852.2	813.0	1536.2	0.0
1981	3500.0	72.3	3572.3	1423.9	0.0	0.0	829.2	2253.2	1319.2	1460.5	2855.4	0.0
1982	3650.0	114.4	3764.4	1537.9	0.0	0.0	749.3	2287.2	1477.2	2173.5	4332.5	0.0
1983	3747.0	158.7	3905.7	1660.9	0.0	0.0	780.3	2441.2	1464.5	2903.0	5797.1	0.0
1984	3838.0	203.0	4041.0	1793.8	0.0	0.0	821.6	2615.4	1425.6	3659.0	7222.7	0.0
1985	4311.0	250.8	4561.8	1937.3	0.0	0.0	920.6	2857.8	1704.0	4498.0	8926.7	0.0
1986	3937.0	297.3	4234.3	2092.2	0.0	0.0	852.0	2944.2	1290.1	5252.5	10216.7	0.0
1987	3641.0	334.5	3975.5	2259.6	0.0	0.0	799.9	3059.6	915.9	5940.5	11132.6	0.0
1988	3344.0	362.6	3706.6	2440.4	0.0	0.0	744.0	3184.4	522.2	6559.5	11654.9	0.0
1989	2823.0	379.1	3202.1	2635.6	0.0	0.0	636.7	3272.3	-70.2	7060.0	11584.7	0.0
1990	2423.0	382.4	2805.4	2846.5	0.0	0.0	554.8	3401.3	-595.9	7469.5	10988.8	0.0
1991	2055.0	373.5	2428.5	3074.2	0.0	0.0	478.7	3552.8	-1124.4	7795.5	9864.5	0.0
1992	2010.0	355.3	2365.3	3320.1	0.0	0.0	475.1	3795.2	-1429.9	8111.5	8434.6	0.0
1993	1893.0	330.0	2223.0	3585.7	0.0	0.0	454.1	4039.9	-1816.9	8400.5	6617.7	0.0
1994	1835.0	296.7	2131.7	3872.6	0.0	0.0	449.8	4322.4	-2190.7	8679.5	4427.1	0.0
1995	1792.0	255.8	2047.8	4182.4	0.0	0.0	450.8	4633.2	-2585.5	8954.0	1841.6	0.0
1996	1600.0	217.9	1817.9	4517.0	0.0	0.0	417.4	4934.4	-3116.5	9190.0	0.0	1274.9
1997	1474.0	205.6	1679.6	4878.4	0.0	0.0	410.5	5288.9	-3609.3	9414.5	0.0	3609.3
1998	1426.0	211.4	1637.4	5268.6	0.0	0.0	396.9	5665.5	-4028.1	9621.0	0.0	4028.1
1999	1381.0	217.1	1598.1	5690.1	0.0	0.0	383.3	6073.4	-4475.4	9810.0	0.0	4475.4
2000	1350.0	227.5	1572.5	6145.3	0.0	0.0	374.0	6519.3	-4946.7	9986.0	0.0	4946.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL. = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										130.0	681.0	
1980	2715.0	35.7	2750.7	998.9	0.0	0.0	1241.4	2239.4	511.3	1150.5	1195.3	0.0
1981	3500.0	72.2	3572.2	1423.9	0.0	0.0	1163.0	2586.9	985.3	2121.8	2180.5	0.0
1982	3650.0	113.9	3763.9	1537.9	0.0	0.0	1122.6	2660.5	1103.4	3191.3	3284.0	0.0
1983	3747.0	157.8	3904.8	1660.9	0.0	0.0	1169.0	2829.9	1074.9	4205.5	4358.9	0.0
1984	3838.0	201.6	4039.6	1793.8	0.0	0.0	1231.1	3024.8	1014.7	5419.5	5373.6	0.0
1985	4311.0	248.6	4559.6	1937.3	0.0	0.0	1379.5	3316.7	1242.9	6678.0	6616.5	0.0
1986	3937.0	294.2	4231.2	2092.2	0.0	0.0	1276.6	3368.9	862.3	7809.8	7478.9	0.0
1987	3641.0	330.3	3971.3	2259.6	0.0	0.0	1198.5	3458.1	513.1	8841.8	7992.0	0.0
1988	3344.0	357.2	3701.2	2440.4	0.0	0.0	1114.6	3555.0	146.2	9770.3	8138.2	0.0
1989	2823.0	372.3	3195.3	2635.6	0.0	0.0	953.7	3589.3	-394.0	10521.0	7744.1	0.0
1990	2423.0	374.0	2797.0	2846.5	0.0	0.0	830.8	3677.3	-880.3	11135.3	6863.9	0.0
1991	2055.0	363.4	2418.4	3074.2	0.0	0.0	716.6	3790.8	-1372.3	11624.3	5491.5	0.0
1992	2010.0	343.6	2353.6	3320.1	0.0	0.0	711.2	4031.4	-1677.8	12098.3	3813.7	0.0
1993	1893.0	316.4	2209.4	3585.7	0.0	0.0	679.8	4265.5	-2056.2	12531.8	1757.6	0.0
1994	1835.0	287.9	2122.9	3872.6	0.0	0.0	673.3	4545.9	-2423.0	12950.3	0.0	665.5
1995	1792.0	279.9	2071.9	4182.4	0.0	0.0	674.9	4857.3	-2785.4	13362.0	0.0	2785.4
1996	1600.0	288.8	1888.8	4517.0	0.0	0.0	624.8	5141.8	-3252.9	13716.0	0.0	3252.9
1997	1474.0	297.2	1771.2	4878.4	0.0	0.0	614.4	5492.8	-3721.6	14052.8	0.0	3721.6
1998	1426.0	305.2	1731.2	5268.6	0.0	0.0	593.9	5862.5	-4131.3	14362.5	0.0	4131.3
1999	1301.0	312.8	1693.8	5690.1	0.0	0.0	573.6	6263.7	-4569.9	14646.0	0.0	4569.9
2000	1350.0	320.1	1670.1	6145.3	0.0	0.0	559.6	6704.9	-5034.7	14910.0	0.0	5034.7

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.7	2880.7	998.0	0.0	0.0	581.1	1579.1	1301.6	475.5	1985.6	0.0
1981	3500.0	346.4	3846.4	1423.9	0.0	0.0	540.1	1964.1	1882.3	799.3	3867.9	0.0
1982	4383.0	595.8	4978.8	1637.5	0.0	0.0	514.2	2151.8	2827.0	1222.5	6695.0	0.0
1983	4778.0	911.9	5689.9	1883.2	0.0	0.0	593.9	2477.0	3212.9	1685.5	9907.8	0.0
1984	5215.0	1268.8	6483.8	2165.6	0.0	0.0	686.7	2852.4	3631.5	2197.5	13539.3	0.0
1985	5350.0	1701.2	8051.2	2490.5	0.0	0.0	860.6	3351.1	4700.1	2831.8	18239.4	0.0
1986	6187.0	2183.0	8370.0	2864.1	0.0	0.0	893.9	3757.9	4612.1	3443.3	22851.5	0.0
1987	6115.0	2657.2	8772.2	3293.7	0.0	0.0	935.1	4228.7	4543.4	4041.5	27394.9	0.0
1988	5986.0	3119.2	9105.2	3787.7	0.0	0.0	967.0	4754.7	4350.5	4618.8	31745.4	0.0
1989	5387.0	3537.0	8924.0	4355.9	0.0	0.0	943.2	5299.0	3625.0	5123.5	35370.4	0.0
1990	4928.0	3884.1	8812.1	5009.3	0.0	0.0	928.0	5937.2	2874.9	5570.3	38245.3	0.0
1991	4455.0	4151.8	8606.8	5760.7	0.0	0.0	905.5	6666.1	1940.7	5957.0	40186.0	0.0
1992	4658.0	4354.6	9012.6	6624.8	0.0	0.0	955.4	7580.2	1432.4	6358.3	41618.4	0.0
1993	4679.0	4498.6	9177.6	7618.5	0.0	0.0	785.3	8403.7	773.9	6753.5	42192.3	0.0
1994	4853.0	4564.2	9417.2	8761.2	0.0	0.0	1034.7	9795.9	-378.8	7162.0	41813.5	0.0
1995	5072.0	4538.4	9610.4	10075.4	0.0	0.0	1093.7	11169.1	-1558.7	7591.8	40254.8	0.0
1996	4836.0	4376.3	9212.3	11586.7	0.0	0.0	1101.8	12688.5	-3476.2	7992.3	36778.6	0.0
1997	4785.0	4033.2	8818.2	13324.8	0.0	0.0	1146.7	14471.5	-5653.2	8401.3	31125.4	0.0
1998	4937.0	3487.9	8424.9	15323.5	0.0	0.0	1180.9	16504.4	-8079.4	8807.8	23045.9	0.0
1999	5082.0	2705.0	7787.0	17622.0	0.0	0.0	1211.5	18833.5	-11046.5	9208.5	11999.5	0.0
2000	5304.0	1751.7	7055.7	20265.3	0.0	0.0	1250.2	21515.4	-14459.8	9611.8	-0.0	2460.3

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.0	2880.0	998.0	0.0	0.0	933.8	1931.8	948.2	813.0	1632.2	0.0
1981	3500.0	342.8	3842.8	1423.9	0.0	0.0	908.8	2332.8	1510.0	1460.5	3142.2	0.0
1982	4383.0	586.0	4969.0	1637.5	0.0	0.0	1016.0	2653.6	2315.4	2307.0	5457.7	0.0
1983	4778.0	891.9	5669.9	1803.2	0.0	0.0	1175.3	3058.5	2611.4	3233.0	8069.1	0.0
1984	5215.0	1233.7	6448.7	2165.6	0.0	0.0	1361.1	3526.7	2922.0	4257.0	10991.1	0.0
1985	6350.0	1645.1	7995.1	2490.5	0.0	0.0	1708.7	4199.2	3795.9	5525.5	14787.0	0.0
1986	6187.0	2098.8	8285.8	2864.1	0.0	0.0	1775.3	4639.4	3646.4	6748.5	18433.4	0.0
1987	6115.0	2537.0	8652.0	3293.7	0.0	0.0	1857.7	5151.4	3500.6	7945.0	21934.0	0.0
1988	5986.0	2954.7	8940.7	3787.7	0.0	0.0	1921.5	5709.2	3231.4	9099.5	25165.5	0.0
1989	5387.0	3319.1	8706.1	4355.9	0.0	0.0	1873.9	6229.8	2476.3	10109.0	27641.8	0.0
1990	4928.0	3603.5	8531.5	5009.3	0.0	0.0	1843.5	6852.8	1678.7	11002.5	29320.5	0.0
1991	4455.0	3798.8	8253.8	5760.7	0.0	0.0	1798.5	7559.2	694.6	11776.0	30015.2	0.0
1992	4658.0	3919.0	8577.0	6624.8	0.0	0.0	1898.5	8523.2	53.8	12578.5	30068.9	0.0
1993	4679.0	3969.2	8648.2	7618.5	0.0	0.0	1958.1	9576.6	-928.4	13369.0	29140.5	0.0
1994	4853.0	3928.7	8781.7	8761.2	0.0	0.0	2057.0	10818.2	-2036.5	14106.0	27104.0	0.0
1995	5072.0	3783.4	8855.4	10075.4	0.0	0.0	2174.9	12250.3	-3395.0	15045.5	23709.0	0.0
1996	4836.0	3487.0	8323.0	11586.7	0.0	0.0	2191.1	13777.9	-5454.8	15846.5	18254.2	0.0
1997	4785.0	2993.5	7778.5	13324.8	0.0	0.0	2281.0	15605.7	-7827.3	16664.5	10426.9	0.0
1998	4937.0	2281.4	7218.4	15323.5	0.0	0.0	2349.4	17672.9	-10454.4	17477.5	-0.0	27.5
1999	5082.0	1926.2	7008.2	17622.0	0.0	0.0	2410.5	20032.5	-13024.3	18279.0	-0.0	13024.3
2000	5304.0	2046.2	7350.2	20265.3	0.0	0.0	2487.9	22753.2	-15403.0	19085.5	-0.0	15403.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

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23-Feb-80

COMMENTS
7% INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF PERMANENT FUND EARNINGS TO PUBLIC = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	164.3	2879.3	998.0	0.0	0.0	1286.5	2284.5	594.8	1150.5	1278.8	0.0
1981	3500.0	339.2	3839.2	1423.9	0.0	0.0	1277.5	2701.4	1137.7	2121.8	2416.5	0.0
1982	4303.0	576.2	4959.2	1637.5	0.0	0.0	1517.8	3155.4	1803.8	3391.5	4220.4	0.0
1983	4778.0	871.9	5649.9	1883.2	0.0	0.0	1756.7	3639.9	2010.0	4780.5	6230.4	0.0
1984	5215.0	1198.6	6413.6	2165.6	0.0	0.0	2035.4	4201.0	2212.6	6316.5	8443.0	0.0
1985	6350.0	1588.9	7938.9	2490.5	0.0	0.0	2556.9	5047.3	2891.6	8219.3	11334.6	0.0
1986	6187.0	2014.6	8201.6	2864.1	0.0	0.0	2656.8	5520.8	2680.7	10053.8	14015.3	0.0
1987	6115.0	2416.9	8531.9	3293.7	0.0	0.0	2780.4	6074.0	2457.8	11848.5	16473.2	0.0
1988	5986.0	2790.1	8776.1	3787.7	0.0	0.0	2876.0	6663.8	2112.3	13561.3	18585.5	0.0
1989	5387.0	3101.2	8486.2	4355.9	0.0	0.0	2804.6	7160.5	1327.7	15094.5	19913.2	0.0
1990	4920.0	3322.9	8250.9	5009.3	0.0	0.0	2759.1	7768.3	482.6	16434.8	20395.8	0.0
1991	4455.0	3445.8	7900.8	5760.7	0.0	0.0	2691.6	8452.2	-551.4	17595.0	19844.4	0.0
1992	4658.0	3483.3	8141.3	6624.8	0.0	0.0	2841.5	9466.2	-1324.9	18798.8	18519.5	0.0
1993	4679.0	3439.8	8118.8	7618.5	0.0	0.0	2931.0	10549.5	-2430.7	19984.5	16088.8	0.0
1994	4853.0	3793.2	8146.2	8761.2	0.0	0.0	3079.3	11840.5	-3694.3	21210.0	12394.5	0.0
1995	5072.0	3028.4	8100.4	10075.4	0.0	0.0	3256.2	13331.6	-5231.2	22499.3	7163.3	0.0
1996	4836.0	2609.9	7445.9	11586.7	0.0	0.0	3280.5	14867.2	-7421.3	23700.8	-0.0	258.1
1997	4785.0	2428.1	7213.1	13324.8	0.0	0.0	3415.3	16740.0	-9526.9	24927.8	-0.0	9526.9
1998	4937.0	2574.2	7511.2	15323.5	0.0	0.0	3517.9	18841.3	-11330.1	26147.3	-0.0	11330.1
1999	5082.0	2724.5	7806.5	17622.0	0.0	0.0	3609.6	21231.6	-13425.0	27349.5	-0.0	13425.0
2000	5304.0	2880.7	8184.7	20265.3	0.0	0.0	3725.6	23990.9	-15806.3	28559.3	-0.0	15806.3

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 21, 1980

M E M O R A N D U M

TO: Honorable Hugh Malone
Chairman, House Permanent Fund Committee

FROM: Milt Barker, MB Fiscal Analyst
Legislative Finance Division

SUBJECT: General and Permanent Fund Projections

Attached are nine long-range projections of general and permanent fund balances in nominal and real dollars. Projections are made at 10%, 15%, and 20% budget growth rates (3%, 8% and 13% real growth assuming 7% inflation) in combination with 25%, 50% and 75% bonus and royalty contributions to the permanent fund.

The earlier appearance of deficits in the real cases occur because the interest rate on fund balances is reduced from a 9% nominal rate to a 2% real rate. What this does is to take account of the depreciation in the value of fund principal due to inflation. Thus, the fund balances in the real scenarios properly reflect their purchasing power in terms of 1980 dollars. The early deficits are spurious; actual cash flow deficits would appear only at the times indicated in the nominal cases. However, the deficits may be viewed as true deficits if one were to take account of the depreciation of value of the general or permanent fund due to inflation.

Major changes in the State's tax structure or expenditure patterns such as income tax repeals, property tax credits, or special appropriations to the permanent fund, etc. have not been assumed.

The oil price growth rates (2% real, 9% nominal are substantially less than those contained in the Petroleum Revenue Division's quarterly report and upon which the

long-range forecasts in the Governor's "Executive Budget" are based.

Prudhoe Wellhead Oil Price

Fiscal Year	Petroleum Revenue	This Memo
1980	$12.66	$13.00
1981	18.37	18.37
1982	26.64	22.89
1983	30.95	24.99
1984	33.51	27.27
1985	37.10	29.76

The Petroleum Revenue figures also assume greater production levels in the years after 1986. Based on the recent testimony of Van Poolen and Doscher concerning the results of their 3-D Prudhoe reservoir simulation, production levels above even those of Petroleum Revenue seem probable. However, until Van Poolen releases a full report containing at least data on gas and water injection rates if not costs, I am not attempting to update Larry Eppenbach's "Producer Benefits Model" which uses this data to provide the oil and gas revenue estimates used in this memo's projections. The "Producer Benefits Model" runs used for these projections do have the waterflood and sales gas data built in, but based on Van Poolen's earlier simulations, result in total production of only 7.6 billion barrels versus his newer estimate of 9.4 billion barrels with additional well re-completions.

Attachments

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

1

20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	603.9	4986.9	1566.3	0.0	0.0	527.2	2093.5	2893.5	1418.1	6689.4	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	618.5	2341.4	3377.1	2036.6	10066.5	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	728.1	2623.3	3924.4	2764.6	13990.9	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	924.7	3009.5	5159.9	3689.3	19150.8	0.0
1986	6187.0	2379.2	8566.2	2293.3	0.0	0.0	988.0	3281.2	5284.9	4677.3	24435.7	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	1067.2	3589.8	5485.6	5744.5	29921.4	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	1145.8	3920.7	5630.1	6890.3	35551.5	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	1177.9	4230.2	5324.1	8068.2	40875.6	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	1228.2	4585.7	5092.1	9296.4	45967.7	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	1281.1	4974.4	4794.3	10577.5	50761.9	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	1417.0	5479.6	5063.7	11994.4	55825.6	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	1544.2	6013.1	5151.4	13538.7	60977.0	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	1703.6	6619.4	5345.7	15242.3	66322.7	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	1886.5	7293.8	5551.1	17128.8	71873.8	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	2033.6	7981.7	5301.7	19162.4	77175.4	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	2234.2	8777.1	5127.4	21396.5	82302.8	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	2442.1	9639.3	5099.6	23838.6	87402.4	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	2666.2	10583.1	4997.9	26504.8	92400.3	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	2920.1	11628.7	4884.7	29424.9	97285.1	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4383.0	603.9	4986.9	1564.3	0.0	0.0	1038.7	2605.1	2381.9	2655.4	5452.1	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	1219.9	2942.8	2775.7	3875.3	8227.8	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	1437.5	3332.7	3215.0	5312.7	11442.8	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	1829.0	3913.7	4255.6	7141.7	15698.4	0.0
1986	6187.0	2379.2	8566.2	2293.3	0.0	0.0	1953.7	4246.9	4319.2	9095.4	20017.7	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	2110.0	4632.6	4442.8	11205.4	24460.5	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	2264.9	5039.7	4511.1	13470.3	28971.6	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	2326.5	5378.8	4175.5	15796.8	33147.0	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	2424.3	5781.9	3895.9	18221.1	37042.9	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	2527.1	6220.4	3548.2	20748.3	40591.1	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	2795.6	6858.3	3685.0	23543.9	44276.2	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	3046.5	7515.4	3649.1	26590.5	47925.3	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	3361.4	8277.2	3687.9	29951.9	51613.2	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	3722.7	9130.1	3714.8	33674.5	55328.0	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	4012.3	9960.4	3323.0	37686.8	58651.0	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	4408.2	10951.1	2953.3	42095.0	61604.4	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	4818.4	12015.6	2723.3	46913.4	64327.7	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	5260.4	13177.4	2403.7	52173.8	66731.4	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	5761.4	14470.0	2043.4	57935.2	68774.8	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3300.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4383.0	603.9	4986.9	1566.3	0.0	0.0	1550.3	3116.7	1870.3	3892.7	4214.8	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	1821.3	3544.3	2174.2	5714.0	6389.0	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	2146.9	4042.1	2505.6	7860.9	8894.7	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	2733.2	4818.0	3351.3	10594.1	12246.0	0.0
1986	6187.0	2379.2	8566.2	2293.3	0.0	0.0	2919.3	5212.6	3353.6	13513.4	15599.6	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	3152.8	5675.4	3400.0	16666.3	18999.6	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	3384.0	6158.8	3392.0	20050.3	22391.6	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	3475.2	6527.5	3026.8	23525.4	25418.4	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	3620.5	6978.0	2699.8	27145.9	28118.2	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	3773.2	7466.5	2302.2	30919.1	30420.3	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	4174.3	8236.9	2306.4	35093.4	32726.7	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	4548.9	9017.8	2146.8	39642.2	34873.5	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	5019.2	9935.0	2030.2	44661.4	36903.7	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	5558.9	10966.3	1878.6	50220.3	38782.3	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	5990.9	11939.0	1344.4	56211.2	40126.6	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	6582.2	13125.1	779.3	62793.4	40905.9	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	7194.7	14391.9	347.0	69988.1	41252.9	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	7854.6	15771.6	-190.5	77842.7	41062.4	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	8602.7	17311.3	-797.9	86445.5	40264.5	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	527.2	2164.7	2820.3	1418.1	6616.2	0.0
1983	4778.0	929.1	5707.1	1683.1	0.0	0.0	618.5	2501.6	3205.5	2036.6	9821.7	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	728.1	2893.7	3623.3	2764.6	13445.0	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	924.7	3415.1	4691.3	3689.3	18136.3	0.0
1986	6187.0	2267.4	8454.4	2864.0	0.0	0.0	988.0	3852.0	4602.4	4677.3	22738.7	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	1067.2	4360.9	4532.9	5744.5	27271.5	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	1145.8	4933.5	4338.9	6890.3	31610.5	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	1177.9	5533.7	3612.3	8068.2	35222.8	0.0
1990	4928.0	4170.4	9098.4	5009.2	0.0	0.0	1228.2	6237.4	2861.0	9296.4	38083.8	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	1281.1	7041.7	1925.5	10577.5	40009.3	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	1417.0	8041.7	1415.7	11994.4	41425.2	0.0
1993	4679.0	5039.4	9718.4	7618.4	0.0	0.0	1544.2	9162.6	555.8	13538.7	41981.0	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	1703.6	10464.8	-398.6	15242.3	41582.4	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	1886.5	11961.8	-1580.4	17128.8	40002.0	0.0
1996	4836.0	5284.3	10120.3	11586.6	0.0	0.0	2033.6	13620.2	-3499.9	19162.4	36502.2	0.0
1997	4785.0	5094.6	9879.6	13324.6	0.0	0.0	2234.2	15558.7	-5679.1	21396.5	30823.0	0.0
1998	4937.0	4720.6	9657.6	15323.3	0.0	0.0	2442.1	17765.4	-8107.7	23838.6	22715.3	0.0
1999	5082.0	4128.5	9210.5	17621.8	0.0	0.0	2666.2	20288.0	-11077.4	26504.8	11637.9	0.0
2000	5304.0	3405.3	8709.3	20265.0	0.0	0.0	2920.1	23185.1	-14475.8	29424.9	-0.0	2837.9

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
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$.42 PRUDHOE FIELD COSTS
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ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
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% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	1038.7	2676.3	2308.7	2655.4	5378.9	0.0
1983	4779.0	929.1	5707.1	1883.1	0.0	0.0	1219.9	3103.0	2604.0	3875.3	7982.9	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	1437.5	3603.1	2914.0	5312.7	10896.9	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	1829.0	4319.4	3787.0	7141.7	14683.9	0.0
1986	6167.0	2287.4	8454.4	2864.0	0.0	0.0	1953.7	4817.7	3636.7	9095.4	18320.6	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	2110.0	5403.7	3490.1	11205.4	21810.7	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	2264.9	6052.6	3219.9	13470.3	25030.5	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	2326.5	6682.4	2463.7	15796.8	27494.2	0.0
1990	4928.0	4170.4	9098.4	5009.2	0.0	0.0	2424.3	7433.5	1664.9	18221.1	29159.1	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	2527.1	8287.7	679.5	20748.3	29838.6	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	2795.6	9420.3	37.2	23543.9	29875.8	0.0
1993	4679.0	5039.4	9718.4	7618.4	0.0	0.0	3046.5	10664.9	-946.5	26590.5	28929.2	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	3361.4	12122.5	-2056.3	29951.9	26872.9	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	3722.7	13798.0	-3416.6	33674.5	23456.3	0.0
1996	4836.0	5284.3	10120.3	11586.4	0.0	0.0	4012.3	15598.9	-5478.5	37686.6	17977.7	0.0
1997	4785.0	5094.6	9879.6	13324.6	0.0	0.0	4408.2	17732.8	-7853.1	42095.0	10124.6	0.0
1998	4937.0	4736.8	9673.8	15323.3	0.0	0.0	4818.4	20141.7	-10467.9	46913.4	-0.0	343.3
1999	5082.0	4776.1	9858.1	17621.8	0.0	0.0	5260.4	22882.2	-13024.1	52173.8	-0.0	13024.1
2000	5304.0	5319.7	10623.7	20265.0	0.0	0.0	5761.4	26026.4	-15402.8	57935.2	-0.0	15402.8

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	1550.3	3187.8	1797.1	3892.7	4141.6	0.0
1983	4778.0	929.1	5707.1	1883.1	0.0	0.0	1821.3	3704.4	2002.6	5714.0	6144.2	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	2146.9	4312.5	2204.5	7860.9	8348.8	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	2733.2	5223.7	2882.7	10594.1	11231.5	0.0
1986	6187.0	2267.4	8454.4	2864.0	0.0	0.0	2919.3	5783.4	2671.1	13513.4	13902.5	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	3152.8	6446.5	2447.3	16666.3	16349.8	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	3384.0	7171.7	2100.8	20050.3	18450.6	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	3475.2	7831.0	1315.0	23525.4	19765.6	0.0
1990	4928.0	4170.4	9098.4	5009.2	0.0	0.0	3620.5	8629.7	468.7	27145.9	20234.3	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	3773.2	9533.8	-566.6	30919.1	19667.8	0.0
1992	4659.0	4799.5	9457.5	6624.7	0.0	0.0	4174.3	10799.0	-1341.5	35093.4	18326.3	0.0
1993	4679.0	5039.4	9718.4	7618.4	0.0	0.0	4548.9	12167.2	-2448.8	39642.2	15877.5	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	5019.2	13780.3	-3714.1	44661.4	12163.4	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	5558.9	15634.2	-5252.9	50220.3	6910.5	0.0
1996	4836.0	5309.0	10145.0	11586.6	0.0	0.0	5990.9	17577.5	-7432.6	56211.2	-0.0	522.1
1997	4785.0	5595.1	10380.1	13324.6	0.0	0.0	6582.2	19906.8	-9526.8	62793.4	-0.0	9526.8
1998	4937.0	6251.0	11188.0	15323.3	0.0	0.0	7194.7	22518.0	-11330.0	69988.1	-0.0	11330.0
1999	5082.0	6969.6	12051.6	17621.8	0.0	0.0	7854.6	25476.4	-13424.8	77842.7	-0.0	13424.8
2000	5304.0	7757.7	13061.7	20265.0	0.0	0.0	8602.7	28867.8	-15806.0	86445.5	-0.0	15806.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	28[illegible].2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	599.9	4982.9	1708.7	0.0	0.0	527.2	2235.9	2747.0	1418.1	6543.0	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	618.5	2668.9	3026.5	2036.6	9569.5	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	728.1	3188.6	3296.3	2764.6	12865.8	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	924.7	3877.3	4161.4	3689.3	17027.3	0.0
1986	6187.0	2143.7	8330.7	3543.2	0.0	0.0	988.0	4531.2	3799.5	4677.3	20826.8	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	1067.2	5319.1	3367.4	5744.5	24194.2	0.0
1988	5986.0	2959.3	8945.3	5102.2	0.0	0.0	1145.8	6248.0	2697.2	6890.3	26891.4	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	1177.9	7300.5	1350.8	8068.2	28242.2	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	1228.2	8575.3	-200.9	9296.4	28041.3	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	1281.1	10097.7	-2163.3	10577.5	25878.1	0.0
1992	4658.0	3356.0	8014.0	10579.9	0.0	0.0	1417.0	11996.9	-3982.9	11994.4	21895.1	0.0
1993	4679.0	3055.3	7734.3	12695.9	0.0	0.0	1544.2	14240.1	-6505.8	13538.7	15389.3	0.0
1994	4853.0	2524.1	7377.1	15235.1	0.0	0.0	1703.6	16938.7	-9561.6	15242.3	5827.7	0.0
1995	5072.0	2048.0	7120.0	18282.1	0.0	0.0	1886.5	20168.5	-13048.5	17128.8	-0.0	7220.8
1996	4836.0	2028.0	6864.0	21938.5	0.0	0.0	2033.6	23972.1	-17108.1	19162.4	-0.0	17108.1
1997	4785.0	2299.0	7084.0	26326.2	0.0	0.0	2234.2	28560.4	-21476.3	21396.5	-0.0	21476.3
1998	4937.0	2604.2	7541.2	31591.5	0.0	0.0	2442.1	34033.5	-26492.3	23838.6	-0.0	26492.3
1999	5082.0	2947.8	8029.8	37909.8	0.0	0.0	2666.2	40576.0	-32546.1	26504.8	-0.0	32546.1
2000	5304.0	3335.7	8639.7	45491.7	0.0	0.0	2920.1	48411.8	-39772.1	29424.9	-0.0	39772.1

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NEW INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4393.0	599.9	4992.9	1708.7	0.0	0.0	1038.7	2747.5	2235.5	2655.4	5305.7	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	1219.9	3270.3	2425.1	3875.3	7730.8	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	1437.5	3898.0	2586.9	5312.7	10317.7	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	1829.0	4781.6	3257.2	7141.7	13574.9	0.0
1986	6107.0	2143.7	8330.7	3543.2	0.0	0.0	1953.7	5496.9	2833.8	9095.4	16408.7	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	2110.0	6361.9	2324.6	11205.4	18733.3	0.0
1988	5936.0	2959.3	8945.3	5102.2	0.0	0.0	2264.9	7367.1	1578.2	13470.3	20311.4	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	2326.5	8449.2	202.2	15796.8	20513.6	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	2424.3	9771.5	-1397.1	18221.1	19116.6	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	2527.1	11343.7	-3409.3	20748.3	15707.3	0.0
1992	4658.0	3356.0	8014.0	10579.9	0.0	0.0	2795.6	13375.6	-5361.6	23543.9	10345.7	0.0
1993	4679.0	3055.3	7734.3	12695.9	0.0	0.0	3046.5	15742.4	-8008.1	26590.5	2337.5	0.0
1994	4853.0	2923.8	7776.8	15235.1	0.0	0.0	3361.4	18596.5	-10819.7	29951.9	-0.0	8482.1
1995	5072.0	3192.3	8264.3	18282.1	0.0	0.0	3722.7	22004.8	-13740.5	33674.5	-0.0	13740.5
1996	4836.0	3606.2	8442.2	21938.5	0.0	0.0	4012.3	25950.8	-17508.6	37686.8	-0.0	17508.6
1997	4785.0	4064.1	8849.1	26326.2	0.0	0.0	4408.2	30734.4	-21885.3	42095.0	-0.0	21885.3
1998	4937.0	4574.0	9511.0	31591.5	0.0	0.0	4818.4	36409.8	-26898.8	46913.4	-0.0	26898.8
1999	5082.0	5141.3	10223.3	37909.8	0.0	0.0	5260.4	43170.2	-32946.9	52173.8	-0.0	32946.9
2000	5304.0	5773.8	11077.8	45491.7	0.0	0.0	5761.4	51253.1	-40175.4	57935.2	-0.0	40175.4

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4383.0	599.9	4982.9	1700.7	0.0	0.0	1550.3	3259.0	1723.9	3892.7	4068.4	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	1821.3	3871.8	1823.7	5714.0	5892.1	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	2146.9	4607.4	1877.5	7860.9	7769.6	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	2733.2	5685.9	2352.9	10594.1	10122.5	0.0
1986	6187.0	2143.7	8330.7	3543.2	0.0	0.0	2919.3	6462.5	1868.2	13513.4	11990.6	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	3152.8	7404.7	1281.8	16666.3	13272.4	0.0
1988	5986.0	2959.3	8945.3	5102.2	0.0	0.0	3384.0	8486.2	459.1	20050.3	13731.5	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	3475.2	9597.8	-946.4	23525.4	12785.0	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	3620.5	10967.6	-2593.2	27145.9	10191.8	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	3773.2	12589.8	-4655.4	30919.1	5536.5	0.0
1992	4658.0	3410.1	8068.1	10579.9	0.0	0.0	4174.3	14754.2	-6686.1	35093.4	-0.0	1149.6
1993	4679.0	3591.6	8270.6	12695.9	0.0	0.0	4548.9	17244.8	-8974.1	39642.2	-0.0	8974.1
1994	4853.0	4067.9	8920.9	15235.1	0.0	0.0	5019.2	20254.2	-11333.3	44661.4	-0.0	11333.3
1995	5072.0	4598.8	9670.8	18282.1	0.0	0.0	5558.9	23841.0	-14170.3	50220.3	-0.0	14170.3
1996	4836.0	5184.3	10020.3	21938.5	0.0	0.0	5990.9	27929.4	-17909.1	56211.2	-0.0	17909.1
1997	4785.0	5829.1	10614.1	26326.2	0.0	0.0	6582.2	32908.4	-22294.3	62793.4	-0.0	22294.3
1998	4937.0	6543.8	11480.8	31591.5	0.0	0.0	7194.7	38786.1	-27305.3	69988.1	-0.0	27305.3
1999	5082.0	7334.8	12416.8	37909.8	0.0	0.0	7854.6	45764.4	-33347.6	77842.7	-0.0	33347.6
2000	5304.0	8211.8	13515.8	45491.7	0.0	0.0	8602.7	54094.4	-40578.6	86445.5	-0.0	40578.6

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	818.4	3530.2	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	376.6	1843.3	1922.5	1195.1	5452.7	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	392.6	1903.2	2006.7	1587.7	7459.5	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	413.9	1969.9	2080.2	2001.6	9539.7	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	464.2	2066.8	2511.2	2465.7	12050.8	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	430.9	2081.6	2178.4	2896.6	14229.2	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	406.0	2106.3	1907.2	3302.6	16136.4	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	379.3	2130.6	1629.3	3681.9	17765.7	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	327.2	2131.0	1142.9	4009.1	18908.6	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	287.8	2145.7	753.5	4296.9	19662.0	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	251.5	2165.1	383.1	4548.4	20045.1	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	251.5	2222.6	292.6	4799.8	20337.7	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	242.9	2273.1	134.5	5042.8	20472.3	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	242.8	2333.9	22.4	5285.6	20494.7	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	245.4	2399.3	-81.4	5531.0	20413.3	0.0
1996	1600.0	526.8	2126.8	2218.5	0.0	0.0	230.9	2449.4	-322.5	5761.9	20090.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	229.8	2514.8	-517.5	5991.7	19573.2	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	225.3	2578.9	-636.3	6217.0	18936.9	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	221.1	2645.2	-756.8	6438.1	18180.1	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	219.0	2715.8	-870.0	6657.0	17310.1	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1898.6	852.2	822.6	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	750.4	2217.0	1548.8	2243.4	4404.2	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	782.2	2292.9	1617.1	3025.8	6021.3	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	824.8	2380.7	1669.4	3850.6	7690.6	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	925.3	2527.9	2050.1	4775.9	9740.7	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	858.6	2509.3	1750.7	5634.5	11491.4	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	808.8	2509.0	1504.4	6443.2	12995.8	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	755.4	2506.7	1253.2	7198.7	14249.0	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	651.0	2454.8	819.1	7849.6	15068.0	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	572.2	2430.1	469.1	8421.9	15537.1	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	499.4	2413.1	135.1	8921.3	15672.2	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	499.4	2470.5	44.7	9420.7	15716.9	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	482.2	2512.4	-104.8	9902.9	15612.1	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	481.9	2573.0	-216.7	10384.8	15395.4	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	487.1	2640.9	-323.1	10871.9	15072.4	0.0
1996	1600.0	526.8	2126.8	2218.5	0.0	0.0	458.0	2676.5	-549.6	11329.9	14522.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	455.7	2740.7	-743.4	11785.6	13779.4	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	446.7	2800.2	-857.6	12232.2	12921.7	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	438.0	2862.2	-973.8	12670.3	11947.9	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	433.7	2930.6	-1084.8	13104.0	10863.1	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2168.1	2180.5	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	1124.1	2590.8	1175.1	3292.2	3355.6	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	1171.8	2682.5	1227.5	4464.0	4583.1	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	1235.6	2791.6	1258.5	5699.6	5841.6	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	1386.4	2989.0	1589.0	7086.0	7430.6	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	1286.3	2937.1	1322.9	8372.3	8753.5	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	1211.6	2911.8	1101.6	9583.9	9855.1	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	1131.5	2882.8	877.1	10715.4	10732.3	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	974.8	2778.6	495.3	11690.2	11227.5	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	856.6	2714.5	184.7	12546.8	11412.2	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	747.4	2661.1	-112.9	13294.2	11299.3	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	747.4	2718.4	-203.2	14041.6	11096.0	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	721.5	2751.8	-344.1	14763.1	10751.9	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	721.0	2812.1	-455.8	15484.1	10296.1	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	728.7	2882.6	-564.7	16212.8	9731.4	0.0
1996	1600.0	526.8	2126.8	2218.5	0.0	0.0	685.1	2903.6	-776.7	16897.9	8954.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	681.5	2966.5	-969.2	17579.4	7985.5	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	668.0	3021.6	-1079.0	18247.5	6906.5	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	653.0	3079.2	-1190.8	18902.5	5715.8	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	648.5	3145.4	-1299.6	19551.0	4416.2	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 0% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	810.4	3530.2	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	376.6	1914.5	1850.9	1195.1	5381.1	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	392.6	2053.5	1854.2	1587.7	7235.2	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	413.9	2207.7	1836.5	2001.6	9071.7	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	464.2	2401.4	2165.1	2465.7	11236.8	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	430.9	2523.1	1717.8	2896.6	12954.6	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	406.0	2665.6	1318.7	3302.6	14273.3	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	379.3	2819.7	898.3	3681.9	15171.6	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	327.2	2962.8	253.6	4009.1	15425.2	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	287.8	3134.3	-311.4	4296.9	15113.8	0.0
1991	2055.0	394.3	2449.3	3074.2	0.0	0.0	251.5	3325.6	-876.4	4548.4	14237.4	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	251.5	3571.6	-1181.9	4799.8	13055.5	0.0
1993	1893.0	358.1	2251.1	3585.7	0.0	0.0	242.9	3828.7	-1577.6	5042.8	11477.9	0.0
1994	1835.0	328.8	2163.8	3872.6	0.0	0.0	242.8	4115.4	-1951.6	5285.6	9526.3	0.0
1995	1792.0	292.0	2084.0	4182.4	0.0	0.0	245.4	4427.8	-2343.8	5531.0	7182.5	0.0
1996	1600.0	245.6	1845.6	4517.0	0.0	0.0	230.9	4747.9	-2902.3	5761.9	4280.2	0.0
1997	1474.0	188.2	1662.2	4878.4	0.0	0.0	229.8	5108.1	-3446.0	5991.7	834.3	0.0
1998	1426.0	151.5	1577.5	5268.6	0.0	0.0	225.3	5494.0	-3916.5	6217.0	0.0	3082.2
1999	1381.0	149.3	1530.3	5690.1	0.0	0.0	221.1	5911.2	-4380.9	6438.1	0.0	4380.9
2000	1350.0	155.5	1505.5	6145.3	0.0	0.0	219.0	6364.3	-4858.7	6657.0	0.0	4858.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = [illegible]%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND [illegible].00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1858.6	852.2	822.6	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	750.4	2288.2	1477.2	2243.6	4332.5	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	782.2	2443.1	1464.5	3025.8	5797.1	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	824.8	2618.5	1425.6	3850.6	7223.7	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	925.3	2862.5	1704.0	4775.9	8926.7	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	858.6	2950.8	1290.1	5634.5	10216.7	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	808.8	3068.4	915.9	6443.2	11132.6	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	755.4	3195.8	522.2	7198.7	11654.9	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	651.0	3286.6	-70.2	7849.6	11584.7	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	572.2	3418.7	-595.9	8421.9	10988.8	0.0
1991	2053.0	394.3	2449.3	3074.2	0.0	0.0	499.4	3573.6	-1124.4	8921.3	9864.5	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	499.4	3819.5	-1429.9	9420.7	8434.6	0.0
1993	1093.0	358.1	2251.1	3585.7	0.0	0.0	482.2	4068.0	-1816.9	9902.9	6617.7	0.0
1994	1835.0	328.8	2163.8	3872.6	0.0	0.0	481.9	4354.5	-2190.7	10384.8	4427.1	0.0
1995	1792.0	292.0	2084.0	4182.4	0.0	0.0	487.1	4669.5	-2585.5	10871.9	1841.6	0.0
1996	1600.0	258.5	1858.5	4517.0	0.0	0.0	458.0	4975.0	-3116.5	11329.9	0.0	1274.9
1997	1474.0	250.7	1724.7	4878.4	0.0	0.0	455.7	5334.0	-3609.3	11785.6	0.0	3609.3
1998	1426.0	261.3	1687.3	5268.6	0.0	0.0	446.7	5715.3	-4028.1	12232.2	0.0	4028.1
1999	1381.0	271.8	1652.8	5690.1	0.0	0.0	438.0	6128.1	-4475.4	12670.3	0.0	4475.4
2000	1350.0	282.3	1632.3	6145.3	0.0	0.0	433.7	6579.1	-4946.7	13104.0	0.0	4946.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2168.1	2180.5	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	1124.1	2662.0	1103.4	3292.2	3284.0	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	1171.8	2832.7	1074.9	4464.0	4358.9	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	1235.6	3029.4	1014.7	5699.6	5373.6	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	1386.4	3323.6	1242.9	7086.0	6616.5	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	1286.3	3378.6	862.3	8372.3	7478.9	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	1211.6	3471.2	513.1	9583.9	7992.0	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	1131.5	3571.9	146.2	10715.4	8138.2	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	974.8	3610.4	-394.0	11690.2	7744.1	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	856.6	3703.1	-880.3	12546.8	6863.9	0.0
1991	2055.0	394.3	2449.3	3074.2	0.0	0.0	747.4	3821.6	-1372.3	13294.2	5491.5	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	747.4	4067.5	-1677.8	14041.6	3813.7	0.0
1993	1893.0	358.1	2251.1	3585.7	0.0	0.0	721.5	4307.3	-2056.2	14763.1	1757.6	0.0
1994	1835.0	335.5	2170.5	3872.6	0.0	0.0	721.0	4593.6	-2423.0	15484.1	0.0	665.5
1995	1792.0	333.7	2125.7	4182.4	0.0	0.0	728.7	4911.1	-2785.4	16212.8	0.0	2785.4
1996	1600.0	349.2	1949.2	4517.0	0.0	0.0	685.1	5202.1	-3252.9	16897.9	0.0	3252.9
1997	1474.0	364.3	1838.3	4878.4	0.0	0.0	681.5	5559.9	-3721.6	17579.4	0.0	3721.6
1998	1426.0	379.3	1805.3	5268.6	0.0	0.0	668.0	5936.6	-4131.3	18247.5	0.0	4131.3
1999	1381.0	394.3	1775.3	5690.1	0.0	0.0	655.0	6345.1	-4569.9	18902.5	0.0	4569.9
2000	1350.0	409.1	1759.1	6145.3	0.0	0.0	648.5	6793.9	-5034.7	19551.0	0.0	5034.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	818.4	3530.2	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	376.6	1985.7	1779.3	1195.1	5309.4	0.0
1983	3747.0	158.2	3905.2	1818.2	0.0	0.0	392.6	2210.8	1694.4	1587.7	7003.9	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	413.9	2468.5	1569.4	2001.6	8573.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	464.2	2785.9	1768.2	2465.7	10341.5	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	430.9	3054.4	1165.2	2896.6	11506.7	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	406.0	3370.6	580.2	3302.6	12086.9	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	379.3	3729.3	-61.0	3681.9	12025.9	0.0
1989	2823.0	322.9	3145.9	3705.5	0.0	0.0	327.2	4112.6	-966.7	4009.1	11059.2	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	287.8	4565.4	-1839.4	4296.9	9219.7	0.0
1991	2055.0	264.5	2319.5	4833.7	0.0	0.0	251.5	5085.1	-2765.6	4548.4	6454.1	0.0
1992	2010.0	209.5	2219.5	5462.1	0.0	0.0	251.5	5713.5	-3494.1	4799.8	2960.1	0.0
1993	1893.0	152.7	2045.7	6172.1	0.0	0.0	242.9	6415.1	-4369.3	5042.8	0.0	1409.3
1994	1835.0	131.2	1966.2	6974.5	0.0	0.0	242.8	7217.3	-5251.1	5285.6	0.0	5251.1
1995	1792.0	139.7	1931.7	7881.2	0.0	0.0	245.4	8126.6	-6194.9	5531.0	0.0	6194.9
1996	1600.0	146.6	1746.6	8905.7	0.0	0.0	230.9	9136.7	-7388.1	5761.9	0.0	7388.1
1997	1474.0	157.8	1631.8	10063.5	0.0	0.0	229.8	10293.3	-8661.5	5991.7	0.0	8661.5
1998	1426.0	167.6	1593.6	11371.7	0.0	0.0	225.3	11597.1	-10003.5	6217.0	0.0	10003.5
1999	1381.0	178.0	1559.0	12850.1	0.0	0.0	221.1	13071.1	-11512.2	6438.1	0.0	11512.2
2000	1350.0	189.0	1539.0	14520.6	0.0	0.0	219.0	14739.5	-13200.5	6657.0	0.0	13200.5

LEGISLATIVE FINANCE WORKING DOCUMENT.
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1898.6	852.2	822.4	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	750.4	2359.4	1405.5	2243.6	4260.9	0.0
1983	3747.0	158.2	3905.2	1818.2	0.0	0.0	782.2	2600.4	1304.8	3025.8	5565.7	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	824.8	2879.4	1158.5	3850.6	6724.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	925.3	3247.0	1307.1	4775.9	8031.3	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	858.6	3482.1	737.5	5634.5	8768.8	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	808.8	3773.4	177.4	6443.2	8946.2	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	755.4	4105.4	-437.0	7198.7	8509.2	0.0
1989	2823.0	322.9	3145.9	3785.5	0.0	0.0	651.0	4436.5	-1290.6	7849.6	7218.6	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	572.2	4849.8	-2123.8	8421.9	5094.8	0.0
1991	2055.0	264.5	2319.5	4833.7	0.0	0.0	499.4	5333.1	-3013.6	8921.3	2081.2	0.0
1992	2010.0	226.1	2236.1	5462.1	0.0	0.0	499.4	5961.5	-3725.4	9420.7	0.0	1644.2
1993	1823.0	217.9	2110.9	6172.1	0.0	0.0	482.2	6654.4	-4543.4	9902.9	0.0	4543.4
1994	1635.0	230.8	2065.8	6974.5	0.0	0.0	481.9	7456.4	-5390.6	10384.8	0.0	5390.6
1995	1792.0	244.1	2036.1	7881.2	0.0	0.0	487.1	8368.3	-6332.2	10871.9	0.0	6332.2
1996	1600.0	257.6	1857.6	8905.7	0.0	0.0	458.0	9363.8	-7506.1	11329.9	0.0	7506.1
1997	1474.0	271.4	1745.4	10063.5	0.0	0.0	455.7	10519.1	-8773.7	11785.6	0.0	8773.7
1998	1426.0	285.7	1711.7	11371.7	0.0	0.0	446.7	11818.4	-10106.8	12232.2	0.0	10106.8
1999	1381.0	300.4	1681.4	12850.1	0.0	0.0	438.0	13288.1	-11606.7	12670.3	0.0	11606.7
2000	1350.0	315.8	1665.8	14520.6	0.0	0.0	433.7	14954.3	-13288.5	13104.0	0.0	13288.5

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										130.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2168.1	2180.5	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	1124.1	2733.2	1031.8	3292.2	3212.3	0.0
1983	3747.0	158.2	3905.2	1818.2	0.0	0.0	1171.8	2990.0	915.2	4464.0	4127.5	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	1235.6	3290.2	747.6	5699.6	4875.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	1386.4	3708.1	846.0	7086.0	5721.2	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	1286.3	3909.9	309.7	8372.3	6031.0	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	1211.6	4176.1	-225.4	9583.9	5805.6	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	1131.5	4481.5	-813.1	10715.4	4992.5	0.0
1989	2823.0	322.9	3145.9	3785.5	0.0	0.0	974.8	4760.3	-1614.4	11690.2	3378.1	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	856.6	5134.2	-2408.3	12546.8	969.8	0.0
1991	2055.0	287.4	2342.4	4833.7	0.0	0.0	747.4	5581.1	-3238.6	13294.2	0.0	2268.8
1992	2010.0	295.2	2305.2	5462.1	0.0	0.0	747.4	6209.4	-3904.2	14041.6	0.0	3904.2
1993	1893.0	312.7	2205.7	6172.1	0.0	0.0	721.5	6893.7	-4687.9	14763.1	0.0	4687.9
1994	1835.0	330.4	2165.4	6974.5	0.0	0.0	721.0	7695.5	-5530.1	15484.1	0.0	5530.1
1995	1792.0	348.5	2140.5	7881.2	0.0	0.0	728.7	8609.9	-6469.4	16212.8	0.0	6469.4
1996	1600.0	366.7	1966.7	8905.7	0.0	0.0	685.1	9590.9	-7624.1	16897.9	0.0	7624.1
1997	1474.0	385.0	1859.0	10063.5	0.0	0.0	681.5	10745.0	-8886.0	17579.4	0.0	8886.0
1998	1426.0	403.8	1829.8	11371.7	0.0	0.0	668.0	12039.8	-10210.0	18247.5	0.0	10210.0
1999	1381.0	422.9	1803.9	12850.1	0.0	0.0	655.0	13505.1	-11701.2	18902.5	0.0	11701.2
2000	1350.0	442.6	1792.6	14520.6	0.0	0.0	648.5	15169.1	-13376.5	19551.0	0.0	13376.5

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 21, 1980

M E M O R A N D U M

TO: Honorable Hugh Malone
Chairman, House Permanent Fund Committee

FROM: Milt Barker, MB Fiscal Analyst
Legislative Finance Division

SUBJECT: General and Permanent Fund Projections

Attached are nine long-range projections of general and permanent fund balances in nominal and real dollars. Projections are made at 10%, 15%, and 20% budget growth rates (3%, 8% and 13% real growth assuming 7% inflation) in combination with 25%, 50% and 75% bonus and royalty contributions to the permanent fund.

The earlier appearance of deficits in the real cases occur because the interest rate on fund balances is reduced from a 9% nominal rate to a 2% real rate. What this does is to take account of the depreciation in the value of fund principal due to inflation. Thus, the fund balances in the real scenarios properly reflect their purchasing power in terms of 1980 dollars. The early deficits are spurious; actual cash flow deficits would appear only at the times indicated in the nominal cases. However, the deficits may be viewed as true deficits if one were to take account of the depreciation of value of the general or permanent fund due to inflation.

Major changes in the State's tax structure or expenditure patterns such as income tax repeals, property tax credits, or special appropriations to the permanent fund, etc. have not been assumed.

The oil price growth rates (2% real, 9% nominal are substantially less than those contained in the Petroleum Revenue Division's quarterly report and upon which the

long-range forecasts in the Governor's "Executive Budget" are based.

Prudhoe Wellhead Oil Price

Fiscal Year	Petroleum Revenue	This Memo
1980	$12.66	$13.00
1981	18.37	18.37
1982	26.64	22.89
1983	30.95	24.99
1984	33.51	27.27
1985	37.10	29.76

The Petroleum Revenue figures also assume greater production levels in the years after 1986. Based on the recent testimony of Van Poolen and Doscher concerning the results of their 3-D Prudhoe reservoir simulation, production levels above even those of Petroleum Revenue seem probable. However, until Van Poolen releases a full report containing at least data on gas and water injection rates if not costs, I am not attempting to update Larry Eppenbach's "Producer Benefits Model" which uses this data to provide the oil and gas revenue estimates used in this memo's projections. The "Producer Benefits Model" runs used for these projections do have the waterflood and sales gas data built in, but based on Van Poolen's earlier simulations, result in total production of only 7.6 billion barrels versus his newer estimate of 9.4 billion barrels with additional well re-completions.

Attachments

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

1

20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	603.9	4986.9	1566.3	0.0	0.0	527.2	2093.5	2893.5	1418.1	6689.4	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	618.5	2341.4	3377.1	2036.6	10066.5	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	728.1	2623.3	3924.4	2764.6	13990.9	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	924.7	3009.5	5159.9	3689.3	19150.8	0.0
1986	6187.0	2379.2	8566.2	2293.3	0.0	0.0	988.0	3281.2	5284.9	4677.3	24435.7	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	1067.2	3589.8	5485.6	5744.5	29921.4	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	1145.8	3920.7	5630.1	6890.3	35551.5	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	1177.9	4230.2	5324.1	8068.2	40875.6	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	1228.2	4585.7	5092.1	9296.4	45967.7	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	1281.1	4974.4	4794.3	10577.5	50761.9	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	1417.0	5479.6	5063.7	11994.4	55825.6	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	1544.2	6013.1	5151.4	13538.7	60977.0	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	1703.6	6619.4	5345.7	15242.3	66322.7	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	1886.5	7293.8	5551.1	17128.8	71873.8	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	2033.6	7981.7	5301.7	19162.4	77175.4	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	2234.2	8777.1	5127.4	21396.5	82302.8	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	2442.1	9639.3	5099.6	23838.6	87402.4	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	2666.2	10583.1	4997.9	26504.8	92400.3	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	2920.1	11628.7	4884.7	29424.9	97285.1	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

2

20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
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3% REAL GROWTH IN NON-OIL REVENUE
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ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
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% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4383.0	603.9	4986.9	1566.3	0.0	0.0	1038.7	2605.1	2381.9	2655.4	5452.1	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	1219.9	2942.8	2775.7	3875.3	8227.8	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	1437.5	3332.7	3215.0	5312.7	11442.8	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	1829.0	3913.7	4255.6	7141.7	15698.4	0.0
1986	6137.0	2379.2	8566.2	2293.3	0.0	0.0	1953.7	4246.9	4319.2	9095.4	20017.7	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	2110.0	4632.6	4442.8	11205.4	24460.5	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	2264.9	5039.7	4511.1	13470.3	28971.6	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	2326.5	5378.8	4175.5	15796.8	33147.0	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	2424.3	5781.9	3895.9	18221.1	37042.9	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	2527.1	6220.4	3548.2	20748.3	40591.1	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	2795.6	6858.3	3685.0	23543.9	44276.2	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	3046.5	7515.4	3649.1	26590.5	47925.3	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	3361.4	8277.2	3687.9	29951.9	51613.2	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	3722.7	9130.1	3714.8	33674.5	55328.0	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	4012.3	9960.4	3323.0	37686.8	58651.0	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	4408.2	10951.1	2953.3	42095.0	61604.4	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	4818.4	12015.6	2723.3	46913.4	64327.7	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	5260.4	13177.4	2403.7	52173.8	66731.4	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	5761.4	14470.0	2043.4	57935.2	68774.8	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4383.0	603.9	4986.9	1566.3	0.0	0.0	1550.3	3116.7	1870.3	3892.7	4214.8	0.0
1983	4778.0	940.5	5718.5	1723.0	0.0	0.0	1821.3	3544.3	2174.2	5714.0	6389.0	0.0
1984	5215.0	1332.8	6547.8	1895.3	0.0	0.0	2146.9	4042.1	2505.6	7860.9	8894.7	0.0
1985	6350.0	1819.3	8169.3	2084.8	0.0	0.0	2733.2	4818.0	3351.3	10594.1	12246.0	0.0
1986	6187.0	2379.2	8566.2	2293.3	0.0	0.0	2919.3	5212.6	3353.6	13513.4	15599.6	0.0
1987	6115.0	2960.5	9075.5	2522.6	0.0	0.0	3152.8	5675.4	3400.0	16666.3	18999.6	0.0
1988	5986.0	3564.8	9550.8	2774.8	0.0	0.0	3384.0	6158.8	3392.0	20050.3	22391.6	0.0
1989	5387.0	4167.3	9554.3	3052.3	0.0	0.0	3475.2	6527.5	3026.8	23525.4	25418.4	0.0
1990	4928.0	4749.8	9677.8	3357.6	0.0	0.0	3620.5	6978.0	2699.8	27145.9	28118.2	0.0
1991	4455.0	5313.6	9768.6	3693.3	0.0	0.0	3773.2	7466.5	2302.2	30919.1	30420.3	0.0
1992	4658.0	5885.3	10543.3	4062.6	0.0	0.0	4174.3	8236.9	2306.4	35093.4	32726.7	0.0
1993	4679.0	6485.6	11164.6	4468.9	0.0	0.0	4548.9	9017.8	2146.8	39642.2	34873.5	0.0
1994	4853.0	7112.1	11965.1	4915.8	0.0	0.0	5019.2	9935.0	2030.2	44661.4	36903.7	0.0
1995	5072.0	7772.9	12844.9	5407.4	0.0	0.0	5558.9	10966.3	1878.6	50220.3	38782.3	0.0
1996	4836.0	8447.4	13283.4	5948.1	0.0	0.0	5990.9	11939.0	1344.4	56211.2	40126.6	0.0
1997	4785.0	9119.4	13904.4	6542.9	0.0	0.0	6582.2	13125.1	779.3	62793.4	40905.9	0.0
1998	4937.0	9801.9	14738.9	7197.2	0.0	0.0	7194.7	14391.9	347.0	69988.1	41252.9	0.0
1999	5082.0	10499.1	15581.1	7916.9	0.0	0.0	7854.6	15771.6	-190.5	77842.7	41062.4	0.0
2000	5304.0	11209.4	16513.4	8708.6	0.0	0.0	8602.7	17311.3	-797.9	86445.5	40264.5	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	527.2	2164.7	2820.3	1418.1	6616.2	0.0
1983	4778.0	929.1	5707.1	1883.1	0.0	0.0	618.5	2501.6	3205.5	2036.6	9821.7	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	728.1	2893.7	3623.4	2764.6	13445.0	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	924.7	3415.1	4691.3	3689.3	18136.3	0.0
1986	6187.0	2267.4	8454.4	2864.0	0.0	0.0	988.0	3852.0	4602.4	4677.3	22738.7	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	1067.2	4360.9	4532.9	5744.5	27271.5	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	1145.8	4933.5	4338.9	6890.3	31610.5	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	1177.9	5533.7	3612.3	8068.2	35222.8	0.0
1990	4926.0	4170.4	9098.4	5009.2	0.0	0.0	1228.2	6237.4	2861.0	9296.4	38083.8	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	1281.1	7041.7	1925.5	10577.5	40009.3	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	1417.0	8041.7	1415.9	11994.4	41425.2	0.0
1993	4679.0	5039.4	9718.4	7618.4	0.0	0.0	1544.2	9162.6	555.8	13538.7	41981.0	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	1703.6	10464.8	-398.6	15242.3	41582.4	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	1886.5	11961.8	-1580.4	17128.8	40002.0	0.0
1996	4836.0	5284.3	10120.3	11586.6	0.0	0.0	2033.6	13620.2	-3499.9	19162.4	36502.2	0.0
1997	4785.0	5094.6	9879.6	13321.6	0.0	0.0	2234.2	15558.7	-5679.1	21396.5	30823.0	0.0
1998	4937.0	4720.6	9657.6	15323.3	0.0	0.0	2442.1	17765.4	-8107.7	23838.6	22715.3	0.0
1999	5082.0	4128.5	9210.5	17621.8	0.0	0.0	2666.2	20288.0	-11077.4	26504.8	11637.9	0.0
2000	5304.0	3405.3	8709.3	20265.0	0.0	0.0	2920.1	23185.1	-14475.8	29424.9	-0.0	2037.9

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4383.0	601.9	4984.9	1637.5	0.0	0.0	1038.7	2676.3	2308.7	2655.4	5378.9	0.0
1983	4778.0	929.1	5707.1	1883.1	0.0	0.0	1219.9	3103.0	2604.0	3875.3	7982.9	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	1437.5	3603.1	2914.0	5312.7	10896.9	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	1829.0	4319.4	3787.0	7141.7	14683.9	0.0
1986	6167.0	2287.4	8454.4	2864.0	0.0	0.0	1953.7	4817.7	3636.7	9095.4	18320.6	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	2110.0	5403.7	3490.1	11205.4	21810.7	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	2264.9	6052.6	3219.9	13470.3	25030.5	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	2326.5	6682.4	2463.7	15796.8	27494.2	0.0
1990	4928.0	4170.4	9098.4	5009.2	0.0	0.0	2424.3	7433.5	1664.9	18221.1	29159.1	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	2527.1	8287.7	679.5	20748.3	29838.6	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	2795.6	9420.3	37.2	23543.9	29875.8	0.0
1993	4679.0	5039.4	9718.4	7613.4	0.0	0.0	3046.5	10664.9	-946.5	26590.5	28929.2	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	3361.4	12122.5	-2056.3	29951.9	26872.9	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	3722.7	13798.0	-3416.6	33674.5	23456.3	0.0
1996	4836.0	5284.3	10120.3	11586.6	0.0	0.0	4012.3	15598.9	-5478.5	37686.8	17977.7	0.0
1997	4785.0	5094.6	9879.6	13324.6	0.0	0.0	4408.2	17732.8	-7853.1	42095.0	10124.6	0.0
1998	4937.0	4736.8	9673.8	15323.3	0.0	0.0	4818.4	20141.7	-10467.9	46913.4	-0.0	343.3
1999	5082.0	4776.1	9858.1	17621.8	0.0	0.0	5260.4	22882.2	-13024.1	52173.8	-0.0	13024.1
2000	5304.0	5319.7	10623.7	20265.0	0.0	0.0	5761.4	26026.4	-15402.8	57935.2	-0.0	15402.8

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4303.0	681.9	4984.9	1637.5	0.0	0.0	1550.3	3187.8	1797.1	3892.7	4141.6	0.0
1983	4778.0	929.1	5707.1	1883.1	0.0	0.0	1821.3	3704.4	2002.6	5714.0	6144.2	0.0
1984	5215.0	1302.0	6517.0	2165.6	0.0	0.0	2146.9	4312.5	2204.5	7860.9	8348.8	0.0
1985	6350.0	1756.4	8106.4	2490.5	0.0	0.0	2733.2	5223.7	2882.7	10594.1	11231.5	0.0
1986	6187.0	2267.4	8454.4	2864.0	0.0	0.0	2919.3	5783.4	2671.1	13513.4	13902.5	0.0
1987	6115.0	2778.7	8893.7	3293.6	0.0	0.0	3152.8	6446.5	2447.3	16666.3	16349.8	0.0
1988	5986.0	3286.4	9272.4	3787.7	0.0	0.0	3384.0	7171.7	2100.8	20050.3	18450.6	0.0
1989	5387.0	3759.0	9146.0	4355.8	0.0	0.0	3475.2	7831.0	1315.0	23525.4	19765.6	0.0
1990	4923.0	4179.4	9098.4	5009.2	0.0	0.0	3620.5	8629.7	468.7	27145.9	20234.3	0.0
1991	4455.0	4512.2	8967.2	5760.6	0.0	0.0	3773.2	9533.8	-566.6	30919.1	19667.8	0.0
1992	4658.0	4799.5	9457.5	6624.7	0.0	0.0	4174.3	10799.0	-1341.5	35093.4	18326.3	0.0
1993	4879.0	5039.4	9718.4	7618.4	0.0	0.0	4548.9	12167.2	-2448.8	39642.2	15877.5	0.0
1994	4853.0	5213.2	10066.2	8761.1	0.0	0.0	5019.2	13780.3	-3714.1	44661.4	12163.4	0.0
1995	5072.0	5309.4	10381.4	10075.3	0.0	0.0	5558.9	15634.2	-5252.9	50220.3	6910.5	0.0
1996	4836.0	5309.0	10145.0	11586.6	0.0	0.0	5990.9	17577.5	-7432.6	56211.2	-0.0	522.1
1997	4785.0	5595.1	10380.1	13324.6	0.0	0.0	6582.2	19906.8	-9526.8	62793.4	-0.0	9526.8
1998	4937.0	6251.0	11188.0	15323.3	0.0	0.0	7194.7	22518.0	-11330.0	69988.1	-0.0	11330.0
1999	5082.0	6969.6	12051.6	17621.8	0.0	0.0	7854.6	25476.4	-13424.8	77842.7	-0.0	13424.8
2000	5304.0	7757.7	13061.7	20265.0	0.0	0.0	8602.7	28867.8	-15806.0	86445.5	-0.0	15806.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	582.4	1644.4	1235.8	504.4	1919.8	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	545.5	1969.5	1876.2	890.9	3795.9	0.0
1982	4383.0	599.9	4982.9	1708.7	0.0	0.0	527.2	2235.9	2747.0	1418.1	6543.0	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	618.5	2668.9	3026.5	2036.6	9569.5	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	728.1	3188.6	3296.3	2764.6	12865.8	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	924.7	3877.3	4161.4	3689.3	17027.3	0.0
1986	6187.0	2143.7	8330.7	3543.2	0.0	0.0	988.0	4531.2	3799.5	4677.3	20826.8	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	1067.2	5319.1	3367.4	5744.5	24194.2	0.0
1988	5986.0	2959.3	8945.3	5102.2	0.0	0.0	1145.8	6248.0	2697.2	6890.3	26891.4	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	1177.9	7300.5	1350.8	8068.2	28242.2	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	1228.2	8575.3	-200.9	9296.4	28041.3	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	1281.1	10097.7	-2163.3	10577.5	25878.1	0.0
1992	4650.0	3356.0	8014.0	10579.9	0.0	0.0	1417.0	11996.9	-3982.9	11994.4	21895.1	0.0
1993	4679.0	3055.3	7734.3	12695.9	0.0	0.0	1544.2	14240.1	-6505.8	13538.7	15389.3	0.0
1994	4853.0	2524.1	7377.1	15235.1	0.0	0.0	1703.6	16938.7	-9561.6	15242.3	5827.7	0.0
1995	5072.0	2048.0	7120.0	18282.1	0.0	0.0	1886.5	20168.5	-13048.5	17128.8	-0.0	7220.8
1996	4836.0	2028.0	6864.0	21938.5	0.0	0.0	2033.6	23972.1	-17108.1	19162.4	-0.0	17108.1
1997	4785.0	2299.0	7084.0	26326.2	0.0	0.0	2234.2	28560.4	-21476.3	21396.5	-0.0	21476.3
1998	4937.0	2604.2	7541.2	31591.5	0.0	0.0	2442.1	34033.5	-26492.3	23838.6	-0.0	26492.3
1999	5082.0	2947.8	8029.8	37909.8	0.0	0.0	2666.2	40576.0	-32546.1	26504.8	-0.0	32546.1
2000	5304.0	3335.7	8639.7	45491.7	0.0	0.0	2920.1	48411.8	-39772.1	29424.9	-0.0	39772.1

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS
7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	935.8	1997.8	882.4	857.8	1566.4	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	917.9	2341.8	1503.8	1616.7	3070.2	0.0
1982	4393.0	589.9	4982.9	1708.7	0.0	0.0	1038.7	2747.5	2235.5	2655.4	5305.7	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	1219.9	3270.3	2425.1	3875.3	7730.8	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	1437.5	3898.0	2586.9	5312.7	10317.7	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	1829.0	4781.6	3257.2	7141.7	13574.9	0.0
1986	6187.0	2143.7	8330.7	3543.2	0.0	0.0	1953.7	5496.9	2833.8	9095.4	16408.7	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	2110.0	6361.9	2324.6	11205.4	18733.3	0.0
1988	5786.0	2959.3	8945.3	5102.2	0.0	0.0	2264.9	7367.1	1578.2	13470.3	20311.4	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	2326.5	8449.2	202.2	15796.8	20513.6	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	2424.3	9771.5	-1397.1	18221.1	19116.6	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	2527.1	11343.7	-3409.3	20748.3	15707.3	0.0
1992	4658.0	3356.0	8014.0	10579.9	0.0	0.0	2795.6	13375.6	-5361.6	23543.9	10345.7	0.0
1993	4679.0	3055.3	7734.3	12695.9	0.0	0.0	3046.5	15742.4	-8008.1	26590.5	2337.5	0.0
1994	4853.0	2923.0	7776.0	15235.1	0.0	0.0	3361.4	18596.5	-10819.7	29951.9	-0.0	8482.1
1995	5072.0	3192.3	8264.3	18282.1	0.0	0.0	3722.7	22004.8	-13740.5	33674.5	-0.0	13740.5
1996	4836.0	3606.2	8442.2	21938.5	0.0	0.0	4012.3	25950.8	-17508.6	37686.8	-0.0	17508.6
1997	4785.0	4064.1	8849.1	26326.2	0.0	0.0	4408.2	30734.4	-21885.3	42095.0	-0.0	21885.3
1998	4937.0	4574.0	9511.0	31591.5	0.0	0.0	4818.4	36409.8	-26898.8	46913.4	-0.0	26898.8
1999	5082.0	5141.3	10223.3	37909.8	0.0	0.0	5260.4	43170.2	-32946.9	52173.8	-0.0	32946.9
2000	5304.0	5773.8	11077.8	45491.7	0.0	0.0	5761.4	51253.1	-40175.4	57935.2	-0.0	40175.4

BUDGET FORCASTING MODEL

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20-Feb-80

COMMENTS

7% ANNUAL INFLATION
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% REAL BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 9.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	165.2	2880.2	1062.0	0.0	0.0	1289.2	2351.2	529.0	1211.2	1213.0	0.0
1981	3500.0	345.6	3845.6	1423.9	0.0	0.0	1290.2	2714.1	1131.5	2342.4	2344.5	0.0
1982	4383.0	599.9	4982.9	1708.7	0.0	0.0	1550.3	3259.0	1723.9	3892.7	4068.4	0.0
1983	4778.0	917.4	5695.4	2050.5	0.0	0.0	1821.3	3871.8	1823.7	5714.0	5892.1	0.0
1984	5215.0	1269.9	6484.9	2460.6	0.0	0.0	2146.9	4607.4	1877.5	7860.9	7769.6	0.0
1985	6350.0	1688.8	8038.8	2952.7	0.0	0.0	2733.2	5685.9	2352.9	10594.1	10122.5	0.0
1986	6187.0	2143.7	8330.7	3543.2	0.0	0.0	2919.3	6462.5	1868.2	13513.4	11990.6	0.0
1987	6115.0	2571.5	8686.5	4251.8	0.0	0.0	3152.8	7404.7	1281.8	16666.3	13272.4	0.0
1988	5986.0	2959.3	8945.3	5102.2	0.0	0.0	3384.0	8486.2	459.1	20050.3	13731.5	0.0
1989	5387.0	3264.4	8651.4	6122.6	0.0	0.0	3475.2	9597.8	-946.4	23525.4	12785.0	0.0
1990	4928.0	3446.4	8374.4	7347.2	0.0	0.0	3620.5	10967.6	-2593.2	27145.9	10191.8	0.0
1991	4455.0	3479.4	7934.4	8816.6	0.0	0.0	3773.2	12589.8	-4655.4	30919.1	5536.5	0.0
1992	4658.0	3410.1	8068.1	10579.9	0.0	0.0	4174.3	14754.2	-6686.1	35093.4	-0.0	1149.6
1993	4679.0	3591.6	8270.6	12695.9	0.0	0.0	4548.9	17244.8	-8974.1	39642.2	-0.0	8974.1
1994	4853.0	4067.9	8920.9	15235.1	0.0	0.0	5019.2	20254.2	-11333.3	44661.4	-0.0	11333.3
1995	5072.0	4598.8	9670.8	18282.1	0.0	0.0	5558.9	23841.0	-14170.3	50220.3	-0.0	14170.3
1996	4836.0	5184.3	10020.3	21938.5	0.0	0.0	5990.9	27929.4	-17909.1	56211.2	-0.0	17909.1
1997	4785.0	5829.1	10614.1	26326.2	0.0	0.0	6582.2	32908.4	-22294.3	62793.4	-0.0	22294.3
1998	4937.0	6543.8	11480.8	31591.5	0.0	0.0	7194.7	38786.1	-27305.3	69988.1	-0.0	27305.3
1999	5082.0	7334.8	12416.8	37909.8	0.0	0.0	7854.6	45764.4	-33347.6	77842.7	-0.0	33347.6
2000	5304.0	8211.8	13515.8	45491.7	0.0	0.0	8602.7	54094.4	-40578.6	86445.5	-0.0	40578.6

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	818.4	3530.2	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	376.6	1843.3	1922.5	1195.1	5452.7	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	392.6	1903.2	2006.7	1587.7	7459.5	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	413.9	1969.9	2080.2	2001.6	9539.7	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	464.2	2066.8	2511.2	2465.7	12050.8	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	430.9	2081.6	2178.4	2896.6	14229.2	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	406.0	2106.3	1907.2	3302.6	16136.4	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	379.3	2130.6	1629.3	3681.9	17765.7	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	327.2	2131.0	1142.9	4009.1	18908.6	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	287.8	2145.7	753.5	4296.9	19662.0	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	251.5	2165.1	383.1	4548.4	20045.1	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	251.5	2222.6	292.6	4799.8	20337.7	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	242.9	2273.1	134.5	5042.8	20472.3	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	242.8	2333.9	22.4	5285.6	20494.7	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	245.4	2399.3	-81.4	5531.0	20413.3	0.0
1996	1600.0	526.8	2126.8	2218.5	0.0	0.0	230.9	2449.4	-322.5	5761.9	20090.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	229.8	2514.8	-517.5	5991.7	19573.2	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	225.3	2578.9	-636.3	6217.0	18936.9	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	221.1	2645.2	-756.8	6438.1	18180.1	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	219.0	2715.9	-870.0	6657.0	17310.1	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1898.6	852.2	822.6	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	750.4	2217.0	1548.8	2243.6	4404.2	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	782.2	2292.9	1617.1	3025.8	6021.3	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	824.8	2380.7	1669.4	3850.6	7690.6	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	925.3	2527.9	2050.1	4775.9	9740.7	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	858.6	2509.3	1750.7	5634.5	11491.4	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	808.8	2509.0	1504.4	6443.2	12995.8	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	755.4	2506.7	1253.2	7198.7	14249.0	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	651.0	2454.8	819.1	7849.6	15068.0	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	572.2	2430.1	469.1	8421.9	15537.1	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	499.4	2413.1	135.1	8921.3	15672.2	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	499.4	2470.5	44.7	9420.7	15716.9	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	482.2	2512.4	-104.8	9902.9	15612.1	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	481.9	2573.0	-216.7	10384.8	15395.4	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	487.1	2640.9	-323.1	10871.9	15072.4	0.0
1996	1600.0	526.8	2126.8	2218.5	0.0	0.0	458.0	2676.5	-549.6	11329.9	14522.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	455.7	2740.7	-743.4	11785.6	13779.4	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	446.7	2800.2	-857.6	12232.2	12921.7	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	438.0	2862.2	-973.8	12670.3	11947.9	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	433.7	2930.6	-1084.8	13104.0	10863.1	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 3% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2148.1	2180.5	0.0
1982	3650.0	115.8	3765.8	1466.7	0.0	0.0	1124.1	2590.8	1175.1	3292.2	3355.6	0.0
1983	3747.0	163.0	3910.0	1510.7	0.0	0.0	1171.8	2682.5	1227.5	4464.0	4583.1	0.0
1984	3838.0	212.1	4050.1	1556.0	0.0	0.0	1235.6	2791.6	1258.5	5699.6	5841.6	0.0
1985	4311.0	267.0	4578.0	1602.7	0.0	0.0	1386.4	2989.0	1589.0	7086.0	7430.6	0.0
1986	3937.0	323.0	4260.0	1650.7	0.0	0.0	1286.3	2937.1	1322.9	8372.3	8753.5	0.0
1987	3641.0	372.4	4013.4	1700.3	0.0	0.0	1211.6	2911.8	1101.6	9583.9	9855.1	0.0
1988	3344.0	415.9	3759.9	1751.3	0.0	0.0	1131.5	2882.8	877.1	10715.4	10732.3	0.0
1989	2823.0	450.9	3273.9	1803.8	0.0	0.0	974.8	2778.6	495.3	11690.2	11227.5	0.0
1990	2423.0	476.2	2899.2	1857.9	0.0	0.0	856.6	2714.5	184.7	12546.8	11412.2	0.0
1991	2055.0	493.2	2548.2	1913.7	0.0	0.0	747.4	2661.1	-112.9	13294.2	11299.3	0.0
1992	2010.0	505.2	2515.2	1971.1	0.0	0.0	747.4	2718.4	-203.2	14041.6	11096.0	0.0
1993	1893.0	514.6	2407.6	2030.2	0.0	0.0	721.5	2751.8	-344.1	14763.1	10751.9	0.0
1994	1835.0	521.3	2356.3	2091.1	0.0	0.0	721.0	2812.1	-455.8	15484.1	10296.1	0.0
1995	1792.0	525.9	2317.9	2153.8	0.0	0.0	728.7	2882.6	-564.7	16212.8	9731.4	0.0
1996	1600.9	526.8	2126.8	2218.5	0.0	0.0	685.1	2903.6	-776.7	16897.9	8954.7	0.0
1997	1474.0	523.3	1997.3	2285.0	0.0	0.0	681.5	2966.5	-969.2	17579.4	7985.5	0.0
1998	1426.0	516.6	1942.6	2353.6	0.0	0.0	668.0	3021.6	-1079.0	18247.5	6906.5	0.0
1999	1381.0	507.4	1888.4	2424.2	0.0	0.0	655.0	3079.2	-1190.8	18902.5	5715.8	0.0
2000	1350.0	495.8	1845.8	2496.9	0.0	0.0	648.5	3145.4	-1299.6	19551.0	4416.2	0.0

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	813.4	3530.2	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	376.6	1914.5	1850.9	1195.1	5381.1	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	392.6	2053.5	1854.2	1587.7	7235.2	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	413.9	2207.7	1836.5	2001.6	9071.7	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	464.2	2401.4	2165.1	2465.7	11236.8	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	430.9	2523.1	1717.8	2896.6	12954.6	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	406.0	2665.6	1318.7	3302.6	14273.3	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	379.3	2819.7	898.3	3681.9	15171.6	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	327.2	2962.8	253.6	4009.1	15425.2	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	287.8	3134.3	-311.4	4296.9	15113.8	0.0
1991	2055.0	394.3	2449.3	3074.2	0.0	0.0	251.5	3325.6	-876.4	4548.4	14237.4	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	251.5	3571.6	-1181.9	4799.8	13055.5	0.0
1993	1873.0	358.1	2231.1	3585.7	0.0	0.0	242.9	3828.7	-1577.6	5042.8	11477.9	0.0
1994	1835.0	328.8	2163.8	3872.6	0.0	0.0	242.8	4115.4	-1951.6	5285.6	9526.3	0.0
1995	1792.0	292.0	2084.0	4182.4	0.0	0.0	245.4	4427.8	-2343.8	5531.0	7182.5	0.0
1996	1600.0	245.6	1845.6	4517.0	0.0	0.0	230.9	4747.9	-2902.3	5761.9	4280.2	0.0
1997	1474.0	188.2	1662.2	4878.4	0.0	0.0	229.8	5108.1	-3446.0	5991.7	834.3	0.0
1998	1426.0	151.5	1577.5	5268.6	0.0	0.0	225.3	5494.0	-3916.5	6217.0	0.0	3082.2
1999	1381.0	149.3	1530.3	5690.1	0.0	0.0	221.1	5911.2	-4380.9	6438.1	0.0	4380.9
2000	1350.0	155.5	1505.5	6145.3	0.0	0.0	219.0	6364.3	-4858.7	6657.0	0.0	4858.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1898.6	852.2	822.6	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	750.4	2288.2	1477.2	2243.6	4332.5	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	782.2	2443.1	1464.5	3025.8	5797.1	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	824.8	2618.5	1425.6	3850.6	7222.7	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	925.3	2862.5	1704.0	4775.9	8926.7	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	858.6	2950.8	1290.1	5634.5	10216.7	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	808.8	3068.4	915.9	6443.2	11132.6	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	755.4	3195.8	522.2	7198.7	11654.9	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	651.0	3286.6	-70.2	7849.6	11584.7	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	572.2	3418.7	-595.9	8421.9	10988.8	0.0
1991	2055.0	394.3	2449.3	3074.2	0.0	0.0	499.4	3573.6	-1124.4	8921.3	9864.5	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	499.4	3819.5	-1429.9	9420.7	8434.6	0.0
1993	1893.0	358.1	2251.1	3585.7	0.0	0.0	482.2	4068.0	-1816.9	9902.9	6617.7	0.0
1994	1835.0	328.8	2163.8	3872.6	0.0	0.0	481.9	4354.5	-2190.7	10384.8	4427.1	0.0
1995	1792.0	292.0	2084.0	4182.4	0.0	0.0	487.1	4669.5	-2585.5	10871.9	1841.6	0.0
1996	1600.0	258.5	1858.5	4517.0	0.0	0.0	458.0	4975.0	-3116.5	11329.9	0.0	1274.9
1997	1474.0	250.7	1724.7	4878.4	0.0	0.0	455.7	5334.0	-3609.3	11785.6	0.0	3609.3
1998	1426.0	261.3	1687.3	5268.6	0.0	0.0	446.7	5715.3	-4028.1	12232.2	0.0	4028.1
1999	1381.0	271.8	1652.8	5690.1	0.0	0.0	438.6	6128.1	-4475.4	12670.3	0.0	4475.4
2000	1350.0	282.3	1632.3	6145.3	0.0	0.0	433.7	6579.1	-4946.7	13104.0	0.0	4946.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 8% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2168.1	2180.5	0.0
1982	3650.0	115.4	3765.4	1537.9	0.0	0.0	1124.1	2662.0	1103.4	3292.2	3284.0	0.0
1983	3747.0	160.6	3907.6	1660.9	0.0	0.0	1171.8	2832.7	1074.9	4464.0	4358.9	0.0
1984	3838.0	206.1	4044.1	1793.8	0.0	0.0	1235.6	3029.4	1014.7	5699.6	5373.6	0.0
1985	4311.0	255.5	4566.5	1937.3	0.0	0.0	1386.4	3323.6	1242.9	7086.0	6616.5	0.0
1986	3937.0	303.9	4240.9	2092.2	0.0	0.0	1286.3	3378.6	862.3	8372.3	7478.9	0.0
1987	3641.0	343.3	3984.3	2259.6	0.0	0.0	1211.6	3471.2	513.1	9583.9	7992.0	0.0
1988	3344.0	374.1	3718.1	2440.4	0.0	0.0	1131.5	3571.9	146.2	10715.4	8138.2	0.0
1989	2823.0	393.4	3216.4	2635.6	0.0	0.0	974.8	3610.4	-394.0	11690.2	7744.1	0.0
1990	2423.0	399.8	2822.8	2846.5	0.0	0.0	856.6	3703.1	-880.3	12546.8	6863.9	0.0
1991	2055.0	394.3	2449.3	3074.2	0.0	0.0	747.4	3821.6	-1372.3	13294.2	5491.5	0.0
1992	2010.0	379.7	2389.7	3320.1	0.0	0.0	747.4	4067.5	-1677.8	14041.6	3813.7	0.0
1993	1893.0	358.1	2251.1	3585.7	0.0	0.0	721.5	4307.3	-2056.2	14763.1	1757.6	0.0
1994	1835.0	335.5	2170.5	3872.6	0.0	0.0	721.0	4593.6	-2423.0	15484.1	0.0	665.5
1995	1792.0	333.7	2125.7	4182.4	0.0	0.0	728.7	4911.1	-2785.4	16212.8	0.0	2785.4
1996	1600.0	349.2	1949.2	4517.0	0.0	0.0	685.1	5202.1	-3252.9	16897.9	0.0	3252.9
1997	1474.0	364.3	1838.3	4878.4	0.0	0.0	681.5	5559.9	-3721.6	17579.4	0.0	3721.6
1998	1426.0	379.3	1805.3	5268.6	0.0	0.0	668.0	5936.6	-4131.3	18247.5	0.0	4131.3
1999	1381.0	394.3	1775.3	5690.1	0.0	0.0	655.0	6345.1	-4569.9	18902.5	0.0	4569.9
2000	1350.0	409.1	1759.1	6145.3	0.0	0.0	648.5	6793.9	-5034.7	19551.0	0.0	5034.7

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 25.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	559.7	1557.7	1193.1	481.7	1877.1	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	495.8	1919.7	1653.1	818.4	3530.2	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	376.6	1985.7	1779.3	1195.1	5309.4	0.0
1983	3747.0	158.2	3905.2	1818.2	0.0	0.0	392.6	2210.8	1694.4	1587.7	7003.9	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	413.9	2468.5	1569.4	2001.6	8573.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	464.2	2785.9	1768.2	2465.7	10341.5	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	430.9	3054.4	1165.2	2896.6	11506.7	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	406.0	3370.6	580.2	3302.6	12086.9	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	379.3	3729.3	-61.0	3681.9	12025.9	0.0
1989	2823.0	322.9	3145.9	3785.5	0.0	0.0	327.2	4112.6	-966.7	4009.1	11059.2	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	287.8	4565.4	-1839.4	4296.9	9219.7	0.0
1991	2055.0	264.5	2319.5	4833.7	0.0	0.0	251.5	5085.1	-2765.6	4548.4	6454.1	0.0
1992	2010.0	209.5	2219.5	5462.1	0.0	0.0	251.5	5713.5	-3494.1	4799.8	2960.1	0.0
1993	1893.0	152.7	2045.7	6172.1	0.0	0.0	242.9	6415.1	-4369.3	5042.8	0.0	1409.3
1994	1835.0	131.2	1966.2	6974.5	0.0	0.0	242.8	7217.3	-5251.1	5285.6	0.0	5251.1
1995	1792.0	139.7	1931.7	7881.2	0.0	0.0	245.4	8126.6	-6194.9	5531.0	0.0	6194.9
1996	1600.0	148.6	1748.6	8905.7	0.0	0.0	230.9	9136.7	-7388.1	5761.9	0.0	7388.1
1997	1474.0	157.8	1631.8	10063.5	0.0	0.0	229.8	10293.3	-8661.5	5991.7	0.0	8661.5
1998	1426.0	167.6	1593.6	11371.7	0.0	0.0	225.3	11597.1	-10003.5	6217.0	0.0	10003.5
1999	1381.0	178.0	1559.0	12850.1	0.0	0.0	221.1	13071.1	-11512.2	6438.1	0.0	11512.2
2000	1350.0	189.0	1539.0	14520.6	0.0	0.0	219.0	14739.5	-13200.5	6657.0	0.0	13200.5

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

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COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 50.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	900.6	1898.6	852.2	822.6	1536.2	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	829.7	2253.6	1319.2	1493.3	2855.4	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	750.4	2359.4	1405.5	2243.6	4260.9	0.0
1983	3747.0	158.2	3905.2	1818.2	0.0	0.0	782.2	2600.4	1304.8	3025.8	5565.7	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	824.8	2879.4	1158.5	3850.6	6724.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	925.3	3247.0	1307.1	4775.9	8031.3	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	858.6	3482.1	737.5	5534.5	8768.8	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	808.8	3773.4	177.4	6443.2	8946.2	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	755.4	4105.4	-437.0	7198.7	8509.2	0.0
1989	2823.0	322.9	3145.9	3785.5	0.0	0.0	651.0	4436.5	-1290.6	7849.6	7218.6	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	572.2	4849.8	-2123.8	8421.9	5094.8	0.0
1991	2055.0	264.5	2319.5	4833.7	0.0	0.0	499.4	5333.1	-3013.6	8921.3	2081.2	0.0
1992	2010.0	226.1	2236.1	5462.1	0.0	0.0	499.4	5961.5	-3725.4	9420.7	0.0	1644.2
1993	1893.0	217.9	2110.9	6172.1	0.0	0.0	482.2	6654.4	-4543.4	9902.9	0.0	4543.4
1994	1635.0	230.8	2065.8	6974.5	0.0	0.0	481.9	7456.4	-5390.6	10384.8	0.0	5390.6
1995	1792.0	244.1	2036.1	7881.2	0.0	0.0	487.1	8368.3	-6332.2	10871.9	0.0	6332.2
1996	1600.0	257.6	1857.6	8905.7	0.0	0.0	458.0	9363.8	-7506.1	11329.9	0.0	7506.1
1997	1474.0	271.4	1745.4	10063.5	0.0	0.0	455.7	10519.1	-8773.7	11785.6	0.0	8773.7
1998	1426.0	285.7	1711.7	11371.7	0.0	0.0	446.7	11818.4	-10106.8	12232.2	0.0	10106.8
1999	1381.0	300.4	1681.4	12850.1	0.0	0.0	438.0	13288.1	-11606.7	12670.3	0.0	11606.7
2000	1350.0	315.8	1665.8	14520.6	0.0	0.0	433.7	14954.3	-13288.5	13104.0	0.0	13288.5

LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

9

21-Feb-80

COMMENTS
REAL 1980 DOLLARS
2% REAL GROWTH IN OIL PRICES
$457 MIL BEAUFORT REVENUE
GAS LINE 1985
3% REAL GROWTH IN NON-OIL REVENUE
GOV'S OPERATING $250 MIL CAPITAL 13% BUDGET GROWTH
$.42 PRUDHOE FIELD COSTS
$.53 GAS CONDITIONING COSTS

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 2.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 75.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $0 MIL
1979										138.0	684.0	
1980	2715.0	35.8	2750.8	998.0	0.0	0.0	1241.5	2239.5	511.3	1163.5	1195.3	0.0
1981	3500.0	72.8	3572.8	1423.9	0.0	0.0	1163.6	2587.5	985.3	2168.1	2180.5	0.0
1982	3650.0	115.0	3765.0	1609.1	0.0	0.0	1124.1	2733.2	1031.8	3292.2	3212.3	0.0
1983	3747.0	158.2	3905.2	1813.2	0.0	0.0	1171.8	2990.0	915.2	4464.0	4127.5	0.0
1984	3838.0	199.9	4037.9	2054.6	0.0	0.0	1235.6	3290.2	747.6	5699.6	4875.2	0.0
1985	4311.0	243.1	4554.1	2321.7	0.0	0.0	1386.4	3708.1	846.0	7086.0	5721.2	0.0
1986	3937.0	282.6	4219.6	2623.5	0.0	0.0	1286.3	3909.9	309.7	8372.3	6031.0	0.0
1987	3641.0	309.8	3950.8	2964.6	0.0	0.0	1211.6	4176.1	-225.4	9583.9	5805.6	0.0
1988	3344.0	324.4	3668.4	3350.0	0.0	0.0	1131.5	4481.5	-813.1	10715.4	4992.5	0.0
1989	2823.0	322.9	3145.9	3785.5	0.0	0.0	974.8	4760.3	-1614.4	11690.2	3378.1	0.0
1990	2423.0	303.0	2726.0	4277.6	0.0	0.0	856.6	5134.2	-2408.3	12546.8	969.8	0.0
1991	2055.0	287.4	2342.4	4833.7	0.0	0.0	747.4	5581.1	-3238.6	13294.2	0.0	2268.8
1992	2010.0	295.2	2305.2	5462.1	0.0	0.0	747.4	6209.4	-3904.2	14041.6	0.0	3904.2
1993	1893.0	312.7	2205.7	6172.1	0.0	0.0	721.5	6893.7	-4687.9	14763.1	0.0	4687.9
1994	1835.0	330.4	2165.4	6974.5	0.0	0.0	721.0	7695.5	-5530.1	15484.1	0.0	5530.1
1995	1792.0	348.5	2140.5	7881.2	0.0	0.0	728.7	8609.9	-6469.4	16212.8	0.0	6469.4
1996	1600.0	366.7	1966.7	8905.7	0.0	0.0	685.1	9590.9	-7624.1	16897.9	0.0	7624.1
1997	1474.0	385.0	1859.0	10063.5	0.0	0.0	681.5	10745.0	-8886.0	17579.4	0.0	8886.0
1998	1426.0	403.8	1829.8	11371.7	0.0	0.0	668.0	12039.8	-10210.0	18247.5	0.0	10210.0
1999	1381.0	422.9	1803.9	12850.1	0.0	0.0	655.0	13505.1	-11701.2	18902.5	0.0	11701.2
2000	1350.0	442.6	1792.6	14520.6	0.0	0.0	648.5	15169.1	-13376.5	19551.0	0.0	13376.5

SCOMM

#18:24

Original sponsors: Kelly, Hohman, Colletta and Sackett

Offered: 5/4/79
Referred: Rules

IN THE SENATE BY THE FINANCE COMMITTEE

HOUSE CS FOR SENATE BILL NO. 161

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to nonrenewable resource revenues; to legislative oversight; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of those agencies of the state which perform lending or investment functions since those functions do not receive the detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and the state treasury.

* Sec. 2. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.156. PURPOSES. The purposes of the Legislative Budget and Audit Committee include

(1) monitoring and reporting

(A) the performance of the agencies of the state which perform lending or investment functions,

(B) the extent to which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens,

(C) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal,

investment and financial planning;

(2) holding these agencies accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature;

(3) annually reviewing the extent of capitalization of the investment funds of the state and alternative investment policy for the general fund surplus and recommending needed legislation.

Sec. 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of suggested appointees to the Board of Trustees of the Alaska Permanent Fund Corporation and the Board of Trustees of the Alaska Renewable Resources Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for any needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation in-

vestments and investment programs.

Sec. 24.20.209. RECORDS. The Legislative Budget and Audit Committee shall keep a complete file of all reports presented to it and all reports presented by it to the legislature or to a legislative committee.

* Sec. 3. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) hold public hearings on the confirmation of the members of the Board of Trustees of the Alaska Permanent Fund Corporation, and the members of the Board of Trustees of the Alaska Renewable Resources Corporation;

(9) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(10) enter into and enforce all contracts necessary or desirable for the functions of the committee.

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 50 per cent of mineral lease bonuses remaining after

deduction of any amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state from mineral leases issued on or before July 1, 1979;

(3) 50 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state from mineral leases issued after July 1, 1979; and

(4) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation as needed for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings established in AS 37.13.020.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of five members appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The board shall annually elect a chairman from among its members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be appointed for terms of three years, and they may be reappointed subject to reconfirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms shall be two members serving for one year, two members serving for two years, and one member serving for three years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office by and with the consent of a majority of the members of the legislature in joint session. A removal

by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a vacancy is not created but the board member may not participate in board business and may not be counted for purposes of establishing a quorum. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers of a permanent board member until such time as the legislature in joint session fails to confirm the appointment of the interim board member.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.13.080. QUALIFICATIONS OF BOARD OF TRUSTEES. (a) No individual may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of the United States or of this state.

(c) At least three members of the board shall have recognized

competence and wide experience in finance, investments, or other business management-related field.

Sec. 37.13.090. QUORUM. Three members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.100. COMPENSATION OF TRUSTEES. Members of the board receive an honorarium of $250 for each meeting day if they attend the meeting and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and all other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.

(b) If a member or employee acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule shall be applied by the board in the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intel-

ligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (h) and (i) of this section, the board may invest corporation assets in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and which are secured as to the payment of principal and interest in accordance with Alaska law and for which a generally recognized secondary market exists;

(4) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(5) short-term corporate promissory notes of the highest rating assigned by a nationally recognized rating service;

(6) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(8) the guaranteed portion of Federal Small Business Administration loans;

(9) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;

(10) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(11) the guaranteed portion of Farmer's Home Administration loans.

(h) Investments under (g)(4) of this section may not exceed 25 per cent of the total investments of the fund. Investments under (g)(8) - (11) of this section may not exceed in the aggregate 25 per cent of the total investments of the fund.

(i) No portion of the assets of the fund may be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(j) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to

the Legislative Budget and Audit Committee for review and comment.

(k) The board may invest corporation assets in in-state investments if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.150. INCOME. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

Sec. 37.13.160. BOARD BUDGET. The board's operating budget is

from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.170. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of corporation investments including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet. The board may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all

taxes and assessments in the state.

Sec. 37.13.200. POLITICAL ACTIVITIES. The resources of the corporation may not be used to finance or influence any political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.220. DEFINITIONS. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation.

* Sec. 6. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 7. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Board of Trustees and executive director of the Alaska Permanent Fund Corporation.

* Sec. 8. TRANSITION. The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the board of trustees of the corporation.

* Sec. 9. AS 37.10.065(c) is repealed.

* Sec. 10. AS 37.10.065(a) and (b) are repealed.

* Sec. 11. Section 10 of this Act takes effect upon transfer of the funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 8 of this Act. The remainder of this Act takes effect July 1, 1979.

1st FCC

PERMANENT FUND FREE CONFERENCE COMMITTEE

Revised Schedule

March 17, Monday topic: CAPITAL NEEDS

Dr. Fry - University of Hawaii
Dr. Coffman - Washington State University

March 18, Tuesday topic: FINANCIAL AND CREDIT ISSUES

Mr. Theodore Swick and Mr. Samuel Plaia - Bache Halsey

March 19, Wednesday topics: INVESTMENT OF FUNDS AND BONDING ASPECTS OF SB 1

Mr. Bob Greely
Mr. Tony Dean - Nuveen and Co.

March 20, Thursday topics: LEGAL IMPLICATIONS AND INVESTMENT STRATEGY

Mr. George Wolf - Orrick, Herrington
Mr. Bob Richards - Alaska Pacific Bank

March 21, Friday topic: MANAGEMENT POLICY

Mr. Peter McDowell - Homan-McDowell Associates

All meetings will begin at 1:30 p.m. in the Senate Finance Committee Room.

FCC
#18:24

AlaskaPacificBank

A Subsidiary of Alaska Pacific Bancorporation

MANAGEMENT PLAN

For

THE ALASKA PERMANENT FUND

Testimony Before

Senate Special Committee on the Permanent Fund
House Special Committee on the Permanent Fund
Alaska State Legislature

By

Robert R. Richards
President
Alaska Pacific Bank

March 17, 1980

101 W BENSON BLVD. • POST OFFICE BOX 420 • ANCHORAGE, ALASKA 99510 • PHONE (907) 276-3110 • TELEX 090-25-380

The overriding consideration in determining the proper management of the State of Alaska's Permanent Fund is achieving and maintaining an effective level of government services for Alaskans in the future. Therefore, it is imperative that Alaska's current fiscal surplus be managed to ensure long-run sustainable growth of revenues. Expanding revenues permit improvements in both the quality and quantity of public services to overcome inflation effects and the demands of a growing population as well as to meet the rising social expectations of a maturing society.

This overriding consideration of ensuring a reasonable expansion of Alaska government services in the future leads to two conclusions regarding disposition of today's surplus funds. First, as close as possible to 100% of the surplus funds of the State of Alaska should be placed in the Permanent Fund, rather than used for over-expansion of current operations which intensifies the expected future deficit. Second, the Permanent Fund should be divided into two parts: an endowment fund and a development bank. Of the total quarterly surplus each calendar year, at least 50% but no more than 80% should be placed in an endowment fund which focuses on the preservation of capital. Hence, the State of Alaska would have a basic fund from which to generate earnings to finance future government expenditures. However, for the first ten years, earnings from the endowment fund should be reinvested directly bank into the fund. Likewise, at least 20% but no more than 50% of the total quarterly surplus each year should

be managed as a development bank which would invest in large projects designed to expand the industrial base of Alaska which would expand the State's tax base, and which, thereby, would expand the ability of the State to provide public goods and services. Depending on the surplus total, prevailing economic conditions, and the quality of particular projects, the board of directors of the Permanent Fund would have the discretion to shift between the 80%/20% and 50%/50% investment mix.

Before discussing our specific recommendations concerning the endowment fund and the development bank, perhaps it would be most appropriate to present our recommendations regarding the administrative structure of the Permanent Fund.

Administration

In our opinion, the administration of the Permanent Fund should remain relatively independent from political pressures. A suitable governing body for the Permanent Fund would be patterned after the Federal Reserve Board or the World Bank, with the members being appointed by the Governor subject to approval by the Legislature, serving staggared terms to avoid affiliations with any particular administration. For example, a nine-member, blue ribbon board of directors could include as permanent members the positions of the President of the Senate, the Speaker of the House of Representatives, and the Commissioners of Commerce and Revenue, with five gubernatorial

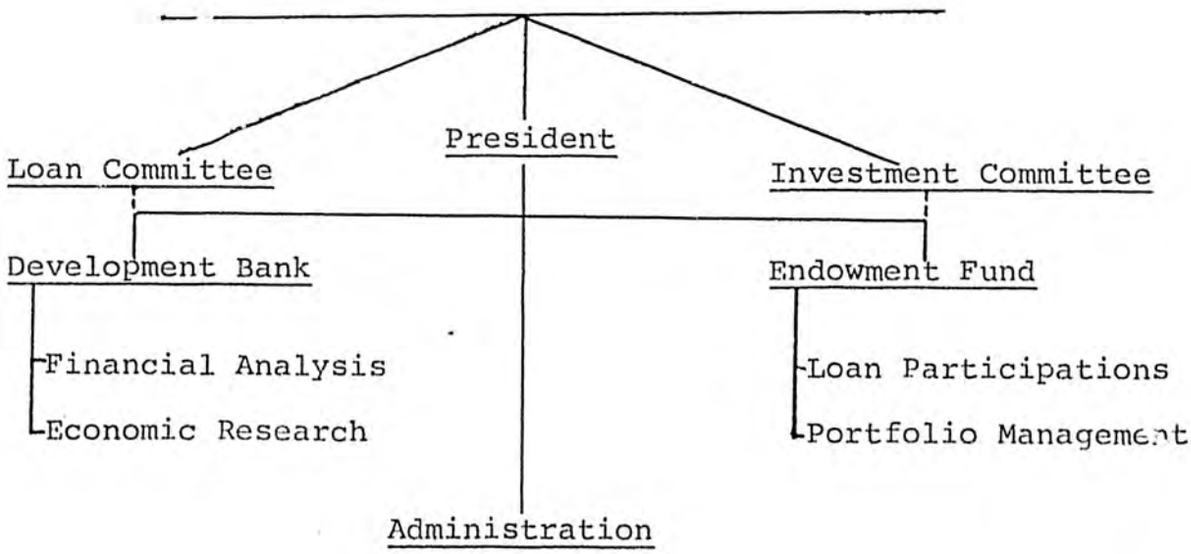
appointments from the private sector subject to legislative approval. The private sector members would be appointed for terms of ten years, so arranged that one term would expire every two years. The members could elect one of the private sector members as Chairman for a five-year term. The objective of the board in a broad sense would be to maintain prudent management of the Permanent Fund. The board would develop an investment plan for the endowment fund and a list of specific projects for the development bank, submitting the entire package annually to the Legislature for approval.

The management of the Fund would be delegated to a president hired by the board. Obviously this person should be an individual with outstanding credentials in banking or finance. The Permanent Fund structure should be composed of three segments: development bank, endowment fund, and administration as indicated on the following page.

THE ALASKA PERMANENT FUND

BOARD OF DIRECTORS

Commissioner of Revenue
Commissioner of Commerce and Economic Development
President of the Senate
Speaker of the House of Representatives
Private member
Private member
Private member } appointed by Governor
Private member
Private member



Endowment Fund

The primary objective for the endowment fund should be capital preservation in the form of risk-free and low-risk investments.

The endowment fund should have a well-defined investment policy which provides the framework for managing the fund's resources in the most efficient manner to take advantage of rapidly moving money markets and changing economic conditions while maintaining adequate liquidity at maximum yields. The investment policy should be reviewed regularly and revised accordingly to accommodate the investment objectives of the endowment fund. The fund should diversity its investments to some degree.

Liquidity items in the fund's investment portfolio should be well-defined and maintained at an amount sufficient for the specified needs of the endowment fund. Likewise, the maturity schedule of the fund's investment portfolio should coincide with anticipated seasonal and cyclical requirements of the other investments of the endowment fund. Maturities of all investments should be well-defined with a specified average life.

The size of the securities portfolio within the endowment fund's array of investments should be maintained at a sufficient level to meet the investment objectives of the fund, but the

securities portfolio size should be allowed to fluctuate above these requirements depending on the other sources of funds within the endowment fund.

An excellent example of risk-free investments for the endowment fund would be U.S. government and agency securities to provide the fund with liquidity, safety, and quality.

Clearly, certificates of deposit with Alaska banks quality are appropriate low-risk investments. We recommend a combination of investments with staggered maturities for a series of variable rate CD's with the rate subject to review every six months. Such an investment in Alaska bank CD's will enable Alaska banks to make more funds available for term loans, the most difficult loans for Alaskans to obtain. It is our recommendation that the amount of State of Alaska investment in Alaska bank CD's each quarter be limited to an amount that causes total public funds in Alaska's banking industry to be at least 30% but not more than 35% of total statewide deposits at the end of the previous quarter. This formula is based on an analysis of the table on the following page which outlines the Alaska commercial banking system's rising liquidity pressures. We also suggest that the State relax its collateralization requirements to permit Alaska banks to place these funds into a broader range of loans. Alaska financial institutions have historically made funds available to Alaska borrowers at a greater rate than their deposit base has increased. The table on the following page indicated that since 1970, Alaska commercial bank loans have quadrupled while

Alaska Commercial Banks
Loan and Deposit History
($ Millions)

12/31	Loans	Deposits	Loan/Deposit Ratio	Public Deposits	Public as % of Total
1970	336.3	637.6	0.53	225.7	35.4%
1971	401.0	722.6	0.56	250.3	34.6%
1972	476.5	824.0	0.58	278.1	33.8%
1973	541.3	883.9	0.61	277.9	31.4%
1974	648.3	1097.8	0.59	298.8	27.2%
1975	809.4	1376.7	0.59	297.5	21.6%
1976	937.4	1531.7	0.63	264.1	17.2%
1977	1228.7	1684.3	0.73	372.3	22.1%
1978	1327.7	1747.3	0.76	389.4	22.3%
1979*	1439.6	1896.9	0.76	479.0	25.3%

*September 30

deposits have tripled. Obviously, in order to reach a more prudent loan to deposit ratio, either loans must be decreased or deposits increased. There can be no increase in loans without a corresponding increase in deposits.

Following the surge experienced during trans-Alaska pipeline construction, private demand deposits as a percent of total deposits has been decreasing. Likewise, public deposits as a percent of total deposits has declined from 35% in 1970 to 25% in 1979. Therefore, it has been necessary to purchase a growing portion of Alaska bank deposits from nonpublic sources. In many cases, these purchased funds are priced in national markets, transferring upward pressure to Alaska interest rates.

Further, there has always been a high degree of participation by outside financial institutions in Alaska credits, due in part to the relatively small size of the Alaska banking system as a whole. While this importation of capital into Alaska enables local banks to make more loans, it also contributes to interest rates for Alaska loans being tied directly to national markets.

Therefore, it seems appropriate that the State of Alaska, given its unique situation of a projected budget surplus, assist Alaska borrowers in two ways. First, by increasing the level of Alaska public deposits as previously described, and second by buying loans.

In our opinion, purchasing Alaska loans also qualifies as an appropriate investment for the endowment fund, at rates commensurate with current money market conditions.

It is our recommendation that the State of Alaska use the Alaska banking industry as a conduit for all endowment fund loan programs, with the endowment fund itself making no direct loans. The Alaska banking community has the expertise to service all such loans effectively, and, thereby, such programs would require no additional state government personnel. We also recommend that the State of Alaska participation rate be 90% in these loan programs, which would place the Alaska banks at sufficient risk but enable them to make additional loans through traditional outside capital markets. Because of its excellent reputation and efficiency, we futher recommend that the Alaska Housing Finance Corporation be the State agency used to purchase all housing-related loans. We feel that the existing State Department of Commerce business loan program should either continue to work through the Alaska banking system with limits increased from $500,000 to $1,000,000 for any one project, independent of the individual borrower, or that these programs be transferred to the Alaska Industrial Development Authority under expanded powers.

The social and economic benefits derived from investing in Alaska home mortgages are particularly attractive because of the . multiplier effect. We recommend, therefore, that up to $300 million of the principal from the endowment fund be invested annually in Alaska single family, owner occupied real estate mortgages in years when there is a net population increase. An ongoing investment of principal from the endowment fund into Alaska real estate mortgages appropriately leaves social decisions concerning disposition of general funds in the legislature and minimizes the discretion of the board of governors of the permanent fund.

In summary, the attractive aspect of the endowment fund concept to manage 80% of the state budget surplus is that it can be invested in a manner that simultaneously achieves the two important objectives of capital preservation and the allocation of funds to Alaska families and businesses. Further, through utilizing existing financial institutions both for deposits and as a conduit for the purchasing of loans, these objectives can be satisfied with virtually no increase in state bureaucracy or operating expenditures.

Development Bank

The development bank should invest in large projects which expand Alaska's industrial base and increase the State revenue generating capacity beyond the extent to which they also increase the demand for government services. Excess earnings from development bank lending activities and the sale of loans should be returned to the endowment fund for reinvestment. Development bank investments should be structured primarily as debt instruments in projects which advance the sustainability of the Alaska economy with reasonable economic viability over the long-term.

The development bank should not participate in projects which can obtain total financing from the private sector. However, development bank loans should be made to qualifying projects in both the public and private sectors. Public projects include those typically engaged in by the public sector - dams and other power projects, ports, transportation facilities, etc., which expand the infrastructure and which, thereby, make it easier and more feasible for the private sector to pursue its own objectives. Private projects suitable for development bank participation are those of such a nature and size that public

participation is substantial - oil and gas pipelines, petrochemical facilities, fish processing plants, mineral refineries, sawmills, etc. Due to the very size and nature of such projects, we are recommending that the development bank in this case make direct loans with appropriate participation levels made available to Alaska and outside banks. This contrasts with our philosophy that the endowment fund, on the other hand, purchase Alaska loans, using the Alaska banking system for origination and servicing. We are recommending also that the floor level for development bank loans be $5 million, with the exception of a $1 million floor imposed for qualifying projects in rural areas where a lower amount clearly would safeguard the intention of the development bank.

We also recommend that another function of the development bank be to guarantee the bonds, capital notes, or other types of debt utilized to finance large private projects, and that the development bank serve as a conduit for the issuance of revenue bonds which have the effect of reducing the debt service burden of private projects. A successful vehicle for the implementation of this function of the development bank would be the existing Alaska Industrial Development Authority.

It is vital to refrain from making the development bank a political tool or engulfing it in bureaucratic inefficiencies. It is also important that the development bank lending activity be allocated both on a regional basis and by industrial diversification. It is not the intent of the development bank to subsidize industry, but rather to take more than normal risk in causing projects to happen which have demonstrated feasibility. We, therefore, recommend a seven-member, high caliber executive committee responsible for approving all direct loans of the development bank.

Some Conceptual and Policy Considerations

Each year the Board of Directors should present for approval by the Legislature a general ten year plan, a somewhat more specific five year plan, and a highly specific one year plan and budget. This is to insure that the general management of the development bank is in accord with the objectives of the Alaska people. However, the Permanent Fund should be free to function without the handicap of short run, individual political pressures. To permit this the Board of Directors should be granted relatively broad powers.

As stated at the outset of this testimony, the objective of the Permanent Fund is singular: to generate sustainable revenue to the State of Alaska over the long run. Other objectives should not be allowed to cloud and confuse the effective management of the Permanent Fund. Therefore, the pursuit of certain social objectives such as income redistribution, interest rate subsidization, rural welfare improvement, and so forth should be kept out of the Permanent Fund and within the exclusive jurisdiction of the Legislature where it belongs. That is, the State's social goals should be pursued through the normal legislative and administrative processes. (It can be noted, however, that certain investments by the Permanent Fund can have the secondary effect of being conducive to pursuit of certain of the State's social goals.)

Finally, it must be acknowledged that a portion of the Permanent Fund likely will be invested outside the State of Alaska as

a result, simply, of the expected future immensity of the Fund. This reflects two considerations. First, Alaska has the ability to absorb only so much capital. (For example, the total deposits of the entire Alaska banking system are only approximately $2 billion.) Secondly, "the prudent man rule" of investment management suggests that the Fund's investments should be diversified, and a portion of the Fund's capital should be placed in low risk, highly liquid securities such as instruments of the U.S. government.

Summary

The objective of the management of the Permanent Fund is to generate future revenue to state government in two ways: (1) from earnings on the endowment fund and (2) through increased revenues from an expanded industrial base through investments by the development bank.

To achieve these objectives the administration of the Fund should be relatively independent from though ultimately and generally responsible to political considerations.

SCOMM

#18.25

3/28 PF FCC

2nd FCC

930 a/cast

Jordan Kaiman

Filson hearing Tenge settlement

discussion of amendments - 4 pages

930 Cotter re the amend. 2.

930 a/cast

Jordan Kaiman

Filson hearing Tenge settlement

discussion of amendments - 4 pages

930 Cotter re the amend. 2.

Coffee [illegible]?
Clean copy for Monday - 1:00.
+ Conferees will look over committee
report + have suggestions.
1329 End of mtg.

3/30 PF FCC

1330 start
run thru final draft.
1435 Ray objects to $400 fiscera. motion to change to $250. 3-3 fails (Ray, Haugen, Tillion)
1485 technical error p. 10 line 24. 25 should read 15. Ray moves 25.
1585 Jim Rhode explains reason for 15. 3-3 motion fails.
1725 p. 13
p. 14 transition & eff. date
committee report - TG asks for comments
1780 Sackett moves adoption of bill 5-1 (Ray)
1820 adjourn

SENATE AND HOUSE JOINT
JOURNAL SUPPLEMENT

4/2/80 Wednesday No. 7

Alaska State Legislature

FCCS
SB
161

FREE CONFERENCE COMMITTEE REPORT

FCCS FOR SB 161

In making their decision on the Alaska Permanent Fund, the Free Conference Committee has focused on a single question --- the management of the Fund's principal.

It is to be an inviolate trust which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans..." (page 4).

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

The contribution rate has been set at 50% of mineral lease bonuses (except from the Beaufort Sea, which has been left at 25%) and 50% of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay remains at 25% plus any other money appropriated annually by the Legislature.

Three major concerns --- safety of principal, accountability, and legislative oversight --- are addressed by the legislation.

Safety of Principal

The Free Conference Committee Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the

current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). The fund is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwellings, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska (page 9). The order in which the investments are listed is not meant to express a priority for one type of investment over another.

Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. Purchases of residential mortgages may be a further 15% of total assets. The bill allows the Fund to use the futures market to protect investments from the severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and not to speculate. The bill also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 11). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

FCCS
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Accountability

It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state. The Corporation is placed within the Department of Revenue for administrative matters such as payroll, but has a legal existence independent of and separate from the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The six members of the board will be appointed by the Governor and consist of the Commissioner of Revenue, two other commissioners, and three public members. They will be confirmed by the Legislature, except for the Commissioner of Revenue who serves by right of his office; the other commissioners are to submit to a separate confirmation for their duties as trustees. Terms are three years; staggered, and members may be reappointed subject to confirmation. Members may be removed from the board by the Governor and the Legislature may override this decision in a Joint Session. The public members of the board may not hold any other state or federal office or employment and must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state. It is intended that every two years the Governor shall make recommendations on adjusting the level of the honorarium. The board will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (page 11) including a financial statement reviewed by independent auditors, a statement of earnings from each investment, a market-value appraisal of the investments, and a performance evaluation with recommendations for needed changes. These reports, which must be written in easily understandable language, will be available to the Governor, the Legislature, and the public. The income statement and balance sheet will be published yearly in newspapers and every two years in the election pamphlet.

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The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The Free Conference Committee found a need for coordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee had considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interest of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the Committee's intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that the committee report back to the Legislature within two years, recommending how best the oversight duty could be carried out and including consideration of the option of delegating the responsibilities to a separate committee.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to separate legislation. It merely assures that there will be income and does not preclude any options for its use. Unless another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.

Terry Gardiner

TERRY GARDINER, Chairman
Conference Committee

John C. Sackett

JOHN SACKETT, Chairman
Conference Committee

Original sponsors: Kelly, Hohman, Colletta and Sackett

IN THE SENATE BY THE FREE CONFERENCE COMMITTEE

FREE CONFERENCE CS FOR SENATE BILL NO. 161

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska permanent fund; to nonrenewable resource revenues; to legislative oversight; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of those agencies of the state which perform lending or investment functions since those functions do not receive the detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and the state treasury.

* Sec. 2. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.156. PURPOSES. The purposes of the Legislative Budget and Audit Committee include

(1) monitoring and reporting

(A) the performance of the agencies of the state which perform lending or investment functions,

(B) the extent to which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens,

(C) the extent to which these agencies and the executive have prepared and coordinated short and long term economic, fiscal,

investment and financial planning;

(2) holding these agencies accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature;

(3) annually reviewing the extent of capitalization of the investment funds of the state and alternative investment policy for the general fund surplus and recommending needed legislation.

Sec 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of appointees to the Board of Trustees of the Alaska Permanent Fund Corporation and the Board of Trustees of the Alaska Renewable Resources Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation in-

vestments and investment programs.

Sec. 24.20.209. RECORDS. The Legislative Budget and Audit Committee shall keep a complete file of all reports presented to it and all reports presented by it to the legislature or to a legislative committee.

* Sec. 3. AS 24.20.201(a) is amended by adding new paragraphs to read:

(9) hold public hearings on the confirmation of the members of the Board of Trustees of the Alaska Permanent Fund Corporation, and the members of the Board of Trustees of the Alaska Renewable Resources Corporation;

(10) make recommendations to the legislature and to agencies of the state which perform lending or investment functions concerning the structure and operating practices of the agencies;

(11) enter into and enforce all contracts necessary or desirable for the functions of the committee.

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties,

royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g) and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g) and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device

managed to allow the maximum use of disposable income from the corporation for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Three of the members shall be heads of principal departments of state government one of whom shall be the commissioner of revenue. Three members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of either the United States or of this state. Members other than the commissioner of revenue shall be separately confirmed by a majority of the members of the legislature in joint session.

(b) The three public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be

appointed for terms of three years, and they may be reappointed subject to confirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms for members other than the commissioner of revenue shall be two members serving for one year, two members serving for two years, and one member serving for three years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office. However, the removal of a member of the board is subject to disapproval by a vote of a majority of the members of the legislature at the first joint session held 10 or more days after the legislature receives notice of the removal from the governor. A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum between the time he receives written notice of his removal from the governor and the time that the legislature's power to disapprove the removal under this subsection expires. If the legislature disapproves the removal of a board member, the board member shall be reinstated.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise the powers of a board member until the legislature fails to confirm the appointment of the interim board member.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the

duties of the board.

Sec. 37.13.080. QUORUM. Four members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of the board receive an honorarium of $400 for each meeting day if they attend the meeting. All members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.100. CORPORATION STAFF. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.110. CONFLICTS OF INTEREST. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the corporation acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.120. INVESTMENT RESPONSIBILITIES OF THE BOARD. (a) The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary

prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the Alaska permanent fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (h) and (i) of this section, the board may invest corporation assets in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation for which a generally recognized secondary market exists or which are fully secured at all times as to payment of principal and interest by investments described in (1) - (2), (8) or (12) - (16) of this subsection; the

security pledged under this paragraph shall be at least equal to the face value of the deposit and the board may require substitution of collateral;

(4) shares of federally chartered savings and loans associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1) - (2) of this subsection;

(5) savings certificates issued by state chartered savings and loan associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1) - (2) of this subsection;

(6) deposits with mutual savings banks in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1) - (2) of this subsection;

(7) fixed-term certificates of indebtedness of federally insured credit unions which are fully secured at all times as to payments of principal and interest by investments described in (1) - (2) of this subsection;

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (3) and (8) - (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Adminis-

tration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Association;

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(15) the guaranteed portion of Farmer's Home Administration loans;

(16) notes secured by mortgages of residential real estate if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; the minimum coverage shall be 10 percent for loans having a loan-to-value ratio of less than 90 percent, and the minimum coverage shall be 20 percent for loans having a loan-to-value ratio of 90 percent or more.

(h) The board may enter into futuro contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(i) Investments under (g)(8) of this section may not exceed 25 percent of the total investments of the Alaska permanent fund. Investments under (g)(16) of this section may not exceed in the aggregate 15 ~~25~~ percent of the total investments of the Alaska permanent fund.

(j) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation.

Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(1) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

Sec. 37.13.130. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the Alaska permanent fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the Alaska permanent fund.

Sec. 37.13.140. INCOME. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the Alaska permanent fund at cost, and after

adjustment for capital losses charged to that fiscal year.

Sec. 37.13.150. BOARD BUDGET. The operating budget of the board is from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of investments of the corporation including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet.

Sec. 37.13.180. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by

the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the corporation may not be used to finance or influence political activities.

Sec. 37.13.200. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.210. DEFINITIONS. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation.

* Sec. 6. AS 38.05.180(g) is amended to read:

(g) The share of the net profit derived from a lease reserved to the state under (f) of this section is royalty sale proceeds for the purposes of the Alaska permanent fund under AS 37.13.010 [AS 37.10.065] and the Alaska renewable resources development fund under AS 37.11.020.

* Sec. 7. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 8. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(SS) Board of Trustees and executive director of the

Alaska Permanent Fund Corporation.

* Sec. 9. TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the board of trustees of the corporation. Notwithstanding AS 37.10.065(a), the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i).

* Sec. 10. AS 37.10.065 is repealed.

* Sec. 11. Section 10 of this Act takes effect upon transfer of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 9 of this Act. The remainder of this Act takes effect immediately in accordance with AS 01.10.070(c).

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811
OFFICIAL BUSINESS

FREE CONFERENCE COMMITTEE REPORT

FCCS for HCS for SB 161

In making their decision on the Alaska Permanent Fund, the Free Conference Committee has focused on a single question --- the management of the Fund's principal.

It is to be an inviolate trust which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans..." (page 4).

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

The contribution rate has been set at 50% of mineral lease bonuses (except from the Beaufort Sea, which has been left at 25%) and 50% of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay remains at 25% plus any other money appropriated annually by the Legislature.

Three major concerns --- safety of principal, accountability, and legislative oversight --- are addressed by the legislation.

Safety of Principal

The Free Conference Committee Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the

current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). The fund is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwellings, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska (page 9). The order in which the investments are listed is not meant to express a priority for one type of investment over another.

Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. Purchases of residential mortgages may be a further 15% of total assets. The bill allows the Fund to use the futures market to protect investments from the severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and not to speculate. The bill also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 11). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state. The Corporation is placed within the Department of Revenue for administrative matters such as payroll, but has a legal existence independent of and separate from the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The six members of the board will be appointed by the Governor and consist of the Commissioner of Revenue, two other commissioners, and three public members. They will be confirmed by the Legislature, except for the Commissioner of Revenue who serves by right of his office; the other commissioners are to submit to a separate confirmation for their duties as trustees. Terms are three years; staggered, and members may be reappointed subject to confirmation. Members may be removed from the board by the Governor and the Legislature may override this decision in a Joint Session. The public members of the board may not hold any other state or federal office or employment and must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state. It is intended that every two years the Governor shall make recommendations on adjusting the level of the honorarium. The board will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (page 11) including a financial statement reviewed by independent auditors, a statement of earnings from each investment, a market-value appraisal of the investments, and a performance evaluation with recommendations for needed changes. These reports, which must be written in easily understandable language, will be available to the Governor, the Legislature, and the public. The income statement and balance sheet will be published yearly in newspapers and every two years in the election pamphlet.

The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The Free Conference Committee found a need for coordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee had considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interest of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the Committee's intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that the committee report back to the Legislature within two years, recommending how best the oversight duty could be carried out and including

consideration of the option of delegating the responsibilities to a separate committee.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to separate legislation. It merely assures that there will be income and does not preclude any options for its use. Unless another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.

TERRY GARDINER, Chairman
Conference Committee

JOHN SACKETT, Chairman
Conference Committee

DRAFT

FREE CONFERENCE COMMITTEE REPORT

FCCS for HCS for SB 161

In making their decision on the Alaska Permanent Fund, the Free Conference Committee has focused on a single question --- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans..." (page 4).

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

The contribution rate has been set at 25% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties plus any other money appropriated by the Legislature.

Three major concerns --- safety of principal, accountability, and legislative oversight --- are addressed by the legislation.

Safety of Principal

The Free Conference Committee Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). The fund is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwellings, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska (page 9). The order in which the investments are listed is not meant to express a priority for one type of investment over another. Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. Purchases of residential mortgages may be a further 15% of total assets. The bill allows the Fund to use the futures market to protect investments from the severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and

not to speculate. The bill also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 11). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. As former House Permanent Fund Committee Chairman Clark Gruening had said, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways

(page 5). The six members of the board will be appointed by the Governor and consist of the Commissioner of Revenue, two other commissioners, and three public members. They will be confirmed by the Legislature, except for the Commissioner of Revenue who serves by right of his office; the other commissioners are to submit to a seperate confirmation for their duties as trustees. Terms are three years; staggered, and members may be reappointed subject to confirmation. Members may be removed from the board by the Governor only with the consent of the Legislature. The public members of the board may not hold any other state or federal office or employment and must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state. It is intended that every two years the Governor shall make recommendations on adjusting the level of the honorarium. The board will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

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TERRY GARDINER, Chairman
Conference Committee

JOHN SACKETT, Chairman
Conference Committee

SCOMM

#18.26

Alaska State Legislature

TELECONFERENCE HEARINGS



DATE:

LOCATION:

SUBJECT:

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Commonwealth,	cont.				
Bert Beneville					
Dave Chatfield					
Paul Wilcox					
Barbara Scammon	Anc. Coq C				
Ruth Godfrey	Anchorage				
Vern Padgett	Anchorage				
Robert Gillam	Home Fed. Savings				
Joe L. Norris	A·I K A Processors				
Seibel	— Anc				
Bonnie W...	free — AKA Processors				

Alaska State Legislature

TELECONFERENCE HEARINGS

DATE: 3/6/80

LOCATION: [redacted]

SUBJECT: FCC - PERMANENT FUND
KODIAK / KOTZEBUE / BETHEL

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
BERT GRIEST EKIST	N.A.N.A.	KOTZEBUE AG HOURS 3-5			
DAVID W. THOMPSON	SELF	KODIAK			
JEFF SMITH ✓	Meuneluk Assoc.	KOTZEBUE			
308		[redacted]			
Bob Buttcane	SELF	Bethel —			
John Angiak	AVCP ~~ABEA~~ emp trg	Bethel —			
PARSONS	RTD C.G.	KDK SCHOOL LUNCH			
Simonsen	HA				
	ABEA EMPLOYMENT & TRG.				

CONVERT/ASSETS INTO LIQUIDITY

Alaska State Legislature

TELECONFERENCE HEARINGS

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

NOTE!
WITNESSES WILL NOT NECESSARILY SPEAK IN THIS ORDER,

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Russell Werty	Himself				X
Barry Brown	Local Realtor/Himself				X
Ralph Jensen	Himself	✓ INVEST IN AK RE $			X
Bob Day	Alaskans for a Stable Economy				X
Manton Wubbold	" "				(1) X
Marc Thyrring	Alaskan Businessmen's Coalition	SELF			X
Shann Corr	Alaskans for Stable Economy				X
Laurence Jefferson ✓	Local Contractor Self O	FINANCING			X
Jim Messer	Self	32 yr. / PETROCHEMICAL PLANTS			X
Ralph Seekins	Self				X
Wally Burnett 2 by's	Self	• COLLATERAL REQ - REDUCE			X

Alaska State Legislature

TELECONFERENCE HEARINGS

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

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Bob Dempsey	Self				X
Larry Orsini & assoc	Alaska Bus. Coalition and Self	✓			X
STAN STEVENS	N. STAR MARINE - ST LOANS				
	BANK PARTICIPATING				
Bill Pressing	Roy. 20's				
Andrew Klinefield	Self.				
Ralph Seekins	Self ✓	ONE entitity /			
	DISPOSABLE	SHARING CASH			
		TAX RELIEF			
ADAM PAULNACIK	ENERGY LOANS				

Alaska State Legislature

TELECONFERENCE HEARINGS

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

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Clark Kuig	Kuig & Assoc	Box 11, Auke Bay	789-0051	✓	
Joan Ray	G+M Associates	900 W. 5th Suite 601	278-2561	✓	
George P. Charles	Nana Development Co.	" " "	"	✓	
J a McLean	Ins. Assns.	Juneau	6-3210	✓	

Alaska State Legislature

TELECONFERENCE HEARINGS



DATE: 2/21/00
LOCATION: Anchorage
SUBJECT: Permanent Fund

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

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

The Kohler Agency

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

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

DATE 3-12-80

FILE NO.

ATTENTION

SUBJECT HB 279, Sec. 45.96.160
In the form of SB1 & HB161 introduced by HOHMAN 2/23/79

☐ URGENT
☐ Soon as possible
☐ No reply needed

TO:

Representative Malone
Pouch V
Juneau, Alaska 99811

MESSAGE

Dear Rep. Malone,

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

1) As an independent insurance agent I object to the State of Alaska going into the insurance business in direct competition to me and scores of other agents around the state.

2) As a citizen and taxpayer I object to offering a rate (six-tenths of one percent) which is totally unrealistic from any actuarial standpoint and which will result in tremendous losses from subject insurance program. Such losses will then be subsidized by all the citizens of the state either in additional taxes or loss of revenues that could be used for other purposes.

REPLY

SIGNED

DATE OF REPLY

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

Sincerely,

SIGNED John O. Kohler



Alaska House of Representatives



HUGH MALONE

POUCH V
JUNEAU
99801

—

P. O. BOX 9
KENAI
99611

April 3, 1980

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

Dear Mr. Kohler:

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

Sincerely,

Hugh Malone

HM:nl

JOHN W. McKEE III
FSA, MAAA, CLU
Vice President

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

insuring America's teachers **Horace Mann**

March 11, 1980

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

Dear Mr. Malone:

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

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

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

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

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

Sincerely,

John W. McKee III

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

JWM:ml
9397A

KENNETH A. MURRAY INSURANCE, INC.

AUTO • BONDS • FIRE • LIABILITY & WORKMENS COMPENSATION

300 BARNETTE STREET P. O. BOX 1007
FAIRBANKS, ALASKA 99707
Telephone 456-6646

March 20, 1980

Representative Malone
House of Representatives
Pouch V
Juneau, Alaska 99811

RE: Permanent Fund HB 279

Dear Sir:

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

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

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

Sincerely,

Kenneth H Murray

Kenneth H. Murray

KHM/hjh

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

March 25, 1980

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

Dear Hugh:

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

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

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

Sincerely,

Bill Sheffield fea

William J. Sheffield, Chairman
Resource Income Committee
Commonwealth North

lh

Alaska State Legislature

House of Representatives

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

March 7, 1980

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

Dear Bob:

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

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

Best wishes,

Nancy

Nancy Lord
Aide to Representative Malone

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

Theodore P. Swick
Senior Vice President

January 29, 1980

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

Gentlemen:

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

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

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

Cordially,

Theodore P. Swick

enclosure

CONTRACT BETWEEN

STATE OF ALASKA

DIVISION OF LEGISLATIVE FINANCE
AND

BACHE HALSEY STUART SHIELDS INCORPORATED

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

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

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

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

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

CLAUSE II. - STANDARDS OF PERFORMANCE

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

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

CLAUSE III. - PERIOD OF PERFORMANCE

(A) The period of performance under this contract shall commence on February 1, 1980, or on the date both parties sign this agreement and expires on the close of the Second Session, Eleventh Alaska State Legislature, provided, however, that the Chairman may grant an extension for additional periods.

(B) The agreement may be terminated:

(1) by the Chairman. Written notice of the necessity for doing so shall be delivered to the Contractor. Payment shall be made for satisfactory work; or

(2) by mutual consent of the parties to this agreement.

CLAUSE IV. - PROJECT DIRECTORS

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

CLAUSE V. - COMPENSATION AND METHOD OF PAYMENT

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

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

	HOURLY	PER DIEM
Senior Vice President	$ 100.	$ 800.
First Vice President	80.	610.
Vice President	60.	480.
Others	40.	320.

CLAUSE VI. - REPORTS

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

CLAUSE VII. - RECORDS, DOCUMENTS, AUDIT

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

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

CLAUSE VIII. - ALL WRITINGS CONTAINED HEREIN

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

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

CONTRACTOR:

By_____
Theodore P. Swick

_____
Title

_____
Date

STATE OF ALASKA
DIVISION OF LEGISLATIVE FINANCE

By:_____

_____
Title

_____
Date

APPROVED BY:

_____
Hugh Malone, Chairman
House Permanent Fund Committee

_____
Date

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

February 26, 1980

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

Dear Mr. Richards:

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

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

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

Sincerely,

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

Enclosure

JBR:jk

February 26, 1980

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

Dear Mr. Sheffield:

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

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

Sincerely,

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

Enclosure

JBR:jk



February 28, 1980

The Honorable Frank Ferguson
Pouch V
Juneau, Alaska 99811

Re: HB 279,Sec.45.96.100

Dear Senator Ferguson:

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

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

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

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

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

1. Six-tenths of 1% of amount of loan could be much less than six-tenths of 1% of the property values at risk.

2. In the event of a large liability claim it could deplete the reserve account in one action.

3. If the borrower is insured to full value of the property but the loan is for a much lesser amount it would appear to be an invitation to arson.

4. No provision made for proper adjustment of both fire and liability claims.

5. This section appears to have been written without much thought as to the many adverse consequences that could occur.

912 BARNETTE • POUCH 1872, FAIRBANKS, ALASKA 99707 • TELEPHONE (907) 456-8801 • TELEX 35-316

ALASKA 100

INSURANCE

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

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

Sincerely,

Richard E. Wagner
President

cp

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

cc: Joe McLean, Ely, Guess & Rudd

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Alaska State Legislature

Senate

JUNEAU, ALASKA

February 4, 1980

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

Dear Bill:

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

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

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

Sincerely,

George H. Hohman, Jr.
State Senate

GHH/hid

S 10

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

Alaska State Legislators

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

JOSEPH A. McLEAN
ATTORNEY AND COUNSELLOR AT LAW

TELEPHONE (907) 586-3210

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

FEB 6 1980

February 6, 1980

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

Dear Oral:

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

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

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

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

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

Respectfully yours,

Joe

Joseph A. McLean

JAM:mh
Enclosures

JOSEPH A. McLEAN
ATTORNEY AND COUNSELLOR AT LAW

TELEPHONE (907) 586-3210

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

to JOE
THANKS
M

February 15, 1978

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

Dear Clark:

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

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

HOUSE BILL 596

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

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

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

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

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

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

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

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

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

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

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

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

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

HOUSE BILL 595
GUARANTEES TO ELECTRICAL FACILITIES

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

Respectfully submitted,

Joseph A. McLean

JAM/kl

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

February 1, 1980

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

Dear Fred:

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

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

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

This approach would have numerous advantages to all Alaskans.

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

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

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

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

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

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

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

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

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

In prior contacts, one or two legislators have indicated to me that they discount anything a lawyer says, thinking that it is based upon the self-interest of the lawyer or his clients. I therefore want you to know that I do not have a single bank for a client. I have no investments in bank stock or any other interest in any bank. I number no bankers among my close personal friends.

Sincerely yours,

Andrew J. Kleinfeld

AJK:pjc

CHARLIE PARR

ALASKA LEGISLATURE

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

Pouch V
Juneau, Alaska 99811
465-3797

February 11, 1980

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

Dear Hugh:

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

Sincerely,

Charlie

Charles H. Parr

CHP:vc
Encl.

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

February 1, 1980

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

Dear Charlie:

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

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

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

This approach would have numerous advantages to all Alaskans.

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

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

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

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

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

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

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

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

In prior contacts, one or two legislators have indicated to me that they discount anything a lawyer says, thinking that it is based upon the self-interest of the lawyer or his clients. I therefore want you to know that I do not have a single bank for a client. I have no investments in bank stock or any other interest in any bank. I number no bankers among my close personal friends.

Sincerely yours,

Andrew J. Kleinfeld

AJK:pjc



Alaska House of Representatives

POUCH V
JUNEAU
99801

P. O. BOX B
KENAI
99611

HUGH MALONE

March 3, 1980

Dr. Lavern Davidhizar
Box 569
Soldotna, Ak. 99669

Dear Dr. Davidhizar:

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

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

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

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

Sincerely,

Hugh Malone

HM:nl

COMMONWEALTH NORTH

January 31, 1980

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

Dear Hugh:

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

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

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

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

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

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

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

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

Sincerely,

COMMONWEALTH NORTH

Bill Sheffield

William J. Sheffield, Chairman
Resource Income Committee

lh

This letter also sent to:

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

RESOURCE INCOME COMMITTEE

William Sheffield, Chairman
Sheffield Hotels

Bob Baer
President/General Manager
Totem Realty, Inc.

Bert Beneville
Merrill Lynch
Pierce Fenner & Smith

Mrs. Edith Bullock
Retired

David Chatfield
Alaska School Employees
Federal Credit Union

David Heatwole
Anaconda Copper Company

Jchn Mlakar
Denali Fuel Company

Ron L. Rettig
Alaska Mutual Bank

Robert Richards
Alaska Pacific Bank

William Scott
Peat Marwick Mitchell

Judge James Singleton
Superior Court, State of Alaska

Paul Wilcox
IBEW Local 1547

Renee Murray
Scott Wetzel Services, Inc.

Eric Wohlforth, Attorney
Wohlforth & Flint

Max Hodel
Alaska Sales & Service

Harry Donahue
Alaska Pipeline Commission

FEB 0

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

February 1, 1980

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

Dear Sally:

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

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

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

This approach would have numerous advantages to all Alaskans.

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

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

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

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

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

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

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

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

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Sincerely yours,

Andrew J. Kleinfeld

AJK:pjc

#18:26

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

DISPOSITION OF
THE SURPLUS FUNDS OF THE STATE OF ALASKA

A PUBLIC SERVICE POSITION PAPER

PREPARED BY

ALASKA PACIFIC BANCORPORATION

FOR

THE HONORABLE JAY HAMMOND, GOVERNOR, STATE OF ALASKA

JANUARY 1980

AlaskaPacificBancorporation

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

RECEIVED
JAN 21 1980
GOVERNOR'S OFFICE

January 18, 1980

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

Dear Governor Hammond:

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

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

Best personal regards.

Very truly yours,

A. G. Espe
President & Chairman of the Board

021/X

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

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

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

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

Amen!

Not Using the Surplus to Expand the Operating Budget

Alaskans today enjoy a level of public services that can only be described as lavish. State expenditure increases for this decade have far surpassed increases in consumer prices, population and employment. Since 1969, State expenditures have increased at an average annual rate of 22%. Anchorage consumer prices, on the other hand, have averaged only a 6.9% annual increase since that time. Further, Alaska population has increased at an average annual rate of about 3.3%. In other words, State expendure increases have been twice the amount required by inflation and population growth. Additionally, spending by State and local governments in Alaska is 3½ times as much as the average state in the nation, and even when cost-of-living differentials are removed, Alaska spends 2½ times as much as the U.S. average on a per capita basis.

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

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

Permanent Fund

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

Endowment Fund

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

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

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

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

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

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

The endowment fund also could purchase other loans of all types from Alaska financial institutions, thereby making more funds available to Alaska businesses and families. This would benefit both the public and private sectors with virtually no operating cost increases for state government because existing financial institutions are capable of handling and processing the loans. State of Alaska investments in loans for Fiscal Year 1979 totaled $343 million, of which business loans comprised only 15%.

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

Development Bank

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

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

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

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

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

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

what return?

Summary

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

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

COMMONWEALTH
NORTH

January 31, 1980

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

Dear George:

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

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

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

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

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

[illegible] • [illegible] • [illegible] • [

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

Sincerely,

COMMONWEALTH NORTH

William J. Sheffield, Chairman
Resource Income Committee

lh

This letter also sent to:

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

#18:26

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 14, 1980

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

Dear Representative Malone:

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

1. Provide benefits to all Alaskans from the earnings of their resource wealth.

2. Encourage greater contributions to the Permanent Fund.

3. Set in place a dividend dispersal system which most economists believe better meets the objectives of an A.C.S.O.C.

4. Not serve to narrow our already too narrow tax base.

5. Confine benefits to Alaskans.

6. Be less vulnerable to federal "tax bites".

7. Serve as less a magnet to attract persons to come up here.

8. Equitably impact both rich and poor.

9. Retain the taxpayer's one remaining tie with, and consequent concern for, government growth: How much it costs them.

10. Far less likely reduce federal revenue sharing to the State.

11. By contrast maximize favorable impact upon the State's economy by keeping a far larger portion of the money to fund the program here in Alaska.

12. Likely satisfy both the tax reduction and A.G.S.O.C. initiatives.

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

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

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

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

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

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

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

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

Sincerely,

Jay S. Hammond
Governor

SCOMM

#18:27

#18:27

A NARRATIVE ON SENATE BILL 1

by

Senator George H. Hohman, Jr., Chairman
Legislative Council

January 1980

THE FOLLOWING PAGES
ARE MISSING
FROM THE
ORIGINAL OF THIS
DOCUMENT

EVEN NUMBERED 2 THRU 26
ODD NUMBERED 29 & 31

Dear Alaskan:

The following report explains the Senate proposed legislation regarding utilization and management of the Permanent Fund and the Renewable Resources Development Fund. Some key points of the Senate legislation are:

REDUCE BUREAUCRACY

PROVIDE GREATER CONTROL

MAXIMIZE BENEFITS TO ALASKANS

OPTIMAL PROGRAM ACCOUNTABILITY

LOWER HOUSING COSTS

CONTRIBUTE TO LOWER COST OF LIVING

FINANCIAL DEVELOPMENT FOR RENEWABLE RESOURCES

SECURE PERMANENT FUND MONIES WITH HIGH GRADE INVESTMENT

Please feel free to submit any comments you may have regarding this bill to;

Senator George H. Hohman, Jr., Chairman
Legislative Council
Pouch V
Juneau, Alaska 99811

Sincerely,

Senator George H. Hohman, Jr., Chairman
Legislative Council

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INTRODUCTION

In November 1976, Alaskan voters approved a constitutional amendment which provides that at least 25% of certain non-renewable resources revenues be placed in a permanent fund. The amendment requires that the money be used for income-producing investments designated eligible by the legislature. Unless the legislature otherwise stipulates, earnings from the permanent fund will go to the state's general fund.

Because of the impact of the permanent fund on Alaskans, various opinion polls have been conducted to assess public sentiment about state needs and priorities, with emphasis on the structure, management and use of the permanent fund (Dittman for the Senate Committee on the Permanent Fund, Dec., 1977, Rowan Group Report for the Office of the Governor, July, 1977; the Alask Public Forum Report, March, 1977, and Rowan D-2 Poll, 1978).

In addition to using data generated by public hearings and public opinion polls, the Senate Committee on the Permanent Fund sent questionnaires to individuals in rural Alaska and the Alaska State Chamber of Commerce members for their input regarding permanent fund usage. From the responses received from both the questionnaires and the poll tabulations, various priorities surfaced. Many individuals feel there is a shortage of capital available for lending to business venture and for purchase and construction of housing. Development of renewable resources (including agriculture, timber, and fishing) is a high priority. Community development also received support. At the same time, the respondents strongly urged that the permanent fund principal be invested in hi-grade guaranteed securities, thus maintaining the integrity of the fund for future generations.

reasons:

1) The expertise already exists within the infrastructure for most, if not all, the activities currently contemplated for the permanent fund. The Treasury Division in 1977 administered $1/2 billion of fixed income securities for the general fund and an additional $1/2 billion for 7 segregated funds.

2) Employing an entirely new staff to manage the permanent fund would present many difficulties and risks.

3) The combined resources of the permanent fund, the general fund and the pension funds will create a pool of assets sufficient to employ specialized, sophisticated investment techniques to a degree none would afford individually. Thus all areas will benefit from combined management.

4) The revenues accruing to the permanent fund derive from taxes and belong to all of the citizens of Alaska. Therefore, no conflict of interest can result from their management by an existing state agency.

5) Accounting techniques currently exist for allocating cost among the various funds.

The Lombard-Wall report also includes an analysis of the capabilities of the Division of Treasury. The report concluded that there is efficiency in management of funds currently assigned to Treasury and that the staff, in particular, appears capable of assuming greater responsibility. Branditz also recommends that the Treasury be reorganized to include delegation of line and staff duties, creation of several new positions, and improvement of certain support functions in order to maximize earnings from the larger pool of assets anticipated.

In addition to the study undertaken by Lombard-Wall, letters received from the Treasury Divisions in other states indicate that

effective 60 days after presentation unless disapproved by a resolution concurred in by a majority of the members of each house.

RATIONALE FOR ESTABLISHMENT OF THE ALASKA LOAN PROGRAM

Since statehood, the Alaskan legislature has created fifteen loan programs and ten independent corporations to meet the capital needs of various groups or to enhance development of certain industries within the State. Generally, these target groups were unable to obtain adequate financing (either loan dollar amounts, interest rates, or loans of sufficient duration), from private financial institutions within or outside Alaska. The loan programs were not created to compete with private lenders, in fact, bank participation was a requirement of one loan program prior to the administrative directive requiring 25% bond participation in 19 Rather, as a matter of public policy the loan programs were conceived to provide funds for Alaskan ventures at terms banks could not (i.e. long term money) or would not (i.e. higher levels of risk) capitalize. Most of the loan programs are administered by the Department of Commerce and Economic Development, exceptions being the Agricultural Revolving Loan Fund (Department of Natural Resources); the Scholarship Revolving Loan Fund (Department of Education); and the Senior Citizens Housing Loan Fund (Department of Community and Regional Affairs). The independent corporations - Alaska Housing Finance Corporation, the Alask Power Authority, the Alaska Development Corporation, the Small Business Development Corporation, the Municipal Bond Bank, the Industrial Development Authority, Alask Pipeline Authority; Alaska Medical Facility Authority; Alaska Commercial Fishing and Agriculture Board and the Renewable Resources Corporation, are not within the direct purview of any state agency.

while not a formal audit, brought to light the facts that AHFC has promulgated no administrative procedures and had made loan policy changes without benefit of required public hearings beforehand. These facts were also noted in an audit performed by the Division of Legislative Audit, dated November 11, 1977, and released in February, 1978. The Ombudsman also stated that information concerning the policy changes had been selectively distributed to the state's financial institutions.

AHFC's 1977 lending activity was distributed on a ratio of 90% urban, 10% rural counter to the corporation's statutory mandate that loan activity shall be concentrated in "remote, underdeveloped or blighted areas", (AS 18.56.010). Although, AHFC has developed a loan program for rural home improvements or building material loans, according to the November 15 audit, (Division of Legislative Audit), the program had received no publicity in 1978. Repeated advance of general fund monies and legislative efforts have failed to result in an effort devoted to the basic legislative intent.

Taken as a whole, internal operation of the various loan programs can be neither damned nor praised. There are instances of good management, very poor management, and the entire spectrum is between. As of 1977, delinquency rates in the loan programs vary from 33% (Agricultural Revolving Loan Fund) to 2% (Veteran's Revolving Loan Fund). Subsequent reports indicate the Veteran delinquent rates were substantially higher. Characteristic of all loan programs is that loan granting, record keeping and collection functions occur within the same division. While an inherently sound practice for private financial institutions, whose goal

Provisions are made in the legislation for individuals and corporations to engage in borrowing through the Alaska Loan Program in cooperation or participation with the private financial institution of their choice.

The scope of activity includes; 1) educational loans, 2) commercial loans with a miximum of $500,000 per individual and $5 million maximum for no more than 10 individuals in a project, or a corporation where no more than 10 individuals owning stock assume a personal liability for fisherman, farmers and business purposes in general; 3) residential loans ranging from $90,000 (Cost of Leasing Index 1978) for a single residence to $210,000 for a 4-plex; 5) special categories previously covered in existing law; 6) public purpose loans where the Alaska Loan Program will submit a bid for all GO and revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city under the laws of the state, loans to municipalities of less than 5,000 population through purchase of municipal bonds, industrial development projects conducting exempt activities under federal law, and revenue bonds issued on behalf of a non-profit corporation with approval of the municipality.

The interest rate charged for loans will be standardized, and depending on the cost of the revenue bonds issued, which was projected at the 7% range in 1978, but may be between 7.5% and 8% in 1980. In the event that a reduction in the basic interest rate is deemed desirable, as for veteran's or educational loans, the difference in interest rates charged to the borrower and that paid to the Alaska Loan Programs Fund would be paid on a yearly basis from the general fund.

Should a loan become delinquent in excess of 30 days, a loan evaluation committee shall review the loan and consider re-evaluation of its terms and conditions, provided the loan can be restructured in such a way as to protect the interests of the state.

Accounting for the Alaska Loan Programs Fund will be performed by the Department of Administration. Reports will be made by the Departments of Commerce and Revenue to the Legislative Budget and Audit Committee on a monthly basis itemizing loans which are in excess of 30 days delinquent, and outlining the measures taken to insure compliance with conditions and terms of the loan.

Within the Department of Revenue, a division will be created to assume the collection function for all loans made by the Fund. Reports of collection efforts will be made to the Budget and Audit Committee.

The Budget and Audit Committee should do a quarterly review of the performance and status of the lending, accounting and collection procedures of the three agencies involved and will present their findings and recommendations to the legislature for review and action.

FUNDING OF THE ALASKA LOAN PROGRAMS FUND

In the 1977 study primary funding for the Alaska Loan Program would come from proceeds of revenue bonds. Revenue bonds are tax-exempt under Federal law, resulting in lower interest costs to the borrower. There would, however, be no limit on the amount lendable for public purpose loans - those to local government units, public utilities, hospitals, etc. If $100 million of public purpose bonds are issued then 25 million of bonds could be issued for business purposes -- to include residential housing if the Congress repeals this category.

3) Allocated Reserve Account - General Fund, for the purpose of securing obligations of the Alaska Loan Program Bonds. It consists of 50% of the income of the Permanent Fund. The purpose here is to provide for better ratings on the bonds which in turn would lower interest costs. These funds transferred into various reserves described below.

4) Unallocated Reserve Account - General Fund. This fund consists of all available cash at the end of a fiscal year after $100 million. This account provides security for the bonds plus provides funds for the Alaska Loan Program.

5) Comprehensive Loan Program - General Fund, consists of 15% oil and gas receipts. This adds to the Loan Program and security for bonds.

6) Capital Reserve Account - The Commissioner of Revenue shall place an amount equal to 5% of all obligations issued and sold into this account. At the end of each fiscal year, the Commissioner will withdraw or add to the account that amount necessary to maintain the 5% of the obligations secured. Excess funds will be returned to the unallocated reserve account. All money in this account may be used as required for the payment of bond obligation principal, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required should obligations, be redeemed before maturity. This again adds security for the bonds in raising bond ratings to lower interest costs.

7) Fire Insurance and Liability Reserve Account - The Alaska Loan Program may issue loans without requiring proof of insurance if an additional amount of .6% is made by the borrower. The account shall only be used for reimbursement to the Loan Programs Fund for losses of property not having the insurance coverage.

1978 State Loan Programs and Independent Corporations

Lending Agency	Eligibility	Interest	Terms	Amount
Agricultural Loan Fund	AK resident farmer, homesteader or partner of same 2 - 3 years experience			
Short Term		6.0%	1 yr	$ 25,000
Farm Development		6.0%	30 yr	200,000
Chattel		6.0%	7 yr	100,000
Irrigation		4.0%	10 yr	no max
AK State Development Corp (presently inactive)		legal rt	20 yr	750,000
Child Care Loan Fund	Certificate of need (CRA) required	6.0%	10 yr	10,000
Commercial Fishing Loan	5 yr AK resident; 3 yr license	7.0%	15 yr	150,000
Fisheries Enhancement	For non-profit hatchery permit holder	8.0%	25 yr	300,000
	For non-profit corporation	8.0%	25 yr	3,000,000
Small Business Dev. Corp.	Through Local Development Corp with/SBA	7.0%	25 yr	
Small Business Loan Fund	AK resident; less than 50 employees	8.0%	5-15 yr	300,000
Student Financial Aid	AK resident; full time graduate	5.0%	6-10 yr	5,000
	undergraduate	5.0%	6-10 yr	2,500
Tourism Loan Fund	Requires bank participation for loans exceeding $150,000	8.0%	20 yr	3,000,000
Veterans Loan Fund	AK Veteran; Veteran residing 5 years in state; 6 yr Nat'l Guard			
Personal		7.5%	20-30 yr	10,000
Business		7.5%	same	125,000
Vet occupied duplex		7.5%	same	83,250
Single family		7.5%	same	68,250
Multiple dwelling		7.5%	same	110,000
Water Resources Loan Fund	Public utilities	5.0%	7 yr	
Senior Citizens Dev. Fund	Municipalities and corporations	None Specified		
AK Housing Finance Corp.				
Conventional				
Single family	Owner occupants; home improvment loans only in rural Alaska	7.75%	30 yr	65,000
Duplex		7.75%	same	90,000
FHA/VA Insured				
Single family		7.50%	same	65,000
Duplex		7.50%	same	90,000
Home Improvement		9.50%	15 yr	15,000
Historical Loan Fund	Person, firm, or municipality	6.5%		100,000
AK Industrial Dev. Authority	Industrial development projects with approval of local governmental unit	Through Bond Issue		
Municipal Bond Bank	Municipalities	Through Bond Issue		
AK Power Authority	Not yet operational			

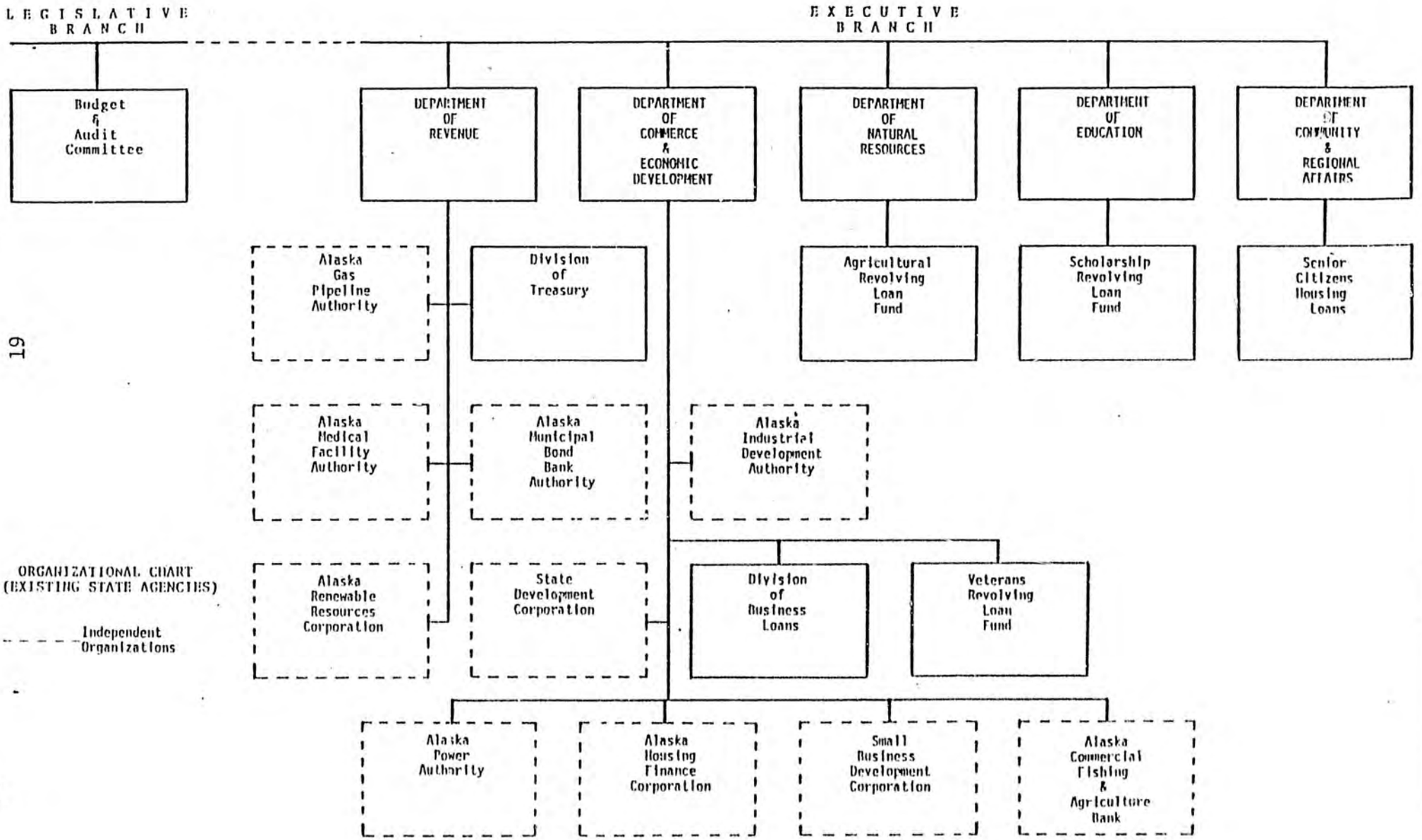
ALASKA LOAN PROGRAM

ELIGIBILITY:	5 yr. Alaska resident, minimum 18 yrs. of age
INTEREST:	Cost of borrowing to ALP plus 1% service fee
TERMS:	30 yr. on loan secured by real property
	15 yr. on life of equipment on loans secured by equipment
	7 yr. or life of chattel on loans secured by chattel
	1 yr. on a loan for working capital
COLLATERAL:	80% appraised value of equipment
	90% appraised value of real property
	95% for residential where FHA mortgage not available

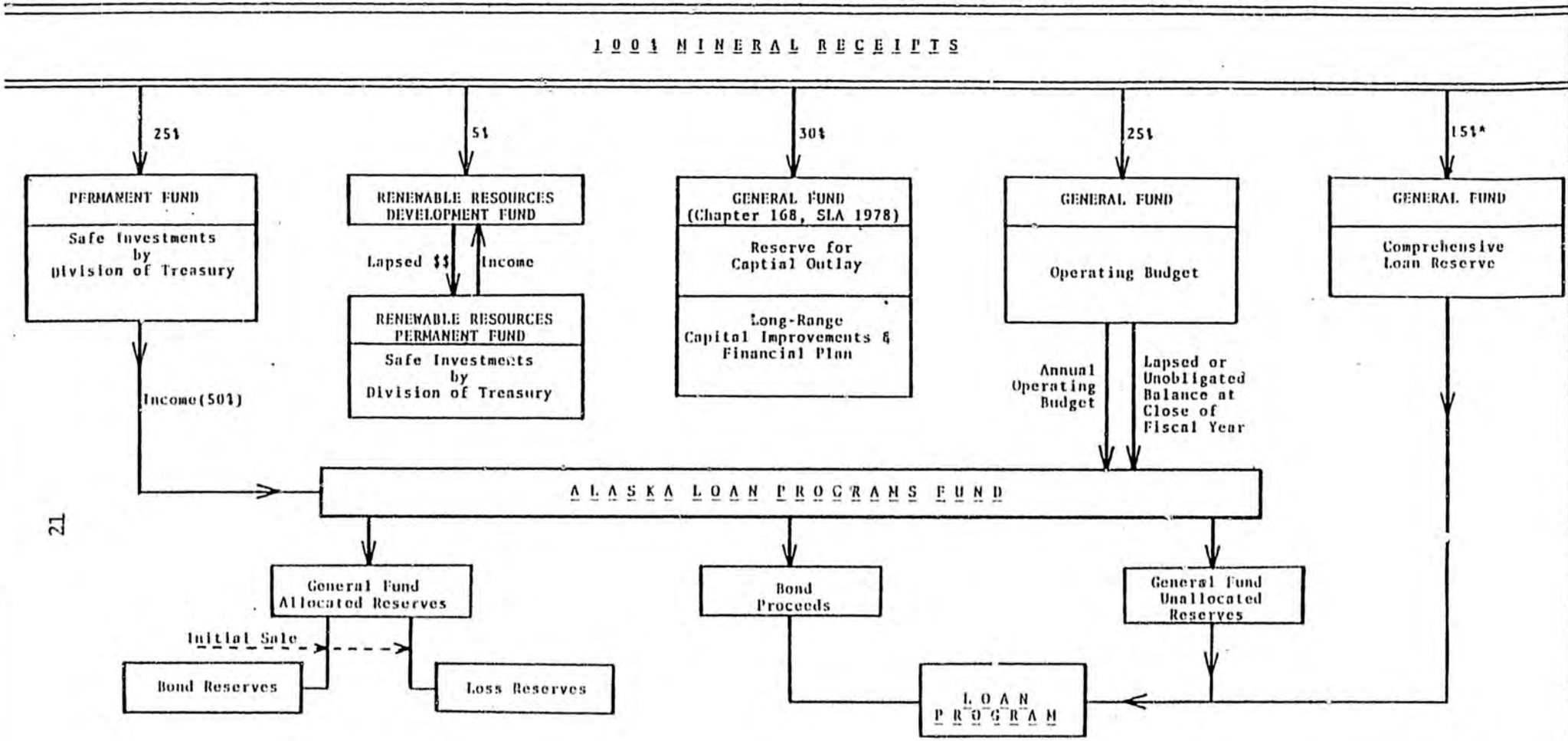
Index 1978

Index 1978

EDUCATIONAL	RESIDENTIAL	PUBLIC PURPOSE	COMMERCIAL
$4,000 per yr/undergraduate	$ 90,000 single dwelling	Eligible Entities	$500,000 max per individual
8,000 per yr/graduate	130,000 duplex	Boroughs and cities	$5 million max per group or
16,000 maximum outstanding	170,000 triplex	Municipalities	corporation assuming
	210,000 fourplex	Industrial development projects	individual liability
		Non-profit corporations	


LEGISLATIVE BRANCH
EXECUTIVE BRANCH
Budget & Audit Committee
DEPARTMENT OF REVENUE
DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT
DEPARTMENT OF NATURAL RESOURCES
DEPARTMENT OF EDUCATION
DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
Alaska Gas Pipeline Authority
Division of Treasury
Agricultural Revolving Loan Fund
Scholarship Revolving Loan Fund
Senior Citizens Housing Loans
Alaska Medical Facility Authority
Alaska Municipal Bond Bank Authority
Alaska Industrial Development Authority
Alaska Renewable Resources Corporation
State Development Corporation
Division of Business Loans
Veterans Revolving Loan Fund
Alaska Power Authority
Alaska Housing Finance Corporation
Small Business Development Corporation
Alaska Commercial Fishing & Agriculture Bank
ORGANIZATIONAL CHART (EXISTING STATE AGENCIES)
Independent Organizations

LEGISLATIVE COUNCIL STUDY--POSSIBLE 1980 PROGRAM



Organizational Chart C

*Based on ANCSA repayment projections

Future needs of Alaska's citizens can be met from the savings accounts within the Alaska Loan Program, which are: all unallocated reserves(income from Permanent Fund) and unallocated reserve subaccount(General Fund contribution account). Projections indicate that in eight to ten years the oil & gas receipts will deteriorate. The bond program will be ready then to assume more of a position in the Alaska Loan Program.

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund - 1978 Interest Level.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska - 1978 Interest Level.

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska - 1978 Interest Level.

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program - 1978 Interest Level.

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program - 1978 Interest Level.

Sample E

A Comparative Sample of Available Loans and the Senate Proposed Alaska Loan Program in Rural Alaska - August 1979.

Sample F

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska - August 1979.

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Rural Alaska
1978 Interest Level

TERM: 30 year loan

SAMPLE: $50,000 home

Lending Agency	Downpayment[1]	Interest	Monthly Pymts	Insurance[2]	Total Cost
Federal National Mortgage Association	$ 5,000.	9.5%	$ 378.39	$ 30,000.00	$ 171,220.40
State Veterans Loan Program	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority	1,500	8.5%	372.93	30,000.00	165,754.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	30,000.00	151,060.40
State Banks [3] (not available; pro forma only)	5,000	9.6%	381.69	30,000.00	172,408.40
Farmer's Home Administration	NONE	8.0%	366.89	30,000.00	162,080.40
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00

[1] All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

[2] Insurance fees are computed at a 2% of value of the home over a 30 year period and is a low estimate. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest costs and covers the mortgage only.

[3] Interest quoted is taken from bank questionnaires received by the Senate Committee on the the Permanent Fund

Sample B

A Comparative Sample of Available Business Loans
And the Senate Proposed Alaska Loan Program
1978 Interest Levels

TERM: 15 yea

SAMPLE: $125,000 business loan
(no equipment costs)

Lending Agency	Value Limitation	Interest	Monthly Payments	Total Cost	
Small Business Administration	90%	9.5%	$ 1,305.30	$ 234,954.00	
Bank	75%	9.5%	1,305.30	234,954.00	URBAN
(pro forma only)	75%	9.8%	1,306.50	235,170.00	RURAL
Small Business Loan Fund (State)	75%	8.0%	1,194.60	215,028.00	
State Veterans Loan Fund	75%	7.5%	1,158.80	208,584.00	
Alaska Loan Program	90%	7.0%	1,123.60	202,248.00	
Veterans Incentive	90%	6.0%	1,054.90	189,882.00	

The actual maximum loan amounts for each program listed as follows:

SBA guarantees	None given
Bank	Varies statewide
Small Business (state)	$ 300,000
Alaska Loan Program	$ 500,000 per individual $ 5 million for group of 10 individuals per project

Sample D

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Rural Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

LENDING AGENCY	DOWNPAYMENT[1]	INTEREST	MONTHLY PAYMENTS	INSURANCE[2]	TOTAL COST
Federal National Mortgage Assoc. (1979)	$5,000 ($2,500)	9.5% (11.6%)	$378.39 ($474.02)	$30,000.00 (same)	$171,220.40 ($203,145.75)
State Veterans Loan Program (1979 - no change)	5,000	7.5%	314.65	30,000.00	148.274.00
Federal Housing Authority (1979)	1,500 (1,750)	8.5% (10.0%)	372.93 (423.43)	30,000.00 (same)	165,754.80 ($184,184.18)
Alaska Housing Finance Corp. (1979)	5,000 (2,500)	7.75% (8.75%)	322.39 (373.68)	30,000.00 (same)	151,060.40 (167;024.80)
State Banks[3] (not available; pro forma only) (1979)	5,000 (2,500)	9.6% (11.6%)	381.69 (474.02)	30,000.00 (same)	172,408.40 (203,145.75)
Farmer's Home Administration (1979 no subsidy) (1979 subsidized)	NONE	8.0% (9.0%) (1.0%)	366.89 (402.31) (160.82)	30,000.00 (same) (same)	162,080.40 (174,832.07) (87,895.13)
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00
Juneau Borough Program[4]		8.65%			
5% down	2,500		370.31	7,500	144,356.20
10% down	5,000		350.82	7,500	139,795.20
15% down	7,500		331.33	7,500	135,228.80
Jefferson Parish[5]	2,500	7.625%	336.20	7,500	131,657.73
State of Alaska Retirement Investment Fund (Dept. of Revenue)	5,000	11.5%	445.63	7,500	172,927.21

1. All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Urban Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

LENDING AGENCY	DOWNPAYMENT[1]	INTEREST	MONTHLY PAYMENTS	INSURANCE[2]	TOTAL COST
Federal National Mortgage Assoc. (1979)	$5,000 ($2,500)	9.5% (11.6%)	$378.39 ($474.02)	$7,500.00 (same)	$148,720.40 ($180,645.75)
State Veterans Loan Program (1979) - no change)	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority (1979)	1,500 (1,750)	8.5% (10.0%)	372.93 (423.43)	7,500.00 (same)	143,254.80 (161,684.18)
Alaska Housing Finance Corp. (1979)	5,000 (2,500)	7.75% (8.75%)	322.39 (373.68)	7,500.00 (same)	128,560.40 (144,524.80)
State Banks[3] (not available; pro forma only) (1979)	5,000 (2,500)	9.2% (11.6%)	368.21 (474.02)	7,500.00 (same)	145,055.60 (180,645.75)
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00
Juneau Borough Program[4]		8.65%			
5% down	2,500		370.31	7,500	144,356.20
10% down	5,000		350.82	7,500	139,795.20
15% down	7,500		331.33	7,500	135,228.80
Jefferson Parish[5]	2,500	7.625%	336.20	7,500	131,657.73
State of Alaska Retirement Investment Fund (Dept. of Revenue)	5,000	11.5%	445.63	7,500	172,927.21

1. All the programs have a 10% downpayment with the exception of the Federal Housing Authority which requires 3%.

2. Insurance fees are computed at a .5% of the value of the home over a 30 year period and are approximate averages only. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest cost and covers the mortgage only.

ILLUSTRATIONS

The following Illustrations have been prepared by the Senate Special Committee on the Permanent Fund and give examples of loans that could be made through the Alaska Loan Program and the Renewable Resources Division.

*Loans Made in Conjunction with the Renewable Resources Division (Senate Original Position)

Illustration A

Bottom Fish Processing Plant

Illustration B

Fishing Boat

Commercial Loans Made through the Alaska Loan Program

Illustration C

Retail Store and Housing Development Project

*Note that the Senate's original position was that a Renewable Resource Division within the Department of Commerce and Economic Development be utilized in lieu of a separate corporation. The division personnel would be project oriented and advocates for these development projects. These illustrations indicate only how the Alaska Loan Program can be used as of February 1980.

RENEWABLE RESOURCES DIVISION

Illustration A

PROJECT: Bottom Fish Processing Plant

		Alaska Loan Program		Equity
Real Estate	$ 3,000,000	90%	$2,700,000	$300,000
Equipment	2,000,000	80%	1,600,000	400,000
	$ 5,000,000		$4,300,000	$700,000

A 50% equity position by the Renewable Resources Development Fund = $350,000

* Interest Cost = 7% over the life of the loan.

Note: With section 284 of the Alaska Loan Program, included in the above cost are:

1) Interest during construction (12 - 18 months)

2) Interest, costs, and working capital for 30 months

Therefore, the project has not paid anything from earnings for 48 months.

* 1978 Interest Level

RENEWABLE RESOURCES DIVISION

Illustration B

PROJECT: Fishing Boat

		Alaska Loan Program		Equity
Fishing vessel	$ 150,000	90%	$ 135,000	$ 15,000
Equipment	30,000	80%	24,000	6,000
	$ 180,000		$ 159,000	$ 21,000

*Division of Renewable Resources may: 1) supply an interest incentive

2) hold 50% equity position equal to $ 10,500.

* Senate original program now must use Alaska Renewable Resources Corporation.

ALASKA LOAN PROGRAM

COMMERCIAL LOANS

Illutration C

PROJECT: Retail Store

		Alaska Loan Program		Equity
Real Estate	$ 400,000	90%	$ 360,000	$ 40,000
Equipment	100,000	80%	80,000	20,000
	$ 500,000		$ 440,000	$ 60,000

PROJECT: Housing Development *

		Alaska Loan Program		Equity
Real Estate	$5,000,000	90%	$ 4,500,000	$ 500,000

* Project has participation of 10 individuals each assuming individual liability.

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REPEALERS -- SB 1 (1980)

The following existing loan funds, authorities, and development corporations are effectively repealed by the current version of SB 1.

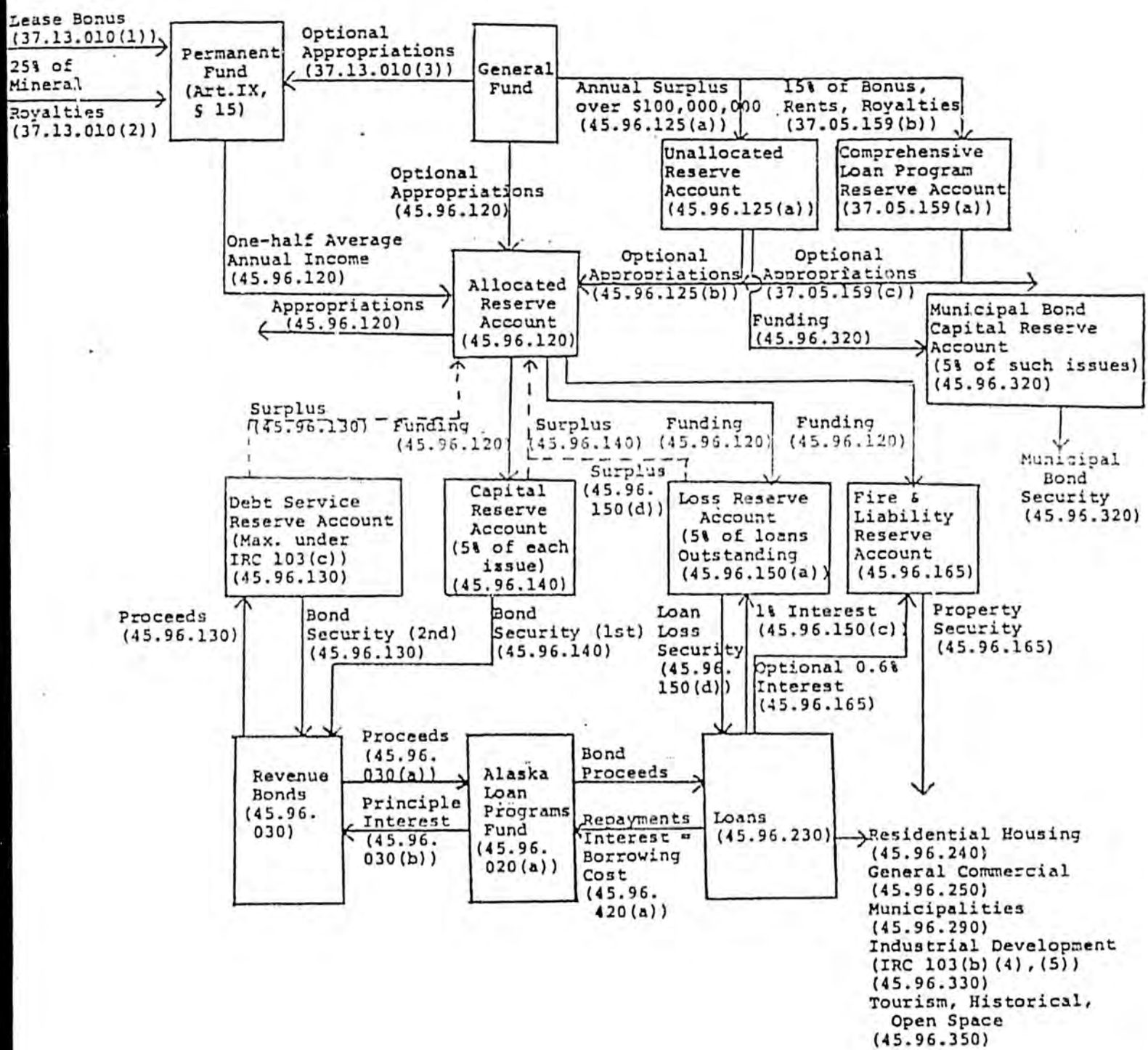
- 03.10 Agricultural Revolving Loan Fund
- 16.10 Commercial Fishing Revolving Loan Fund
- 16.10 Fisheries Enhancement Revolving Loan Fund
- 18.26 Alaska Medical Facility Authority
- 18.56 Alaska Housing Finance Corporation
- 18.100 Housing Development Revolving Loan Fund (allows grants only)
- 18.100 Senior Citizens Housing Development Fund (allows grants only)
- 26.15 Veterans Revolving Loan Fund
- 41.22 Outdoor Recreational, Open Space, and Historical Properties Development Fund
- 41.30 Area Redevelopment Revolving Loan Fund
- 44.33 Child Care Facility Revolving Loan Fund
- 44.33 Residential Care Facility Revolving Loan Fund
- 44.55 Alaska Gas Pipeline Financing Authority
- 44.56 Alaska Power Authority
- 44.58 Alaska Municipal Bond Bank Authority
- 44.59 Alaska State Development Corporation
- 44.60 Alaska Small Business Development Corporation
- 44.61 Alaska Industrial Development Corporation
- 45.86 Water Resources Revolving Loan Fund
- 45.88 Alternative Technology and Power Resources Revolving Loan Fund
- 45.90 Tourism Revolving Loan Fund
- 45.95 Small Business Revolving Loan Fund
- 45.98 Historical District Revolving Loan Fund

Existing funds and corporations which are not repealed by SB 1 are:

- 14.40 Scholarship Revolving Loan Fund (apparently an oversight)
- 14.40 Memorial Scholarship Revolving Loan Fund (apparent oversight)
- 44.47 Temperate Social Activities Revolving Loan Fund
- 44.56 Power Project Revolving Fund (an oversight?)
- 44.19 Disaster Relief Fund
- 37.11 Alaska Economic Disaster Impact Fund
- 37.12 Alaska Renewable Resources Corporation
- 44.54 Commercial Fishing and Agriculture Bank

CSSSSB No. 1
State of Alaska
11th Legis., 1st Sess.

EXHIBIT A



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Work Order #57
Berrier

Original sponsor: Hohman

IN THE SENATE BY THE RULES COMMIT

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, t Alaska permanent fund, and state investment policy a other state revenues; changing Rule 45, Rules of App late Procedures; and providing for an effective date

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, investment oversight and post-audit functions.

powers of (a)(4)

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment oversight division is established as a permanent staff agency responsible to the Legislative Budget and Audit Committee for the performance of oversight and review functions to provide information on the policy

and performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.331. STAFF. (a) The committee shall hire and determine the salary of the division director who shall serve both at the direction and pleasure of the committee. The director shall serve as head of the investment oversight division and, within the limits of the budget approved by the committee, shall employ and determine the compensation of the professional and clerical staff of the division.

(b) The director and members of the professional and clerical staff shall not join or support a partisan political organization. Thi prohibition does not prevent the director or members of the staff from joining social organizations, expressing private opinion, registering a to party or voting.

Sec. 24.20.341. DUTIES. The investment oversight division shall

(1) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(2) review periodic reports from all agencies of the state which perform lending or investment functions;

(3) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the Legislative Budget and Audit Committee at the time the committee directs;

(4) present to the committee within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d);

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

Sec. 37.13.020. INVESTMENT OF THE PERMANENT FUND. (a) The prudent-man rule is applicable to the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the permanent fund means that in making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large in-

vestments entrusted to it not in regard to speculation but in regard t the permanent disposition of funds, considering the probable income fr them as well as probable safety of capital.

(b) The permanent fund assets may only be used for income-producing investments.

(c) The commissioner shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances is clearly prudent not to do so.

(d) The commissioner shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) Subject to (a) and (b) of this section, unless otherwise instructed in accordance with AS 37.13.090, the commissioner may invest permanent fund assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of th United States; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

Same as SB 291

(1) No portion of the assets of the permanent fund may be used in the purchase of stock of a corporation which is not paying dividends on that stock in cash at the time of purchase; nor in the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the permanent fund may be used in the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the fund would exceed 30 per cent of the assets of the fund.

(f) Subject to (a) and (b) of this section, unless otherwise instructed in accordance with AS 37.13.090, the commissioner may inves permanent fund assets in

(1) Federal Housing Administration mortgages;

(2) Federal Veterans Administration mortgages;

(3) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage.

(g) To qualify as a mortgage or secured loan which may be purchased by the commissioner under (h) of this section, the mortgage or secured loan shall

(1) be secured by real estate in the state;

(2) have as a mortgagor an Alaska resident or a corporation in which at least 60 per cent of the stock is owned by Alaska resident

(3) be certified by the originating financial institution that the loan being sold has been made in compliance with law and that liens supporting the loan have been perfected;

(4) have no initial closing fees or service fees which exce one-half of one per cent, excluding closing costs.

(h) The commissioner may purchase loans provided for in (f) of this section only from financial institutions which are operating unde the national banking laws, federal savings and loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

(i) The commissioner shall establish and from time to time as necessary modify guidelines for the investment of permanent fund asset Before adoption of any investment guidelines, the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment. Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.030. GAINS AND LOSSES. At the end of each fiscal year the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.040. INCOME. The interest and dividends received in a year are the income of the permanent fund for that year. The income available for allocation shall be determined on an averaging basis. The income shall be allocated in accordance with AS 37.13.080 and AS 45.96.120. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for allocation will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

Sec. 37.13.050. BUDGET. The operating budget is from the general fund unless the legislature specifically appropriates from the unallocated reserve and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.060. ACCOUNTING. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by

that department to the Department of Revenue, the Department of Commer and Economic Development, and the Legislative Budget and Audit Committ on at least a monthly basis. These reports shall include an itemizati of each loan which has been in default for a period in excess of 30 da nd the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 37.13.020(d) a (i) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of th fund.

Sec. 37.13.070. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the commissioner of revenue shall publish a report for distribution to the governor, legislature, and the public. The report shall be written in easily understandable lan age. The report must include financial statements audited by the legislative audit division, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of fun investments including an appraisal at market value, a description of fund investment activity during the period covered by the report, an examination of the impact of the investment criteria of this chapter on the fund portfolio with recommendations for any needed changes and any other information the commissioner believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the fund shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet.

Sec. 37.13.080. DISTRIBUTION OF INCOME TO RESIDENTS. (a) No

later than June 30, 1981, the commissioner of revenue shall issue one share of the Alaska permanent fund to each resident of the state, regardless of age, who has been a resident continuously since July 1, 1980, and who, no later than February 1, 1981, has filed with the commissioner a statement of residency. The commissioner shall notify the public of the availability of shares under this subsection and the method for qualifying for shares. The notification shall be by publication in at least one newspaper of statewide circulation, by radio and television announcements, and by other means the commissioner determines to be appropriate and reasonable.

(b) One share issued under (a) of this section represents the total principal amount of the permanent fund at the time of the annual distribution of income under (c) of this section divided by the number of shares issued.

(c) Beginning July 1, 1981, and annually thereafter, the commissioner shall distribute one-half of the net income after allocations required in AS 37.13.140(f) and AS 45.96.120 from general investments the permanent fund for the previous fiscal year to the qualified shareholders in accordance with the procedures established by this section.

(d) The net income from general investments of the permanent fund shall be distributed to shareholders in proportion to the amounts of their shares which are in general investments. The amount or a part of the amount represented by one share is considered to be in general investments if the shareholder has not elected to direct under AS 37.13.090 the amount or part of the amount represented by the share.

(e) A share issued under this section is not transferable by sale, donation, lien, judgment, devise, or any other method. Alienation of a share is void as against public policy. Upon a shareholder's death or the termination of his residency, his share lapses to the state and

shall be counted as a full share for the purposes of (b) of this section. The lapsed share shall be invested for the state by the commissioner in accordance with AS 37.13.020. Income of the lapsed share shall be allocated to the general fund.

(f) Possession of a share imparts no right to ownership or possession of the principal of the permanent fund it represents; possession of a share imparts only those rights specified in AS 37.13.080 - 37.13.150.

Sec. 37.13.090. DIRECTED INVESTMENTS. (a) Within 60 days after the determination under (b) of this section of the amount of permanent fund principal available to each shareholder for directed investments, a shareholder may notify the commissioner of his election to direct the investment of the available amount of permanent fund principal or a part of it. The shareholder may direct investments to be made in any of the investments listed by the commissioner in accordance with AS 37.13.130(b). The notification shall indicate the specific investments to be made and the specific amounts to be invested. Unless the shareholder notifies the commissioner otherwise, the commissioner shall consider an investments directed by the shareholder from the previous determination under (b) of this section as part of the shareholder's directions for the current determination. The commissioner shall distribute net income as it is received from investments made under this subsection to the shareholder directing the investments.

(b) The amount of permanent fund principal for which the shareholder may direct investments under this section shall be determined by the commissioner no later than February 1, 1980, when the principal of the permanent fund reaches $3 billion and at each $1 billion increase in principal thereafter. The amount of permanent fund principal available to a shareholder for directed investments is equal to the value of one share, as determined under AS 37.13.080(b). The commissioner shall giv

public notice of the amount available for directed investments by publi cation in at least one newspaper of statewide circulation, by radio and television announcements, and by any other means the commissioner deter mines to be reasonable and appropriate.

(c) Upon receipt of notification provided in accordance with (a) of this section, the commissioner or his designee shall make investment of permanent fund principal in accordance with the notification.

(d) If the notification under (c) of this section is defective in that it directs investment of an amount greater than that which is available under (b) of this section to a shareholder, or in that it contains directions which are unclear or which the commissioner or his designee is not able to follow, the commissioner or his designee shall make reasonable efforts to expeditiously inform the shareholder of the defect. If the shareholder fails to revise his directions to cure the defect or fails to notify the commissioner or his designee of the revision within the time period established in (a) of this section, or if there is insufficient time to allow the commissioner or his designee to inform the shareholder of the defect within the time period established in (a) of this section, the shareholder's investment directions are void, and the shareholder shall share in the distribution of income under AS 37.13.080.

(e) If the notification under (c) of this section directs investment of an amount less than that which is available under (b) of this section to a shareholder, the commissioner or his designee shall make the investments specified in the notification, and the shareholder shall receive, in addition to net income earned by the directed investments, a proportionate share of the distribution of net income under AS 37.13.080 for the amount not invested by his direction.

(f) A shareholder may direct the commissioner or his designee to

sell an investment directed under (a) of this section at any time. The shareholder may direct the investment of the principal recovered at the sale in another eligible investment under (a) of this section or may allow the principal recovered at the sale to be invested by the commissioner in accordance with AS 37.13.020. If the shareholder decides to allow investment by the commissioner in accordance with AS 37.13.020, the shareholder may not direct any investments until the next determination under (a) of this section.

(g) The commissioner shall invest, in accordance with AS 37.13.020, and distribute the net income of, in accordance with AS 37.13.080, any increase in permanent fund principal during periods between determinations under (b) of this section.

Sec. 37.13.100. DETERMINATION OF RESIDENCY. (a) An individual who applies for a share of the Alaska permanent fund must prove his eligibility to the satisfaction of the commissioner. The commissioner may not issue an individual a share or make a payment to an individual until proof of that individual's eligibility sufficient to satisfy a reasonable person has been made to the commissioner.

(b) Proof of eligibility may be from school attendance records, state and local tax and licensing records, voter registration records, birth and marriage certificates, selective service records, sworn affidavits from others having knowledge of an individual's residence, and from other forms of documentary evidence which a reasonable person would rely on in the conduct of his own affairs. An affidavit from an individual without supporting evidence of eligibility is not satisfactory proof of eligibility.

(c) Upon determination of an individual's eligibility for a share, the commissioner shall, by first class mail, notify the individual of that determination. If the individual is determined to be ineligible,

he shall be informed by certified mail, of the following:

(1) the reason for his ineligibility;

(2) that he may file additional proof and file a request fo a hearing before the commissioner to present proof of his eligibility; and

(3) that the decision becomes final and unappealable 30 day after receipt of the notification unless, within that time, the indivi dual files additional proof or files a request for a hearing before th commissioner.

(d) If an individual does not file additional proof or file a request for a hearing with the commissioner within 30 days after his receipt of the commissioner's notice of the determination, the commissioner's decision becomes final as to the period involved and there is no further appeal. The time limit is jurisdictional.

(e) If an individual files additional proof or files a request f a hearing with the commissioner within 30 days after he receives the commissioner's notice of the determination and, after the additional evidence has been considered or the hearing held, he is still determin to be ineligible, he may appeal to the superior court within 30 days after he receives notice of the final decision. The time limit is jurisdictional, and no appeal may be brought after it has elapsed. In considering the appeal, the superior court may review solely on the record which was before the commissioner and must apply the reasonable basis test to factual matters and its own judgment on the law. The sa standard of review applies if a further appeal is taken to the supreme court.

Sec. 37.13.110. CONFIDENTIALITY. An investment made at the dire tion of a shareholder in accordance with AS 37.13.090(a) is confidential.

Sec. 37.13.120. REGULATIONS. The commissioner may adopt regulations in accordance with the Administrative Procedure Act (AS 44.62) f the administration and enforcement of AS 37.13.080 - 37.13.150.

Sec. 37.13.130. ELIGIBLE DIRECTED INVESTMENTS. (a) The commissioner shall, by regulation, establish a list of at least 100 specific investments which may be made at the direction of shareholders in acco dance with AS 37.13.020(a) and (b). The comm ssioner shall include in the list only those investments which accord with the prudent-man rule

(b) An investment of permanent fund principal made under AS 37.-13.020(a) and (b) in an investment which is removed by the commissione from the list of eligible investments shall be redeemed by the commissioner or his designee at the earliest possible time, and the commissioner or his designee shall notify the shareholder at whose direction the investment was made of the redemption. The shareholder may direct the commissioner to reinvest the amount redeemed in eligible investment in accordance with AS 37.13.020(a) and (b). the 4B.

Sec. 37.13.140. ALASKA PERMANENT FUND INVESTMENT FUND. (a) Ther is established as a separate fund a special account within the permaner fund called the Alaska permanent fund investment fund. The state bond committee may issue negotiable or nonnegotiable evidences of indebtedness on the terms and conditions the committee determines appropriate i order to provide money to carry out the purposes of the fund. The principal and interest on the indebtedness is payable from income or assets of the fund.

(b) Obligations issued under the provisions of this section are not a debt, liability or obliga ion of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this section shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or

assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

(c) The purpose of the investment fund is to provide an initial source of capital for the permanent fund investment program established by this chapter. Any income from the investment fund in excess of the income necessary for debt service and any required reserves is distributed to shareholders of the permanent fund as income from the permanent fund is distributed.

(d) The money in the investment fund available for investment shall be invested as provided for investment of permanent fund principal. For purposes of determining the amount available to be invested by each shareholder in directed investments, the amounts available under this section shall be divided by the number of shares issued added to the value of each share as determined under AS 37.13.080(b).

(e) To the extent that money is available from permanent fund principal for investments other than directed investments, the commissioner of revenue shall transfer investments of the investment fund to the principal of the permanent fund at the market value of the investment at the time of the transfer. Money received as a result of the transfer may only be used for payment of principal of debt of the investment fund.

(f) For the purpose of securing obligations of the fund, the committee shall establish a special account called the debt service reserve account. One-half of the income from the Alaska permanent fund established in AS 37.13.010 is allocated to the account. Money held in the debt service reserve account may be used as required solely for (1) the payment of the principal of obligations, (2) the purchase or redemption

of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in the debt service reserve account when the obligations the account secures is fully retired shall be paid to the permanent fund established in AS 37.13.010. When the money in the debt service reserve account reaches an amount determined by the commissioner to be adequate to secure obligations issued under this section the income from the Alaska permanent fund allocated to the debt service reserve account shall be deposited in the permanent fund.

Sec. 37.13.150. DEFINITIONS. For the purposes of AS 37.13.080 - 37.13.150,

(1) "commissioner" means the commissioner of revenue;

(2) "directed investments" means investments of permanent fund principal made by the commissioner of revenue or his designee under the direction of a shareholder in accordance with AS 37.13.020(a) and (b);

(3) "general investments" means investments of permanent fund principal made by the commissioner of revenue or his designee in accordance with AS 37.13.020 but not under the direction of a shareholder in accordance with AS 37.13.090;

(4) "net income" means total income to the Alaska permanent fund reduced by costs directly related to the attainment of income;

(5) "resident" means an individual who maintains a permanent place of abode in the state with the intention of making the state his permanent place of residence and who resides in the state continuously except for temporary purposes only and with the intent of returning; no person may be considered to have gained a residence solely by reason of his presence nor may he lose it solely by reason of his absence while in

WORK DRAFT PAPER

the civil or military service of this state or of the United States or of his absence because of marriage to a person engaged in the civil or military service of this state or the United States; while a student at an institution of learning; while in an institution or asylum at public expense; while confined in public prison; while engaged in the navigation of waters of this state, of the United States, or of the high seas; or while residing upon an Indian or military reservation; a minor takes the residence of his parent or of his legal guardian; a married woman shall establish her own residence and does not presumptively take the residence of her husband;

(6) "shareholder" means a person to whom the commissioner of revenue issues a share of the Alaska permanent fund under AS 37.13.080.

* Sec. 6. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. Efficient use of the capital resources of the state will be promoted by creating a single loan fund to provide a single source from which potential users can acquire a state loan and obtain information about existing federal or private loan programs which will better serve the needs of the user or which will complement a proposed state loan. A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The purpose of the loan programs fund is to provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the

private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The directo of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least eight years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan programs fund in accordance with AS 45.96.010 - 45.96.490.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in order to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipatio notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may b paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when the definitive bonds or bond anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee, will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal

and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge made, and assets or revenues pledged are immediately subject to the li of the pledge without physical delivery or further action. The lien o a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except tha a sale may be restricted by the resolution providing for the issuance the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce al rights granted under the coupons or under any other contract executed the fund under this chapter, and may enforce and compel the performanc of all duties required by this chapter to be performed by the fund or an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including

capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective

dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of th fund. Each obligation issued under this chapter shall contain its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of t principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is publ property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued by a body corporate and public of this state and for an essential publ and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee ma sell bonds at public or private sale until July 1, 1984. After July 1 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, t state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account within the general fund called the allocated reserve account is established. One-half of the income from the Alaska permanent fund established in AS 37.13.010 is allocated to the account until the state bond committee determines this allocation is no longer necessary. Other money may be appropriated to the account. The amounts necessary to fund the capital reserve account established under AS 45.96.140, the fire insurance and liability reserve account under AS 45.96.160, and the loss reserve account under AS 45.-96.150 are allocated to those accounts from the allocated reserve account. All other expenditures from the allocated reserve account shall be in accordance with annual appropriations. After the allocation of the income from the permanent fund is terminated or after July 30, 1990, whichever occurs first, the one-half allocated to this account shall be paid to the general fund and be available for appropriation.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account within the general fund called the unallocated reserve account is established. The unallocated reserve account consists of any amounts in excess of $125,000,000 remaining in the general fund at the end of a fiscal year commencing after June 30, 1979 which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in AS 45.96.120 from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regu-

lations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principa and interest account or the capital reserve account, solely for (1) th payment of the principal of obligations, (2) the purchase or redemptio of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a speci account called the capital reserve account. The commissioner of reven shall pay into the capital reserve account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequen sales, if any, of obligations of the issue secured, an additional amou equal to five per cent of the principal amount of the obligations sold At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserv account any amount in the capital reserve account in excess of five pe cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaini principal balance of the obligations secured, pay into the account fro the allocated reserve account the amount necessary to bring the reserv to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of oblig tions, (2) the purchase or redemption of obligations, (3) the payment

interest on obligations or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by AS 45.96.120. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into the loss reserve account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the loss reserve account from the allocated reserve account the amount necessary to bring the balance of the loss reserve account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into the loss reserve account from the allocated reserve account the amount needed to bring the balance of the loss reserve account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest paid by the fund required by sec. 430 of this chapter shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of the loss reserve account exceeds five per cent of the remaining principal balance of the total amount of

loans projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the div

sion of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund unde the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthl reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.190. BUDGET. The operating budget is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 45.96.180(b) and 45.96.240(b) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices necessary which shall be headed by district directors. The office sha provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

(b) Each district loan office shall include a vete ans' loans section. The veterans' loans section shall process loan applications from applicants who meet the eligibility requirement of AS 45.96.440. The veterans' loan section shall also provide information and assistan to veterans relating to loan applications under this chapter, other state loan programs or state grant programs, federal loan or grant programs, and to the extent feasible, private loans.

Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a) There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Evaluation Committee consisting of the directors, or their designees, of the following divisions: (1) t division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Departme of Revenue, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development.

(b) The committee shall notify recipients of loans under the provisions of this chapter who have been delinquent in their loan repayments for a period in excess of 30 days. Upon notification of delinquency, the borrower may request reevaluation and technical assistance from the committee. If the borrower requests reevaluation, the committee shall consider the terms and conditions of the loan as well as all other pertinent information to determine whether there are feasibl

alternative terms and conditions which will protect the interest of the state and prevent the default of the loan.

(c) In performing the duties described in (b) of this section, the committee shall have access to all nonconfidential records, data, information, and statistics of all departments, boards, commissions, agencies, and institutions of the state. The committee shall also have access to any records or other information of the borrower which are pertinent to its investigation. Failure on the part of the borrower to provide the records or information shall be grounds for refusal to reevaluate.

(d) If the committee determines that alternative terms and conditions are available which will protect the interest of the state and prevent default of the loan, it may renegotiate the loan in accordance with these terms.

Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There is established within the Department of Revenue the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the department is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

(b) If a borrower who has received notification of delinquency in accordance with AS 45.96.220 does not request reevaluation, or if the evaluation committee determines that renegotiation of the existing terms and conditions is not feasible or justified, and the loan is not brought current within 30 days after the notification of delinquency is sent,

the loan shall be transferred to the loss reserve account and transmitted for collection to the division of collections. A monthly report of the status of the collection effort shall be made to the Legislative Budget and Audit Committee. The total principal and interest due shall be transferred from the loss reserve account to the fund upon assignmen of each loan.

Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, public purposes, and education.

Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of AS 45.96.370,

(1) make or participate in the making of construction loans from the fund to sponsors, developers, and builders of residential housing;

(2) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(3) purchase or participate in the purchase of mortgage loans made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(4) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(5) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(6) purchase, in order to meet the requirements of the sale of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(7) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, the security instrument shall be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of AS 45.96.295 and 45.96.297;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the fund a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to

harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of AS 45.96.410 and 45.96.420, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under AS 45.96.270(5) on the basis of the following criteria

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of receipt of the application.

Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under AS 45.96.270(2) shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States and so long as the Ship

Mortgage Act of 1920 (46 U.S.C. secs. 911 - 9[illegible]; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39 Stat. 728), as amended, remain ambiguous with respect to whether or no a state or state agency qualifies as a citizen of the United States fo purposes of those Acts, the first lien requirement of this section may be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection o a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary o Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of th United States. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a fir preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary o Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.297. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a) Loans under AS 45.96.270(2) for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan programs, the permit to be purchased may be pledged as security for a

loan under (a) of this section, if

(1) the certificate for the pledged permit lists the direct as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be made through the purchase by the fund of municipal bonds. Loans to

nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this subsection shall be the same as the cos of borrowing to the fund. Loans made under this subsection may not exceed $5,000,000 and are subject to the following conditions:

(1) The borough or city attorney shall certify that all leg requirements relating to required bond elections, if necessary, and to bond issuance have been met, or if the bonds are issued outside a muni cipality, certification shall be made by the Department of Law.

(2) The bonds shall be prepared by the municipality's attor ney, approved by the attorney general and need not be in definitive form.

(3) The bonds shall be for a term commensurate with purpose but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five year maturity;

(C) 50 points under the average for the next five year maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five year maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or

on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly o indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least 10 d before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based up the best combination of bids. The bid shall be determined on the basi of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by

the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in AS 45.96.400 - 45.96.430 do not apply to loans or purchases made under this section.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest on bonds of the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state and those bonds on behalf of nonprofit corporations guaranteed or issued under this chapter there is established a special account called the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of the obligations issued

and sold after July 1, 1979 and upon subsequent sales, if any, of obli gations of the issue secured an additional amount equal to five per ce of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reser account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if t amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money hel in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to b paid when those obligations are redeemed before maturity. Any income o interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted, unless the municipality has provided otherwise by a resolution adopted

before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is performed has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not performed within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of greater than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the sum total of all costs of financing and carrying out a project are eligible for bonding under AS 45.96.300 - 45.96.330. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of

machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expense of the issuer; the cost of financing the project, including interest o bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, lega fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

Sec. 45.96.350. EDUCATION. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make scholarship loans from the fund to students selected under (b) - (g) of this section.

(b) Proceeds from scholarship loans may only be used for transportation, books, tuition and required fees, and for room and board. The loans may only be used to attend a career education program approv by the Alaska Commission on Postsecondary Education or a college or university accredited by the accreditation association for the region which the college or university is located or approved by the commission.

(c) To maintain a loan the student must continue to be enrolled a full-time student in good standing in a work study program approved the Department of Education, in a career education program, or in a college or university designated under (b) of this section.

(d) Loans are noninterest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments unde (g) of this section if appropriated funds are available for payment to the fund of the interest.

(e) The repayment period for student loans is 10 years. Unless deferment of payments has been granted under (g) of this section, re-

payment shall commence when the student terminates his studies. In cas of hardship, the Alaska Loan Programs Evaluation Committee may extend repayment of a loan for an additional period of up to five years.

(f) If, upon completion of the course of study for which the loan was granted, the borrower repays 60 per cent of the principal amount of the loan with interest with no delinquency, the remaining 40 per cent owing shall be forgiven if appropriated funds are available for payment to the fund of the amount forgiven.

(g) The Alaska Loan Programs Evaluation Committee shall defer repayment of a loan during any of the following:

(1) the first year after a student terminates his studies;

(2) return by the student to student status as provided in (c) of this section;

(3) performance by the student of military or required alternative service; or

(4) 50 per cent or greater disability of the student, as certified by competent medical authority.

Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to a business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan under this chapter, other than a loan made under AS 45.96.350, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. Except for loans made under AS 45.96.330, a corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full individual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility requirements. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of AS 45.96.260 for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling;

(2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of AS 45.96.270 may not exceed:

(1) $500,000 per individual for business activities; farm development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish manufacturing and processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other activity not otherwise specifically provided for in this section;

(2) $350,000 per individual for farm chattel other than for irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10 individuals participating in the project and the loan to each individual does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

(d) Educational loans made under the authority of AS 45.96.350 may not exceed:

(1) $4,000 per individual per year for undergraduate studies;

(2) $8,000 per individual per year for graduate studies;

(3) $4,000 per individual per year for vocational studies;

(4) $4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate o the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrowe is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan amounts established in AS 45.96.380(a) and (b) shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determination.

Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in AS 45.96.380(b) and 45.96.390 shall be further limited, based upon the actual technical and managerial experience of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience is less than two years, he may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.410. VALUE LIMITATION. The provisions of AS 45.96.-

380 - 45.96.400 notwithstanding, no loan made under this chapter, unles it is a loan made under the provisions of AS 45.96.330, may exceed

(1) 90 per cent of the appraised value of real property pledged as security for the loan;

(2) 95 per cent of the appraised value of real property pledged as security for the loan if the loan is for residential housing in an area where Federal Housing Administration mortgage insurance is not available; or

(3) 80 per cent of tangible personal property pledged as security for the loan.

Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property pledged as security for the loan nor

(1) 30 years on a loan secured by real property;

(2) 15 years or the life of the equipment on a loan secured by equipment used for production of income;

(3) seven years on a loan secured by tangible personal property.

Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost for the loss reserve account plus the amount required for any necessary insurance, but the rate of interest charged may be lower if necessary to prevent bonds issued under this Act from being arbitrage bonds under the provisions of and regulations under section 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost by the commissioner is conclusive. Rates of interest less than that, except as provided in

(b) of this section, may be charged if the renewable resource development fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or if appropriation for the purpose of paying the difference has been made.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made to a veteran or is made for agricultural purposes. If the loan is made to a veteran, the World War II veterans' revolving fund, created in AS 26.-15.090, shall pay the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made to a veteran and for agricultural purposes, the rate of interest shall be reduced by two per cent and each fund shall pay one-half the difference.

(c) When the World War II veterans' revolving fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made to veterans apply only if appropriation is made for the purpose of paying the difference. When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The following persons are eligible for special interest rates for veterans established in AS 45.96.430(b);

(1) a person who served in the armed forces of the United States for 90 days or more, or whose service was for less than 90 days

because of injury or disability incurred in the line of duty, between April 6, 1917 and November 11, 1918, and beginning September 16, 1940 t six months after termination of hostilities involving United States forces in Indo-Ch na, or in a combat zone during any period of armed conflict, who was separated from the armed forces with a discharge othe than dishonorable, and

(A) who at the time of induction into the service was a resident of the territory or state, who had been a resident for no less than one year immediately before his induction, and who returned to the territory or state after discharge as a resident wit the intention of remaining in the territory or state; or

(B) who, not being a bona fide resident of the territor or state before his entry into the service, has been a resident of the territory or state for five or more years;

(2) a person who was dependent on a member of the armed forces or a veteran of World War II at the time of the member's or veteran's death if

(A) the member or veteran was a resident of the territory for one year before induction into the service;

(B) he served in the armed forces for at least 90 days between September 16, 1940, and July 25, 1947, but no benefits for loans accrue to dependents of an enlistee or reenlistee for time served after November 1, 1945, regardless of whether the enlistment or reenlistment was before or after November 1, 1945;

(C) he died before the official date of the termination of that war; and

(D) his discharge was not dishonorable;

(3) a person who has served in the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia for

not less than six years and who has not received a discharge other than honorable.

(b) The provisions of AS 45.96.430(b) are extended to persons who served other than dishonorably on active duty between June 25, 1950, an January 31, 1955, who served other than dishonorably on active duty between August 4, 1964, and six months after termination of hostilities involving forces of the United States, and to dependents of those persons, subject to the following provisions and eligibility qualifications:

(1) a discharge other than dishonorable from the armed force of the United States or release to a reserve component;

(2) at the time of entry into the service residency in the territory or state for not less than one year before entry into the service, and return to the territory or state within a reasonable lengt of time after discharge or separation with the intention of remaining i the territory or state; or lacking residency before entry into the service, residency in the territory or state for at least five years following release from active military service; and

(3) service in the armed forces of the United States for 90 days or more, or service for a lesser period because of injury or disability incurred in line of dut etween June 25, 1950, and January 31, 1955, or service in the armed forces of the United States for 90 days or more or service for a lesser period because of injury or disability incurred in line of duty, between August 4, 1964, and July 1, 1977.

(c) A person who is eligible under more than one of the qualification provisions of (a) and (b) of this section shall have the rate of interest on his loan reduced by one and one-half per cent.

Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of

contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed

upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from the fund the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan programs as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund

created in AS 45.96.020.

* Sec. 7. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 8. AS 14.40.751(a) is amended to read:

(a) There is created a scholarship revolving loan fund. [THE FUN SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUN AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FRO THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

* Sec. 9. AS 14.40.755(b) is amended to read:

(b) A person whose [LOAN OR] grant application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application.

* Sec. 10. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR <u>GRANTS</u> [LOANS]. Only public or nonprofit private corporations are eligible for <u>grants</u> [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. <u>501(c)(3) and (4)</u> [501(e)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 11. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corpora-

tions designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 12. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 13. AS 29.13.100 is amended by adding a new paragraph to read:

(39) AS 29.58.290 (industrial development bonds)

* Sec. 14. AS 29.58 is amended by adding a new section to read:

Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality, home rule or otherwise, may issue a revenue bond which is an industrial development bond under the provisions of the Internal Revenue Code of 1954 (26 U.S.C. 103).

* Sec. 15. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO <u>DIVISION OF TREASURY</u> [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the <u>division of treasury of the</u> Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the <u>division of treasury</u> [DEPARTMENT OF REVENUE] when the <u>division of treasury</u> [DEPARTMENT OF

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(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the <u>division of treasury</u> [DEPARTMENT OF REVENUE] when the <u>division of treasury</u> [DEPARTMENT OF

REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 16. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

(5) corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Federal Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) [AS 03.10 AND AS 26.15];

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements, reverse repurchase agreements, or any trading practice or instrumentalities that may evolve investment management.

* Sec. 17. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the approval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

* Sec. 18. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and

execution of transactions, in or out of Alaska.

* Sec. 19. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 20. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 21. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in AS 37.10.070, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure state deposits provided for under this section.

* Sec. 22. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury and division of collections are in the classified service and may not be designated as partially exempt;

* Sec. 23. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to

municipalities, of up to one-half the nonfederal share of costs of projects described in AS 41.22.010 which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 24. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 25. AS 44.21.020 is amended by adding new paragraphs to read:

(13) provide accounting services for the permanent fund (AS 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable resources development fund (AS 37.11), and all other state funds;

(14) provide detailed accounting of state loans outstanding and securities held by the state.

* Sec. 26. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking,

economics, or another closely related field;

(2) have 10 years of experience in banking or investment management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department, except that the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of these functions.

* Sec. 27. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 28. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 29. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 7 - 12, 23 - 24, and 30 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than January 1, 1980.

* Sec. 30. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771; AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4),

18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140-(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45:86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 31. AS 37.10.065, 37.10.075(b) - (d), 37.10.079; and AS 44.25.020(2) are repealed.

* Sec. 32. Sections 1 - 6, 13 - 22, 25 - 29, and 31 of this Act take effect June 30, 1979. The unobligated general fund surplus as of June 30, 1979 in excess of $125,000,000 shall lapse into a special account in the general fund. Money in the special account may be used only from June 30, 1979 to December 31, 1979 for purchase of evidences of indebtedness acquired or to be acquired before December 31, 1979 from state loan programs which were in existence on January 1, 1979. Before January 31, 1980 the governor shall certify to the legislature the balance remaining in the special account and that balance may be appropriated to the principal of the permanent fund established by AS 37.13.010.

* Sec. 33. Sections 7 - 12, 23, 24 and 30 of this Act take effect June 30, 1980.

* Sec. 34. In sec. 5 of this Act, the enactment of AS 37.13.100(d) and (e) has the effect of imposing a jurisdictional limitation on the operation of Appellate Rule 45, Alaska Rules of Court Procedure, in that an appeal under the rule (having to do with appeals from administrative decisions to the superior court) must be brought from the decisions of the commissioner of revenue as to eligibility within 30 days or the court will have no jurisdiction to hear it. This is an exercise of the legislature's authority over the

jurisdiction of the courts, but because it also effects an implied, narrow amendment to Appellate Rule 45 by imposing this jurisdictional time limit instead of the procedural time limit of the same duration which will continue to apply to other appeals, this section has also been included.

To: Rep. Hugh Malone

From: Nancy Lord, aide to the House Permanent Fund Committee

Date: Feb. 4, 1980

Re: Senator Hohman's d-2/PF survey

At your request, I have singled out those questions from the d-2/Permanent Fund survey which I consider to be most interesting. Copies of the sheets are attached as well as an editorial from the Anchorage Daily News. Press attention has largely been given to the d-2 aspects rather than to the questions dealing specifically with the state's economic development.

The survey sampled 555 people across the state, in rough proportion to population distribution. Surveys were conducted by phone in urban areas and by personal interview in rural areas.

Q13 asks how the state could alleviate d-2 problems. 283 people thought the state could help. The two top choices were use/distribution of state land (19%) and lobbying (12%). Only 3% mentioned economic help, including appropriation, and 1% mentioned changing the tax structure.

Q29 asks whether the state should use the capital and operating budgets and the Permanent Fund "to invest in projects to offset the negative effects of d-2 restrictions," or just some of the funds. 83% said "use only some" compared to 11% for "use all."

Q30-32 asks respondents to rate three means of "helping Alaskans cope with negative effects of d-2 land restrictions." Of the three choices, the respondents chose "reducing interest rates" first, followed by reducing income taxes and making direct payments to residents.

Q33 asks whether the state has moved fast enough to counter the high interest rate situation. 64% said no, compared to 22% who said yes.

Q34 asks whether "you or others in household now have or now need"" "a small business loan, a mortgage, or similar type loan." 10% now have and 27% now need. In "rural west and north", 33% now have and 7% now need, in marked contrast to the other areas of the state.

Q35 asks for what purpose people currently have loans, and Q36 asks for what purpose people need loans. Most respondents identified some type of home loan as what they needed. No data exists for the rural respondents.

Q37 asks whether the state should "use all its financial tools and powers to reduce the loan interest rate." 85% said the state should.

Q38 asks, of the 85% who agreed with Q37, what the interest rate should be brought down to. From choices ranging from 12% to "lower than 5%", 26% chose 10%, followed by 22% for 9%.

Q44 asks whether the executive and legislative bodies have done as much as they should to reduce interest rates, 67% said no, and 18% yes.

Q45 asks whether you are "in favor of doing whatever is necessary with the Permanent Fund or state budget" to alleviate the effects of d-2. 63% said yes, and 24% no.

These are the most interesting questions related to economic development. Given that the questions are broadly drawn, involve aspects of state financing with which most state residents are not conversant, and were directed to a relatively small sample of Alaskans, the survey results have little real value, other than indicating a concern about the general state of the economy. Pollster Mike Rowan is currently preparing three separate reports drawn from the survey results-- one for the legislature, one for Congress, and one for the public.

REPEALERS -- SB 1 (1980)

The following existing loan funds, authorities, and development corporations are effectively repealed by the current version of SB 1.

- 03.10 Agricultural Revolving Loan Fund
- 16.10 Commercial Fishing Revolving Loan Fund
- 16.10 Fisheries Enhancement Revolving Loan Fund
- 18.26 Alaska Medical Facility Authority
- 18.56 Alaska Housing Finance Corporation
- 18.100 Housing Development Revolving Loan Fund (allows grants only)
- 18.100 Senior Citizens Housing Development Fund (allows grants only)
- 26.15 Veterans Revolving Loan Fund
- 41.22 Outdoor Recreational, Open Space, and Historical Properties Development Fund
- 41.30 Area Redevelopment Revolving Loan Fund
- 44.33 Child Care Facility Revolving Loan Fund
- 44.33 Residential Care Facility Revolving Loan Fund
- 44.55 Alaska Gas Pipeline Financing Authority
- 44.56 Alaska Power Authority
- 44.58 Alaska Municipal Bond Bank Authority
- 44.59 Alaska State Development Corporation
- 44.60 Alaska Small Business Development Corporation
- 44.61 Alaska Industrial Development Corporation
- 45.86 Water Resources Revolving Loan Fund
- 45.88 Alternative Technology and Power Resources Revolving Loan Fund
- 45.90 Tourism Revolving Loan Fund
- 45.95 Small Business Revolving Loan Fund
- 45.98 Historical District Revolving Loan Fund

Existing funds and corporations which are not repealed by SB 1 are:

- 14.40 Scholarship Revolving Loan Fund (apparently an oversight)
- 14.40 Memorial Scholarship Revolving Loan Fund (apparent oversight)
- 44.47 Temperate Social Activities Revolving Loan Fund
- 44.56 Power Project Revolving Fund (an oversight?)
- 44.19 Disaster Relief Fund
- 37.11 Alaska Economic Disaster Impact Fund
- 37.12 Alaska Renewable Resources Corporation
- 44.54 Commercial Fishing and Agriculture Bank

37.10.065	SB 161	SB 1
1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;	1) Obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;	1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;	2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;	2) Obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law; bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska Law;	3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and which are secured as to the payment of principal and interest in accordance with Alaska law and for which a generally recognized secondary market exists;	3) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;
4) notes issued by Farmer's Home Administration	4)	4)
5) corporate investment-grade securities; corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization; other securities, including corporate securities;	5) short-term corporate promissory notes of the highest rating assigned by a nationally recognized rating service; corporate debt securities which are rated AA or better by a nationally recognized rating service;	5) corporate obligations rated "A" or better by a nationally recognized rating service or of equivalent quality;
6) banker's acceptance drawn on and accepted by United States banks which have a combined capital surplus aggregating at least $100,000,000;	6) bankers' acceptance drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000	6) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000.
7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;	7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;	
8) deposits of federally insured savings		

37.10.065	SB 161	SB 1
8) and loan association's deposits exclusive of federal, state, and municipal deposits;	8)	8)
9) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.	9)	9)
10) ~~Federal Veterans Administration mortgages;~~	10) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;	10) Federal Veterans Administration mortgages;
	11) the guaranteed portion of Federal Small Business Administration Loans;	11)
	12) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;	12)
	13) all guaranteed portion of Farmer's Home Administration loans.	13) notes issued by the Farmers Home Administration;
		14) Federal Housing Administration mortgages;
		15) conventional residential mortgages if the offering financial institution retains at least 25 percent of the mortgage;
		16) other secured loans, if the offering financial institution retains at least 33 1/3 percent of the mort-a- gage;

#18.27

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From: Nancy Lord, aide to the House Permanent Fund Committee

Date: Feb. 4, 1980

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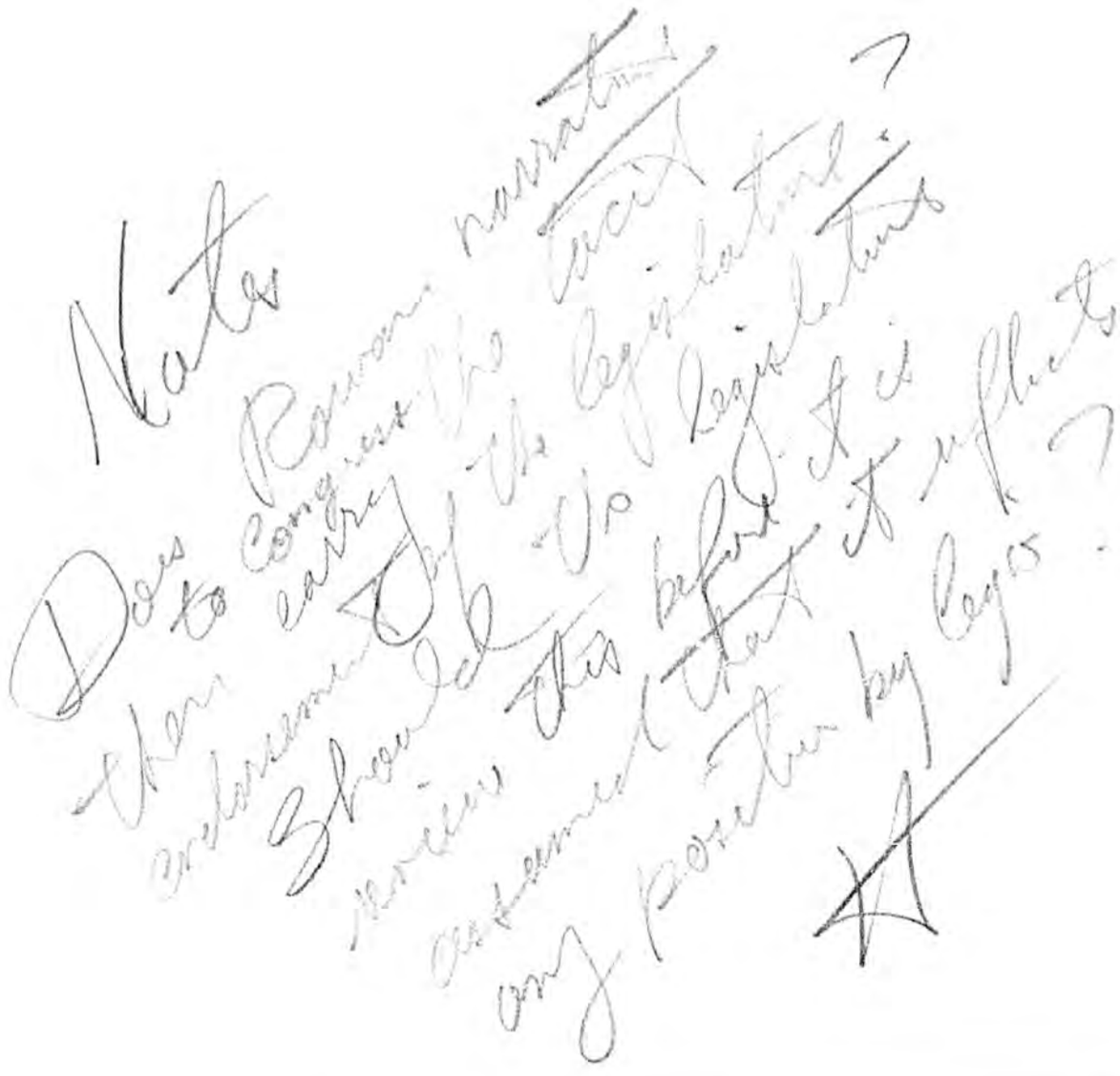

Anchorage Daily News

Winner, 1976 Pulitzer Prize Gold Medal for Public Service

Katherine Fanning
Editor and Publisher

Stan Abbott
Executive Editor

Gerald E. Grilly
General Manager

Clay Haswell
Managing Editor

Lawrence Fanning, Editor and Publisher, 1967 to 1971

Alaska's Only Morning Newspaper • Founded in 1946 by Norman C. Brown

Latest d-2 poll says very little

Ask Alaskans what good will come of "the d-2 land restrictions" and most of them will tell you "None." So what?

The question is so general and so pejoratively worded that little of value is likely to come from any of the answers. Yet the Alaska Legislature spent $34,000 on the poll by Michael Rowan and then listened to the pollster describe the results in terms that can only undermine efforts to reach a reasonable land legislation compromise in Washington. The whole effort seems pointless and ill-advised to us.

Without specifying which of numerous d-2 settlements is at issue, the poll can't provide reliable results. Are we asking about the Udall bill, the Senate Energy Committee compromise, or the Antiquities Act? The differences are real and the potential impacts radically different. No such distinction, however, is made in the Rowan poll.

It may be convincingly argued that few citizens understand the specific differences between the d-2 proposals, but that hardly justifies the overly broad phrasing of the questions. If most people don't understand enough to judge between versions of the land settlement, why go through the motions of an expensive poll to reach a predictable, uninformed response?

It also seems unfair to us for the pollsters to have asked about "d-2 restrictions." One man's restriction may be another's careful protection. Whatever the definition, the use of that term seems designed to provoke negative feelings.

Under a contract with Sen. George Hohman, D-Bethel, the Rowan poll is to be compiled into a narrative report and presented to the Congress. It seems clear to us that its broad-brush approach is unlikely to prove convincing to that audience. About the only effect we're willing to predict is that it will add to the confusion already far too thick over this issue. It could also have the effect — although we hope not — of further undermining the delicate process of compromise that remains Alaska's best hope for a livable legislative resolution of the federal land battle.

(CONTINUED PAGE 2)

Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

	TOTAL	SEX: MALE	SEX: FEMALE	AGE: 18-29	AGE: 30-45	AGE: OVER 45	LOCATION: ANCHORAGE BOWL	LOCATION: FAIRBANKS	LOCATION: SOUTH EASTERN COMMUNITY	LOCATION: RAILBELT, MATSU ETC.	LOCATION: RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	RESIDENCE: LIFETIME	RESIDENCE: OVER 10 YRS.	RESIDENCE: 5-10 YRS.	RESIDENCE: LESS THAN 5 YRS.
TOTAL RESPONDENTS	283 100.0	143 100.0	140 100.0	97 100.0	112 100.0	73 100.0	116 100.0	40 100.0	46 100.0	47 100.0	34 100.0	180 100.0	34 100.0	7 100.0	12 0.0	36 100.0	37 100.0	130 100.0	57 100.0	59 100.0
INFORM THE OTHER STATES/ REPRESENT ALASKA TO OTHER STATES	7 2.5	5 3.5	3 2.1	2 2.1	4 3.6	2 2.7	4 3.4	-	1 2.2	2 4.3	-	6 3.3	1 2.9	-	-	-	-	3 2.3	2 3.5	3 5.1
REDUCE THE AMOUNT OF LAND	7 2.5	4 2.8	3 2.1	1 1.0	4 3.6	2 2.7	2 1.7	2 5.0	1 2.2	-	1 2.9	5 2.8	2 5.9	-	-	-	2 5.4	3 2.3	1 1.8	1 1.7
OPEN UP THE LAND/MAKE LAND ACCESSIBLE	7 2.5	5 3.5	2 1.4	3 3.1	1 .9	3 4.1	3 2.6	1 2.5	1 2.2	1 2.1	-	6 3.3	1 2.9	-	-	-	2 5.4	2 1.5	2 3.5	1 1.7
DISTRIBUTE LAND TO THE PEOPLE /RESIDENTS /SQUATTERS	6 2.1	6 4.2	-	5 5.2	1 .9	-	2 1.7	-	2 4.3	-	1 2.9	5 2.8	-	-	-	-	-	-	2 3.5	3 5.1
HELP PEOPLE FIND JOBS/ CREATE MORE JOBS	6 2.1	3 2.1	3 2.1	3 3.1	3 2.7	-	2 1.7	1 2.5	1 2.2	1 2.1	-	6 3.3	-	-	-	-	-	3 2.3	1 1.8	2 3.4
OPEN THE LAND UP FOR HUNTING/ FISHING/ SUBSIS- TANCE HUNTING	4 1.4	2 1.4	2 1.4	1 1.0	2 1.8	2 2.7	-	-	-	2 4.3	2 5.9	2 1.1	2 5.9	-	1 8.3	-	2 5.4	2 1.5	-	-

(CONTINUED)

.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

		SEX		AGE			LOCATION									RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
OTAL ESPONDENTS	283 100.0	143 100.0	140 100.0	97 100.0	112 100.0	73 100.0	116 100.0	40 100.0	46 100.0	47 100.0	34 100.0	180 100.0	36 100.0	7 100.0	12 100.0	36 100.0	37 100.0	130 100.0	57 100.0	59 100.0
THER LAND USE/DIS-TRIBUTION MENTIONS	15 5.3	9 6.3	6 4.3	7 7.2	7 6.3	-	8 6.9	1 2.5	4 8.7	1 2.1	1 2.9	10 5.6	4 11.8	1 14.3	-	-	-	5 3.8	5 8.8	5 8.5
EW LEGIS-LATION/ AMENDMENTS /PASS LAWS	14 4.9	9 6.3	5 3.6	8 8.2	2 1.8	4 5.5	7 6.0	2 5.0	3 6.5	1 2.1	1 2.9	12 6.7	1 2.9	-	-	1 2.8	1 2.7	8 6.2	4 7.0	1 1.7
OBBY IN WASHINGTON /FEDERAL GOVERNMENT (UNSP)	10 3.5	4 2.8	6 4.3	2 2.1	2 1.8	5 6.8	2 1.7	-	2 4.3	5 10.6	1 2.9	5 2.8	-	-	-	3 8.3	3 8.1	5 3.8	-	2 3.4
OBBY CONGRESS	9 3.2	5 3.5	4 2.9	1 1.0	4 3.6	4 5.5	2 1.7	-	2 4.3	4 8.5	-	7 3.9	-	-	-	1 2.8	4 10.8	3 2.3	2 3.5	-
SE STATE LAND TO OFF-SET/ ALLEVIATE D-2 RES-TRICTIONS	9 3.2	4 2.8	5 3.6	-	5 4.5	4 5.5	2 1.7	2 5.0	2 4.3	3 6.4	1 2.9	7 3.9	1 2.9	-	-	1 2.8	1 2.7	5 3.8	2 3.5	1 1.7
OBBY AGAINST IT (UNSP)	8 2.8	7 4.9	2 1.4	1 1.0	4 3.6	3 4.1	5 4.3	1 2.5	2 4.3	-	-	6 3.3	1 2.9	-	1 8.3	1 2.8	1 2.7	6 4.6	1 1.8	1 1.7
EMAND FEDERAL GOVERNMENT RELEASE STATE LANDS	8 2.8	4 2.8	4 2.9	3 3.1	4 3.6	1 1.4	2 1.7	2 5 0	1 2.2	2 4.3	1 2.9	3 1.7	3 8.8	1 14.3	-	1 2.8	1 2.7	3 2.3	1 1.8	2 3.4

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(CONTINUED PAGE 3)

Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

		SEX		AGE			LOCATION					EMPLOYMENT					RESIDENCE			
	TOTAL	MALE	FEMALE	18-29	30-45	OVER 45	ANCHORAGE BOWL	FAIRBANKS	SOUTHEASTERN COMMUNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	LIFETIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LOBBYING	34	19	15	5	14	15	13	2	8	9	2	23	2	1	2	4	7	19	3	5
	12.0	13.3	10.7	5.2	12.5	20.5	11.2	5.0	17.4	19.1	5.9	12.8	5.9	14.3	16.6	11.1	18.9	14.6	5.3	8.5

(CONTINUED PAGE 2)

Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
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THEY SHOULD WORK TOGETHER (UNSP)	6 2.1	4 2.8	2 1.4	2 2.1	2 1.8	2 2.7	3 2.6	2 5.0	-	-	1 2.9	2 1.1	-	-	-	2 5.6	-	2 1.5	2 3.5	2 3.4
CHANGE TAX STRUCTURE/ HELP THROUGH TAXES/ ALL TAX MENTIONS	3 1.1	3 2.1	1 .7	2 2.1	2 1.8	-	2 1.7	-	1 2.2	-	-	3 1.7	-	-	-	-	-	1 .8	-	3 5.1
I DON'T CARE ABOUT D-2	2 .7	2 1.4	-	-	-	2 2.7	2 1.7	-	-	-	-	2 1.1	-	-	-	-	-	1 .8	-	1 1.7
OTHER MENTIONS	38 13.4	23 16.1	15 10.7	8 8.2	24 21.4	6 8.2	17 14.7	3 7.5	5 10.9	8 17.0	5 14.7	22 12.2	9 26.5	-	2 16.7	5 13.9	3 8.1	17 13.1	11 19.3	7 11.9
NOT MUCH/ THEY CAN'T DO MUCH	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NOT SURE	91 32.2	32 22.4	58 41.4	34 35.1	31 27.7	25 34.2	30 25.9	19 47.5	13 28.3	18 38.3	11 32.4	54 30.0	8 23.5	2 28.6	2 16.7	20 55.6	14 37.8	44 33.8	17 29.8	16 27.1
** NETS **																				
LAND USE/ DISTRIBU-TION MENTIONS	54 19.1	34 23.8	20 14.3	21 21.6	21 18.8	12 16.4	19 16.4	7 17.5	12 26.1	8 17.0	8 23.5	35 19.4	10 29.4	3 42.9	1 8.3	2 5.6	7 18.9	20 15.4	13 22.8	14 23.7

(CONTINUED)

13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

	TOTAL	SEX: MALE	SEX: FE-MALE	AGE: 18-29	AGE: 30-45	AGE: OVER 45	LOCATION: ANCH-ORAGE BOWL	LOCATION: FAIR-BANKS	LOCATION: SOUTH EAST-ERN COMM-UNITY	LOCATION: RAIL-BELT, MATSU ETC.	LOCATION: RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	RESIDENCE: LIFE-TIME	RESIDENCE: OVER 10 YRS.	RESIDENCE: 5-10 YRS.	RESIDENCE: LESS THAN 5 YRS.
TAL	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
SPONDENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FORM THE RESIDENT/ END ELEGATION O THE RESIDENT	3 1.1	1 .7	2 1.4	1 1.0	-	2 2.7	1 .9	1 2.5	1 2.2	-	-	1 .6	-	1 14.3	1 8.3	-	-	3 2.3	-	-
NTIONS OF PECIFIC SE/DIS- RIBUTION F LAND UNDS	3 1.1	2 1.4	1 .7	1 1.0	1 .9	1 1.4	2 1.7	-	1 2.2	-	-	2 1.1	-	-	1 8.3	-	1 2.7	2 1.5	-	-
E (SOME) AND FOR ARKS/ DESIGNATE RECREATION REAS	3 1.1	3 2.1	-	1 1.0	1 .9	-	1 .9	-	1 2.2	-	1 2.9	1 .6	-	-	-	-	-	-	1 1.8	1 1.7
LP ELOCATE EOPLE/ IND OUSING	3 1.1	1 .7	2 1.4	2 2.1	1 .9	-	2 1.7	-	-	-	-	3 1.7	-	-	-	-	-	2 1.5	-	1 1.7

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Q.29 SHOULD STATE USE THE CAPITAL BUDGET, THE OPERATING BUDGET & THE PERMANENT FUND TO INVEST IN PROJECTS TO OFFSET THE NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS, OR SHOULD JUST SOME OF THESE RESERVES OF FUNDS BE USED

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
USE ALL	60 10.8	31 11.1	29 10.5	28 14.7	22 9.7	10 7.3	30 12.7	14 15.6	3 3.7	6 6.5	7 12.7	36 10.5	6 9.1	3 20.0	2 9.1	9 11.8	11 15.7	22 8.9	13 10.3	15 13.4
USE ONLY SOME	463 83.4	230 82.4	233 84.4	151 79.0	193 85.0	118 86.8	195 82.6	71 78.9	76 93.8	83 89.2	38 69.1	288 84.2	57 86.4	12 80.0	20 90.9	62 81.6	55 78.6	210 85.4	105 83.3	93 83.0
NOT SURE	32 5.8	17 6.1	14 5.1	12 6.3	12 5.3	8 5.9	12 5.1	5 5.5	2 2.5	4 4.3	9 16.4	19 5.6	3 4.5	-	1 4.5	5 6.6	5 7.1	14 5.7	9 7.1	3 2.7

.30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS
REDUCING THE LOAN-INTEREST-RATES FOR COMMERCIAL AND PERSONAL LOANS FOR RESIDENTS

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
...	33	18	16	6	17	10	15	4	8	3	4	21	2	1	2	5	6	14	8	4
	5.9	6.5	5.8	3.1	7.5	7.4	6.3	4.4	9.9	3.2	7.3	6.1	3.0	6.7	9.1	6.6	8.6	5.7	6.3	3.6
...	19	13	6	8	11	1	11	1	-	3	5	15	1	1	-	1	3	9	4	4
	3.4	4.7	2.2	4.2	4.8	.7	4.7	1.1		3.2	9.1	4.4	1.5	6.7		1.3	4.3	3.7	3.2	3.6
...	82	41	41	26	30	26	48	6	11	7	10	54	10	2	4	9	11	30	20	21
	14.8	14.7	14.8	13.6	13.2	19.1	20.3	6.7	13.6	7.5	18.2	15.8	15.2	13.3	18.2	11.9	15.7	12.2	15.9	18.8
...	112	50	62	39	45	27	42	26	18	15	11	70	14	6	3	13	8	49	29	25
	20.2	17.9	22.5	20.4	19.8	19.9	17.8	28.9	22.2	16.1	20.0	20.5	21.2	40.0	13.6	17.1	11.4	19.9	23.0	22.3
...	300	151	149	110	122	68	117	52	44	63	24	179	38	5	13	46	40	140	64	57
	54.1	54.1	54.0	57.6	53.7	50.0	49.6	57.8	54.3	67.8	43.6	52.3	57.6	33.3	59.1	60.5	57.1	56.9	50.8	50.9
DT SURE	8	7	2	1	4	4	3	1	-	2	2	3	-	-	-	2	3	3	2	-
	1.4	2.5	.7	.5	1.8	2.9	1.3	1.1		2.2	3.6	.9				2.6	4.3	1.2	1.6	
MEAN...	4.15	4.11	4.18	4.26	4.08	4.08	4.01	4.36	4.11	4.45	3.85	4.09	4.31	3.87	4.14	4.27	4.07	4.21	4.10	4.14
STD. DEV.	1.16	1.21	1.11	1.06	1.25	1.17	1.21	.98	1.25	.99	1.28	1.20	.98	1.13	1.24	1.15	1.32	1.14	1.15	1.08
STD. ERR.	.05	.07	.06	.07	.08	.10	.07	.10	.13	.10	.17	.06	.12	.29	.26	.13	.16	.07	.10	.10

= LEAST FAVORABLE 5 = MOST FAVORABLE

.30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS
REDUCING OR ELIMINATING THE STATE PERSONAL INCOME TAX

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
1...	77 13.9	45 16.1	32 11.6	20 10.5	34 15.0	23 16.9	32 13.6	9 10.0	16 19.7	9 9.7	11 20.0	53 15.5	5 7.6	3 20.0	3 13.6	7 9.2	11 15.7	37 15.0	14 11.1	16 14.3
2...	46 8.3	21 7.5	24 8.7	17 8.9	19 8.4	10 7.4	19 8.1	4 4.5	8 9.9	10 10.7	5 9.1	31 9.1	8 12.1	-	1 4.6	4 5.3	4 5.7	15 6.1	12 9.5	14 12.5
3...	103 18.6	51 18.3	52 18.8	45 23.5	39 17.2	20 14.7	37 15.7	19 21.1	20 24.7	17 18.3	10 18.2	67 19.6	14 21.2	4 26.7	4 18.2	7 9.2	17 24.3	43 17.5	22 17.5	21 18.8
4...	84 15.1	41 14.7	43 15.6	30 15.7	33 14.5	20 14.7	38 16.1	13 14.4	12 14.8	14 15.0	7 12.7	50 14.6	17 25.8	1 6.7	1 4.5	11 14.5	7 10.0	38 15.4	18 14.3	20 17.8
5...	235 42.3	116 41.6	119 43.1	76 39.8	98 43.2	61 44.9	106 44.9	42 46.7	25 30.9	42 45.2	19 34.5	137 40.0	22 33.3	7 46.6	13 59.1	42 55.3	28 40.0	111 45.1	57 45.2	39 34.8
NOT SURE	10 1.8	4 1.4	7 2.5	3 1.6	4 1.7	3 2.2	3 1.3	3 3.3	-	1 1.1	3 5.5	4 1.2	1 1.5	-	-	4 5.3	3 4.3	3 1.2	3 2.4	2 1.8
MEAN...	3.65	3.59	3.71	3.66	3.64	3.64	3.72	3.86	3.27	3.76	3.35	3.55	3.65	3.60	3.91	4.08	3.55	3.70	3.75	3.47
STD. DEV.	1.45	1.49	1.41	1.37	1.47	1.52	1.45	1.34	1.48	1.38	1.54	1.48	1.26	1.54	1.47	1.35	1.48	1.46	1.40	1.45
STD. ERR.	.06	.09	.08	.10	.09	.13	.09	.14	.16	.14	.21	.08	.15	.39	.31	.16	.18	.09	.12	.13

1 = LEAST FAVORABLE 5 = MOST FAVORABLE

Q.30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS

MAKING PAYMENTS DIRECTLY TO RESIDENTS IN TERMS OF DIVIDENDS OR OTHER PAYMENTS

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FEMALE	18-29	30-45	OVER 45	ANCHORAGE BOWL	FAIRBANKS	SOUTHEASTERN COMMUNITY	RAILBELT, MATSU ETC.	RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	LIFETIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
1...	143 25.8	88 31.5	55 19.9	32 16.8	70 30.8	41 30.2	62 26.3	22 24.5	24 29.6	22 23.7	13 23.6	95 27.8	16 24.3	5 33.3	4 18.2	14 18.4	14 20.0	69 28.0	42 33.3	18 16.1
2...	83 15.0	42 15.1	40 14.5	30 15.7	30 13.2	23 16.9	39 16.5	13 14.4	12 14.8	14 15.0	5 9.1	57 16.7	11 16.7	3 20.0	4 18.2	5 6.6	7 10.0	39 15.9	16 12.7	20 17.9
3...	117 21.1	50 17.9	67 24.3	45 23.6	50 22.0	22 16.2	53 22.5	14 15.6	18 22.2	23 24.7	9 16.4	69 20.2	15 22.7	3 20.0	5 22.7	17 22.4	15 21.4	56 22.8	23 18.3	23 20.5
4...	78 14.1	35 12.5	43 15.6	37 19.4	30 13.2	11 8.1	32 13.5	12 13.3	11 13.6	13 14.0	10 18.2	46 13.4	9 13.6	2 13.3	2 9.1	14 18.4	11 15.7	25 10.2	19 15.1	23 20.5
5...	121 21.8	59 21.1	62 22.5	42 22.0	43 18.9	35 25.7	43 18.2	28 31.1	16 19.8	20 21.5	14 25.5	69 20.2	13 19.7	3 20.0	7 31.8	22 28.9	20 28.6	54 22.0	23 18.3	23 20.5
NOT SURE	14 2.5	6 2.2	8 2.9	4 2.1	6 2.6	4 2.9	7 3.0	1 1.1	-	1 1.1	5 9.1	6 1.7	2 3.0	-	1 4.5	4 5.3	4 5.7	2 .8	4 3.2	4 3.6
MEAN...	2.91	2.76	3.06	3.15	2.76	2.82	2.80	3.12	2.79	2.95	3.14	2.81	2.88	2.69	3.18	3.35	3.24	2.82	2.72	3.12
STD. DEV.	1.49	1.54	1.44	1.37	1.49	1.58	1.45	1.59	1.48	1.44	1.54	1.49	1.44	1.48	1.50	1.45	1.49	1.49	1.51	1.38
STD. ERR.	.06	.09	.08	.10	.10	.13	.09	.16	.16	.15	.21	.08	.18	.37	.31	.17	.18	.09	.13	.13

1 = LEAST FAVORABLE 5 = MOST FAVORABLE

3 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
** COULD HELP **

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS
AL PONDENTS	283 100.0	143 100.0	140 100.0	97 100.0	112 100.0	73 100.0	116 100.0	40 100.0	46 100.0	47 100.0	34 100.0	180 100.0	34 100.0	7 100.0	12 100.0	36 100.0	37 100.0	130 100.0	57 100.0	59 100.0
WHAT PLE WANT PRESS ICE OF E PEOPLE	23 8.1	8 5.6	16 11.4	7 7.2	10 8.9	6 8.2	8 6.9	5 12.5	2 4.3	2 4.3	6 17.6	11 6.1	4 11.8	1 14.3	2 16.7	5 13.9	4 10.8	6 4.6	6 10.5	8 13.6
P ACTIVE EEP GHTING/ FIRM AND	14 4.9	8 5.6	6 4.3	7 7.2	4 3.6	3 4.1	9 7.8	1 2.5	1 2.2	2 4.3	1 2.9	10 5.6	3 8.8	1 14.3	-	-	-	9 6.9	2 3.5	3 5.1
ORM OPLE/ UCATE OUT IT	9 3.2	4 2.8	4 2.9	4 4.1	4 3.6	1 1.4	7 6.0	1 2.5	-	-	1 2.9	7 3.9	1 2.9	-	-	1 2.8	2 5.4	4 3.1	1 1.8	2 3.4
P ECONO- CALLY/ PRO- RIATE NEY NSP)	8 2.8	4 2.8	4 2.9	1 1.0	4 3.6	3 4.1	2 1.7	2 5.0	3 6.5	1 2.1	-	7 3.9	-	-	1 8.3	-	-	6 4.6	-	2 3.4
OSE/ VER-RIDE/ ON'T PASS -2	7 2.5	5 3.5	3 2.1	2 2.1	3 2.7	2 2.7	3 2.6	-	1 2.2	2 4.3	1 2.9	5 2.8	-	-	2 16.7	-	1 2.7	4 3.1	-	3 5.1
SCUSSION/ TUDY/OPEN P THE SSUE	6 2.1	4 2.8	2 1.4	2 2.1	3 2.7	1 1.4	4 3.4	-	2 4.3	-	-	4 2.2	2 5.9	-	-	-	-	2 1.5	2 3.5	2 3.4

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.33 HAS STATE MOVED FAST ENOUGH TO COUNTER THE HIGH INTEREST RATE SITUATION INVOLVED IN GETTING A SMALL BUSINESS LOAN, A MORTGAGE OR SIMILAR TYPE LOAN

		SEX		AGE			LOCATION					EMPLOYMENT					RESIDENCE			
	TOTAL	MALE	FEMALE	18-29	30-45	OVER 45	ANCHORAGE BOWL	FAIRBANKS	SOUTHEASTERN COMMUNITY	RAILBELT, MATSU ETC.	RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	LIFETIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
YES	122	65	57	32	57	33	58	20	15	22	7	80	12	3	5	15	15	52	34	21
	22.0	23.3	20.7	16.8	25.1	24.3	24.6	22.2	18.5	23.7	12.7	23.4	18.2	20.0	22.7	19.7	21.4	21.1	27.0	18.7
NO	356	177	179	129	141	86	155	58	57	59	27	223	39	11	14	50	42	164	76	74
	64.1	63.4	64.8	67.5	62.1	63.2	65.7	64.5	70.4	63.4	49.1	65.2	59.1	73.3	63.7	65.8	60.0	66.7	60.3	66.1
NOT SURE	76	36	40	30	30	17	23	12	9	12	20	40	16	2	3	11	13	30	17	17
	13.7	12.9	14.5	15.7	13.2	12.5	9.7	13.3	11.1	12.9	36.4	11.7	24.2	13.3	13.6	14.5	18.6	12.2	13.5	15.2

Q.34 DO YOU OR OTHERS IN HOUSEHOLD NOW HAVE OR NOW NEED SUCH A LOAN

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	340 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
NOW HAVE SUCH A LOAN	54 9.7	31 11.1	23 8.3	16 8.4	30 13.2	7 5.1	17 7.2	4 4.4	10 12.3	6 6.5	18 32.7	38 11.1	9 13.7	1 6.7	1 4.5	3 4.0	13 18.6	18 7.3	12 9.5	11 9.8
NOW NEED SUCH A LOAN	150 27.0	82 29.4	68 24.6	59 30.9	57 25.1	34 25.0	70 29.7	26 28.9	23 28.4	27 29.0	4 7.3	100 29.2	15 22.7	3 20.0	2 9.1	20 26.3	16 22.9	77 31.3	29 23.0	29 25.9
NO	343 61.8	161 57.7	182 66.0	110 57.6	140 61.7	92 67.6	146 61.8	59 65.6	46 56.8	60 64.5	32 58.2	200 58.5	41 62.1	12 80.0	20 90.9	52 68.4	41 58.6	148 60.2	83 65.9	71 63.4
NOT SURE	8 1.5	6 2.2	3 1.1	5 2.6	1 .4	2 1.5	3 1.3	1 1.1	2 2.5	-	2 3.6	5 1.5	1 1.5	-	-	1 1.3	1 1.4	3 1.2	3 2.4	1 .9

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35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
** NOW HAVE LOAN **

	TOTAL	SEX: MALE	SEX: FEMALE	AGE: 18-29	AGE: 30-45	AGE: OVER 45	LOCATION: ANCHORAGE BOWL	LOCATION: FAIRBANKS	LOCATION: SOUTH EASTERN COMMUNITY	LOCATION: RAILBELT, MATSU ETC.	LOCATION: RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	RESIDENCE: LIFETIME	RESIDENCE: OVER 10 YRS.	RESIDENCE: 5-10 YRS.	RESIDENCE: LESS THAN 5 YRS.
TAL SPONDENTS	54 100.0	31 100.0	23 100.0	16 100.0	30 100.0	7 100.0	17 100.0	4 100.0	10 100.0	6 100.0	18 100.0	38 100.0	9 100.0	1 100.0	1 100.0	3 100.0	13 100.0	18 100.0	12 100.0	11 100.0
RTGAGE/ OME ORTGAGE OAN	10 18.5	5 16.1	5 21.7	-	8 26.7	2 28.6	4 23.5	2 50.0	2 20.0	2 33.3	-	8 21.1	2 22.2	-	-	-	-	5 27.8	3 25.0	3 27.3
ME (UNSP)	7 13.0	4 12.9	4 17.4	4 25.0	3 10.0	-	4 23.5	-	1 10.0	2 33.3	-	6 15.8	-	-	-	1 33.3	1 7.7	1 5.6	2 16.7	4 36.4
ME BUIL- ERS LOAN	3 5.6	1 3.2	2 8.7	-	3 10.0	-	-	-	2 20.0	1 16.7	-	2 5.3	1 11.1	-	-	-	-	1 5.6	1 8.3	1 9.1
ME WNERSHIP/ UYING OUSE/HOME	2 3.7	2 6.5	1 4.3	-	2 6.7	-	2 11.8	-	-	-	-	2 5.3	1 11.1	-	-	-	-	2 11.1	-	1 9.1
ME IMPRO- EMENT	2 3.7	-	2 8.7	-	2 6.7	-	2 11.8	-	-	-	-	1 2.6	-	-	-	1 33.3	-	1 5.6	1 8.3	-
SINESS OAN UNSP)	2 3.7	1 3.2	1 4.3	1 6.3	1 3.3	-	2 11.8	-	-	-	-	-	2 22.2	-	-	-	-	1 5.6	-	1 9.1
SMALL USINESS OAN	2 3.7	1 3.2	1 4.3	1 6.3	1 3.3	-	2 11.8	-	-	-	-	2 5.3	-	-	-	-	-	1 5.6	1 8.3	-
MMERCIAL ISHING OAN	2 3.7	1 3.2	1 4.3	1 6.3	1 3.3	-	-	-	2 20.0	-	-	2 5.3	-	-	-	-	1 7.7	1 5.6	-	-
MMERCIAL OAT ENTURES/ ONSTRUC- ION	2 3.7	1 3.2	1 4.3	2 12.5	-	-	-	-	2 20.0	-	-	2 5.3	-	-	-	-	1 7.7	1 5.6	-	-

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Q.35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
** NOW HAVE LOAN **

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	54 100.0	31 100.0	23 100.0	16 100.0	30 100.0	7 100.0	17 100.0	4 100.0	10 100.0	6 100.0	18 100.0	38 100.0	9 100.0	1 100.0	1 100.0	3 100.0	13 100.0	18 100.0	12 100.0	11 100.0
COMMERCIAL BUILDING	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER BUSINESS LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER MENTIONS	3 5.6	1 3.2	2 8.7	-	3 10.0	-	2 11.8	1 25.0	-	-	-	2 5.3	-	-	-	-	-	-	2 16.7	1 9.1
UNASCER-TAINED/ REFUSED	19 35.2	14 45.2	5 21.7	6 37.5	8 26.7	4 57.1	1 5.9	-	-	1 16.7	17 94.4	11 28.9	3 33.3	1 100.0	1 100.0	1 33.3	10 76.9	5 27.8	2 16.7	1 9.1
** NETS **																				
HOME LOANS	23 42.6	11 35.5	12 52.2	4 25.0	17 56.7	2 28.6	11 64.7	2 50.0	5 50.0	5 83.3	-	18 47.4	4 44.4	-	-	1 33.3	1 7.7	8 44.4	5 41.7	8 72.7
BUSINESS LOANS	7 13.0	4 12.9	4 17.4	5 31.3	3 10.0	-	3 17.6	-	4 40.0	-	-	6 15.8	2 22.2	-	-	-	2 15.4	4 22.2	1 8.3	1 9.1

NATIONAL SURVEY RESEARCH GROUP, INC. ALASKA (9236) JANUARY, 1980

Q.35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
** NOW HAVE LOAN **

	TOTAL	SEX: MALE	SEX: FEMALE	AGE: 18-29	AGE: 30-45	AGE: OVER 45	LOCATION: ANCHORAGE BOWL	LOCATION: FAIRBANKS	LOCATION: SOUTHEASTERN COMMUNITY	LOCATION: RAILBELT, MATSU ETC.	LOCATION: RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	RESIDENCE: LIFETIME	RESIDENCE: OVER 10 YRS.	RESIDENCE: 5-10 YRS.	RESIDENCE: LESS THAN 5 YRS.
TOTAL RESPONDENTS	54 100.0	31 100.0	23 100.0	16 100.0	30 100.0	7 100.0	17 100.0	4 100.0	10 100.0	6 100.0	18 100.0	38 100.0	9 100.0	1 100.0	1 100.0	3 100.0	13 100.0	18 100.0	12 100.0	11 100.0
BUY PROPERTY/ LAND	2 3.7	1 3.2	1 4.3	1 6.3	-	1 14.3	2 11.8	-	-	-	-	2 5.3	-	-	-	-	-	-	2 16.7	-
REAL ESTATE /LAND DEVELOP-MENT	1 1.9	-	1 4.3	-	-	1 14.3	-	1 25.0	-	-	-	-	-	-	-	1 33.3	-	-	1 8.3	-
COLLEGE/ EDUCATION LOAN	1 1.9	1 3.2	-	1 6.3	-	-	-	-	1 10.0	-	-	1 2.6	-	-	-	-	-	1 5.6	-	-
TO BUY A CAR	1 1.9	-	1 4.3	-	1 3.3	-	1 5.9	-	-	-	-	1 2.6	-	-	-	-	-	1 5.6	-	-
OTHER HOME LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MOBILE HOME	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPENING/ STARTING A BUSINESS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPENING/ STARTING A SMALL BUSINESS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
** NOW NEED LOAN **

	TOTAL	SEX: MALE	SEX: FEMALE	AGE: 18-29	AGE: 30-45	AGE: OVER 45	LOCATION: ANCHORAGE BOWL	LOCATION: FAIRBANKS	LOCATION: SOUTH EASTERN COMMUNITY	LOCATION: RAILBELT, MATSU ETC.	LOCATION: RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	RESIDENCE: LIFETIME	RESIDENCE: OVER 10 YRS.	RESIDENCE: 5-10 YRS.	RESIDENCE: LESS THAN 5 YRS.
TOTAL RESPONDENTS	150 100.0	82 100.0	68 100.0	59 100.0	57 100.0	34 100.0	70 100.0	26 100.0	23 100.0	27 100.0	4 100.0	100 100.0	15 100.0	3 100.0	2 100.0	20 100.0	16 100.0	77 100.0	29 100.0	29 100.0
HOME (UNSP)	24 16.0	10 12.2	14 20.6	14 23.7	8 14.0	2 5.9	12 17.1	4 15.4	3 13.0	4 14.8	-	13 13.0	3 20.0	-	-	4 20.0	3 18.8	11 14.3	6 20.7	4 13.8
HOME OWNERSHI BUYING HOUSE/HOME	18 12.0	4 4.9	14 20.6	6 10.2	8 14.0	4 11.8	9 12.9	7 26.9	1 4.3	1 3.7	-	10 10.0	2 13.3	2 66.7	-	3 15.0	2 12.5	9 11.7	3 10.3	4 13.8
HOME BUILDERS LOAN	16 10.7	9 11.0	7 10.3	5 8.5	4 7.0	7 20.6	5 7.1	3 11.5	6 26.1	2 7.4	-	12 12.0	1 6.7	-	-	1 5.0	3 18.8	5 6.5	4 13.8	4 13.8
OTHER BUSINESS LOAN MENTIONS	12 8.0	7 8.5	5 7.4	3 5.1	4 7.0	5 14.7	6 8.6	1 3.8	2 8.7	3 11.1	-	10 10.0	-	-	-	2 10.0	-	11 14.3	-	1 3.4
A SMALL BUSINESS LOAN	11 7.3	7 8.5	4 5.9	4 6.8	5 8.8	2 5.9	7 10.0	2 7.7	2 8.7	-	-	9 9.0	1 6.7	-	-	1 5.0	1 6.3	4 5.2	3 10.3	4 13.8
COMMERCIAL FISHING LOAN	10 6.7	8 9.8	2 2.9	4 6.8	3 5.3	3 8.8	2 2.9	-	2 8.7	6 22.2	-	3 3.0	3 20.0	-	1 50.0	1 5.0	1 6.3	7 9.1	2 6.9	-
BUSINESS LOAN (UNSP)	8 5.3	6 7.3	2 2.9	3 5.1	5 8.8	1 2.9	3 4.3	-	2 8.7	3 11.1	-	6 6.0	2 13.3	-	-	-	-	6 7.8	1 3.4	2 6.9
HOME IMPROVEMENT	6 4.0	3 3.7	4 5.9	4 6.8	3 5.3	-	2 2.9	2 7.7	1 4.3	1 3.7	-	6 6.0	-	-	-	-	-	4 5.2	1 3.4	1 3.4
OPENING/ STARTING A SMALL BUSINESS	5 3.3	3 3.7	2 2.9	3 5.1	2 3.5	1 2.9	3 4.3	1 3.8	1 4.3	-	-	4 4.0	-	-	-	1 5.0	1 6.3	3 3.9	1 3.4	-

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Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
** NOW NEED LOAN **

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	150 100.0	82 100.0	68 100.0	59 100.0	57 100.0	34 100.0	70 100.0	26 100.0	23 100.0	27 100.0	4 100.0	100 100.0	15 100.0	3 100.0	2 100.0	20 100.0	16 100.0	77 100.0	29 100.0	29 100.0
REAL ESTATE /LAND DEVELOP-MENT	5 3.3	4 4.9	2 2.9	1 1.7	3 5.3	2 5.9	3 4.3	1 3.8	1 4.3	-	-	3 3.0	-	-	-	1 5.0	-	4 5.2	-	1 3.4
MORTGAGE/ HOME MORTGAGE LOAN	4 2.7	2 2.4	2 2.9	1 1.7	2 3.5	1 2.9	1 1.4	2 7.7	-	1 3.7	-	3 3.0	1 6.7	-	-	-	-	2 2.6	1 3.4	1 3.4
COMMERCIAL BOAT VENTURES/ CONSTRUC-TION	4 2.7	3 3.7	1 1.5	-	4 7.0	-	-	-	2 8.7	2 7.4	-	4 4.0	-	-	-	-	1 6.3	2 2.6	-	1 3.4
BUY PROPERTY/ LAND	4 2.7	2 2.4	2 2.9	2 3.4	2 3.5	1 2.9	3 4.3	-	-	1 3.7	-	2 2.0	-	-	1 50.0	2 10.0	-	1 1.3	2 6.9	1 3.4
TO BUY A CAR	4 2.7	3 3.7	2 2.9	2 3.4	1 1.8	1 2.9	2 2.9	2 7.7	-	-	-	4 4.0	1 6.7	-	-	-	1 6.3	2 2.6	1 3.4	1 3.4
OPENING/ STARTING A BUSINESS	3 2.0	3 3.7	1 1.5	-	3 5.3	1 2.9	2 2.9	-	-	1 3.7	-	2 2.0	1 6.7	-	-	1 5.0	-	2 2.6	-	1 3.4
MOBILE HOME	2 1.3	1 1.2	1 1.5	-	1 1.8	1 2.9	1 1.4	-	1 4.3	-	-	1 1.0	-	-	-	1 5.0	-	2 2.6	-	-
COLLEGE/ EDUCATION LOAN	2 1.3	1 1.2	1 1.5	1 1.7	-	1 2.9	2 2.9	-	-	-	-	1 1.0	-	-	-	1 5.0	-	2 2.6	-	-

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Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
** NOW NEED LOAN **

		SEX		AGE			LOCATION									RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	150 100.0	82 100.0	68 100.0	59 100.0	57 100.0	34 100.0	70 100.0	26 100.0	23 100.0	27 100.0	4 100.0	100 100.0	15 100.0	3 100.0	2 100.0	20 100.0	16 100.0	77 100.0	29 100.0	29 100.0
COMMERCIAL BUILDING	1 .7	1 1.2	-	-	-	1 2.9	1 1.4	-	-	-	-	-	-	-	1 50.0	-	-	1 1.3	-	-
OTHER HOME LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER MENTIONS	6 4.0	5 6.1	1 1.5	3 5.1	1 1.8	3 8.8	4 5.7	1 3.8	-	1 3.7	-	4 4.0	1 6.7	-	-	1 5.0	1 6.3	3 3.9	1 3.4	1 3.4
UNASCER-TAINED/ REFUSED	12 8.0	6 7.3	7 10.3	5 8.5	4 7.0	3 8.8	5 7.1	1 3.8	2 8.7	1 3.7	4 100.0	8 8.0	1 6.7	1 33.3	-	3 15.0	2 12.5	3 3.9	4 13.8	3 10.3
** NETS **																				
HOME LOANS	70 46.7	29 35.4	41 60.3	31 52.5	25 43.9	14 41.2	31 44.3	18 69.2	12 52.2	9 33.3	-	45 45.0	6 40.0	2 66.7	-	9 45.0	8 50.0	33 42.9	15 51.7	14 48.3
BUSINESS LOANS	55 36.7	38 46.3	17 25.0	16 27.1	26 45.6	13 38.2	25 35.7	4 15.4	11 47.8	15 55.6	-	39 39.0	6 40.0	-	2 100.0	6 30.0	4 25.0	36 46.8	6 20.7	9 31.0

Q.37 IS THE 14-16 PCT. INTEREST RATE FOR NON-PRIME BORROWER IN ALASKA REASONABLE OR SHOULD STATE USE ALL ITS FINANCIAL TOOLS & POWERS TO REDUCE THE LOAN INTEREST RATE

		SEX		AGE			LOCATION					EMPLOYMENT					RESIDENCE			
	TOTAL	MALE	FEMALE	18-29	30-45	OVER 45	ANCHORAGE BOWL	FAIRBANKS	SOUTHEASTERN COMMUNITY	RAILBELT, MATSU ETC.	RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	LIFETIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
RATE IS REASONABLE	48 8.6	26 9.3	22 8.0	17 8.9	22 9.7	8 5.9	21 8.9	11 12.2	5 6.2	5 5.4	6 10.9	35 10.3	3 4.5	2 13.3	2 9.1	3 3.9	6 8.6	16 6.5	12 9.5	13 11.6
DO WHAT'S POSSIBLE TO REDUCE RATE	472 85.0	238 85.3	234 84.8	162 84.8	194 85.5	115 84.6	205 86.9	72 80.0	71 87.6	82 88.2	41 74.6	285 83.3	59 89.4	12 80.0	20 90.9	70 92.1	57 81.4	218 88.6	105 83.3	93 83.0
NOT SURE	36 6.5	15 5.4	20 7.2	11 5.8	11 4.8	13 9.5	10 4.2	7 7.8	5 6.2	6 6.4	8 14.5	22. 6.4	4 6.1	1 6.7	1 4.5	2 2.6	7 10.0	13 5.3	10 7.9	6 5.4

Q.38 SHOULD GOAL OF SUCH A PROGRAM BE TO GET THE INTEREST RATE DOWN TO ...
** STATE SHOULD DO WHAT'S POSSIBLE TO REDUCE RATE **

		SEX		AGE			LOCATION					EMPLOYMENT					RESIDENCE			
	TOTAL	MALE	FEMALE	18-29	30-45	OVER 45	ANCHORAGE BOWL	FAIRBANKS	SOUTHEASTERN COMMUNITY	RAILBELT, MATSU ETC.	RURAL WEST AND NORTH	EMPLOYED FULL-TIME	EMPLOYED PART-TIME	STUDENT	RETIRED	HOUSEWIFE	LIFETIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	472	238	234	162	194	115	205	72	71	82	41	285	59	12	20	70	57	218	105	93
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
12 PCT.	24	15	9	12	11	1	13	4	1	2	4	20	2	-	1	-	1	10	8	5
	5.1	6.3	3.9	7.4	5.7	.9	6.3	5.6	1.4	2.4	9.8	7.0	3.4		5.0		1.8	4.6	7.6	5.4
11 PCT.	17	8	9	8	7	3	7	3	3	2	3	10	5	1	-	1	4	8	5	1
	3.6	3.4	3.9	4.9	3.6	2.6	3.4	4.2	4.2	2.4	7.3	3.5	8.5	8.3		1.4	7.0	3.7	4.8	1.1
10 PCT.	125	59	66	45	45	35	52	17	23	24	9	80	15	5	4	16	10	61	26	27
	26.5	24.8	28.2	27.8	23.2	30.4	25.4	23.6	32.4	29.3	22.0	28.1	25.4	41.7	20.0	22.9	17.5	28.0	24.8	29.0
9 PCT.	105	54	51	29	51	26	57	14	12	16	6	65	12	2	3	18	12	47	22	24
	22.2	22.7	21.8	17.9	26.3	22.6	27.8	19.4	16.9	19.5	14.6	22.8	20.3	16.7	15.0	25.7	21.1	21.6	21.0	25.8
8 PCT.	94	53	41	30	42	22	37	20	12	18	7	57	10	2	6	12	10	45	24	15
	19.9	22.3	17.5	18.5	21.6	19.1	18.0	27.8	16.9	22.0	17.1	20.0	16.9	16.7	30.0	17.2	17.5	20.6	22.8	16.1
7 PCT.	38	15	23	11	16	11	12	5	9	8	3	18	6	-	2	8	8	15	7	8
	8.1	6.3	9.8	6.8	8.2	9.6	5.9	6.9	12.7	9.8	7.3	6.3	10.2		10.0	11.4	14.0	6.9	6.7	8.6
6 PCT.	15	7	8	5	5	4	7	2	2	3	1	6	4	-	1	3	1	8	3	2
	3.2	2.9	3.4	3.1	2.6	3.5	3.4	2.8	2.8	3.7	2.4	2.1	6.8		5.0	4.3	1.8	3.7	2.8	2.2
5 PCT.	22	13	9	9	7	5	11	-	6	4	1	12	2	1	2	5	4	10	3	5
	4.7	5.5	3.8	5.6	3.6	4.4	5.4		8.5	4.9	2.4	4.2	3.4	8.3	10.0	7.1	7.0	4.6	2.8	5.4
LOWER THAN 5 PCT.	13	5	8	7	4	2	7	2	1	3	-	6	2	2	-	2	3	5	2	3
	2.8	2.1	3.4	4.3	2.1	1.7	3.4	2.8	1.4	3.6		2.1	3.4	16.7		2.9	5.3	2.3	1.9	3.2
NOT SURE	20	10	10	7	6	6	3	5	2	2	7	12	2	-	1	5	5	8	5	1
	4.2	4.2	4.3	4.3	3.1	5.2	1.5	6.9	2.8	2.4	17.1	4.2	3.4		5.0	7.1	8.8	3.7	4.8	1.1

Q.44 HAVE THE EXECUTIVE & LEGISLATIVE BODIES DONE AS MUCH AS THEY SHOULD IN REDUCING INTEREST RATES IN ALASKA WHICH WOULD HELP OFFSET THE RESTRICTIONS PUT ON ALASKA LANDS OWNED BY THE FEDERAL GOVT.

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
YES	98 17.7	60 21.5	38 13.8	24 12.6	47 20.7	27 19.8	41 17.4	12 13.3	15 18.5	20 21.5	9 16.4	64 18.7	12 18.2	2 13.3	6 27.3	8 10.5	16 22.9	35 14.2	27 21.4	21 18.7
NO	370 66.7	178 63.8	191 69.2	128 67.0	151 66.5	90 66.2	174 73.7	58 64.5	49 60.5	62 66.7	27 49.1	227 66.4	42 63.6	9 60.0	15 68.2	55 72.4	40 57.1	181 73.6	76 60.3	73 65.2
NOT SURE	88 15.9	41 14.7	47 17.0	38 19.9	30 13.2	19 14.0	21 8.9	20 22.2	17 21.0	11 11.8	19 34.5	51 14.9	13 19.7	4 26.7	1 4.5	13 17.1	15 21.4	31 12.6	23 18.3	18 16.1

Q.45 ARE YOU IN FAVOR OF DOING WHATEVER IS NECESSARY WITH THE PERMANENT FUND OR STATE BUDGET, TO ALLEVIATE EFFECTS OF RESTRICTED USES OF NATIONAL D-2 LANDS IN ALASKA THROUGH THE READY ACCESS TO STATE FUNDS PROVIDED BY THE STATE GOVT.

		SEX		AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555 100.0	279 100.0	276 100.0	191 100.0	227 100.0	136 100.0	236 100.0	90 100.0	81 100.0	93 100.0	55 100.0	342 100.0	66 100.0	15 100.0	22 100.0	76 100.0	70 100.0	246 100.0	126 100.0	112 100.0
YES	348 62.7	181 64.9	167 60.5	137 71.7	135 59.5	76 55.9	158 66.9	52 57.8	51 63.0	57 61.3	29 52.7	212 62.0	41 62.1	11 73.3	17 77.3	48 63.2	43 61.4	154 62.6	77 61.1	74 66.1
NO	134 24.1	70 25.1	64 23.2	31 16.2	68 30.0	34 25.0	57 24.2	24 26.7	21 25.9	22 23.7	10 18.2	91 26.6	15 22.7	3 20.0	3 13.6	16 21.1	10 14.3	58 23.6	39 31.0	26 23.2
NOT SURE	73 13.2	28 10.0	45 16.3	22 11.5	25 11.0	26 19.1	21 8.9	14 15.5	9 11.1	14 15.0	16 29.1	39 11.4	10 15.2	2 13.3	2 9.1	11 14.5	17 24.3	34 13.8	11 8.7	12 10.7

Jim Rhode
#18:27

Alaska State Legislature

Senate

Committee on Community & Regional Affairs

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

February 20, 1980

TO: Senator Mulcahy

FROM: Margo W. Waring
for Senator Sturgulewski

RE: CSSSSB 1

I have reviewed the version of SB 1 distributed at the Free Conference Committee meeting of February 14, 1980. Below are questions which arose during that review. Briefly, we are concerned about the liberalty with which funds will be disposed, control over and standards for loan decisions, encouragement of default on loans, the cost to the state of administering the loan program and the extent of "hidden" subsidies.

If you would care to discuss these questions further, we could meet at your convenience.

1) 37.13.020(b)(4) The restriction on closing fee costs to .5%. Few banks appear to have fees this low.

2) Chapter 96
45.96.010 Purpose: 1) lowest interest rates possible
2) make loans available
3) lower cost of living

These seem rather narrow goals for a program that could have such a massive effect on Alaska's economy.

3) 45.96.100 Tax Exemption: What are the implications of exempting "all property of the fund" from state and local taxes, as the property can include all sorts of real property?

4) 45.96.110 Sale of Bonds. This section states that there may be either public or private bond sales until 7/1/84, after which there may only be public sales. Why? Further, although the section describes (b) and controls public sales, there is no similar provision for private sales. Why?

5) 45.96.150. Loss Reserve Account consists of 5% of outstanding loans. Yet the "narrative" describes a higher default rate. What will be the source of funds for the difference?

6) 45.96.180. Budget. The operating budget is a general fund appropriation. What is the estimated cost of the Alaska Loan Program?

7) 45.96.200. Loan Procedures. Loans of less than $350,000 (b) are made by district office's director and two loan officers. Are funds going to be allocated among district offices? First-come-first-served? Loans of more than $350,000 are decided by three people in DC&ED.(c)

8) 45.96.210. The function of the Loan Program Evaluation Committee (which may consist of the same persons who made the initial loan) is to find these alternative conditions which would prevent loan default. Given the high rate of default, there are no guidelines presented regarding tolerable limits of such conditions.

9) 45.96.240. (1) Residential loans may be made to "sponsors" of "land development projects." What does this mean? Why are mortgage loans to be made to "sponsors, developers, builders, and purchasers," rather than to owners/purchasers? In (7) indication is made that the only loans "fully guaranteed as to payment of principal and interest by the fund are those bought by PERS or TRS. What are the implications of this?

10) 45.96.250. District offices have wide latitude in making loans (more than one/per borrower) for a variety of projects, such as farm irrigation, working capital, or boat upgrading which might make only marginal difference in profit rates. What review mechanism exists for district descretion regarding such loans?

11) Loans to public utilities for hydroelectric generation and water supply, include loans for operation. There needs to be a greater control over such projects for coordination and avoidance of duplication and to assure the lowest possible rates to consumers. Loans can be made for design, for "expenses incurred in securing necessary permits and licenses." This includes loans made prior to determinations of feasibility. It is also questionable that some of the costs should be subsidized by the public, since they also pays for the cost of analysis and issuance of the licenses and permits.

12) 45.96.290. The division director must lend money (up to $5 million) to small municipalities and eligible corporations, overriding other lending criteria. The loan is at cost, without any contribution to the loss reserve account. Bonds "need not be in definitive form." The director must bid on GOBS of home rule boroughs or cities (b) or any incorporated city or borough. Despite any other prudent loan criteria, the terms of the bid are set by statute (b)(1) and, if there are no other bids, the bonds must be purchased at 6%. The same is true for non-profit corporations (c) which supply public services as defined by the revenue sharing program. None of the limitations or protections of the bill apply to loans made to cities, boroughs, non-profit corporations (b). Will this lead to an unsupportable level of costly public services? Effect default rates?

13) 45.96.300 If a municipality defaults on any bond, payment of principal and interest is made by state departments or agencies which have money owing to the municipality. The only other measure to insure non-default of the loan is a penalty for not notifying the Commissioner of Revenue twenty days before default. This penalty is a new ground for removal from office (optional) and mandatory if the default occurs. But

there are no other provisions to protect the state's interest, except that such loans are secured by general funds (46.96.310). Does this encourage default?

14) 45.96.320. Industrial Development Loans. The state loan Committee issues bonds on behalf of businesses. The property will belong to the municipality of location "unless the municipality has provided otherwise" before the loan is approved. What does this mean? Will municipalities face the choice of determining financial feasibility themselves (prior to loan approval), take on risky properties that could obligate municipal funds or forever waive property rights in favor of the proposed business?

(c)(1) gives the local governing body only 60 days in which to approve the project. Non-response is taken as approval. Given that loan applications can be made at a point so early in project design as to have few details, these provisions appear unfair and restrictive of local control.

15) 45.96.330. Project Costs Eligible for Bonding. Is an overly broad range of costs eligible for bonding (financing costs, insurance premiums, "fees and expenses of trustees....and financial advisors...")?

16) 45.96.340. What will be the ultimate cost (real and opportunity costs) of non-interest bearing loans, 40% of which shall be forgiven?

17) 45.96.360. Eligibility for Loans. Loan eligibility requirements do not apply to Industrial Development Loans. Apparently, this means that a would-be industrial developer could borrow millions, even if in bankruptcy, default or delinquency. (45.96.360(1)(2)). Is this wise?

18) 45.96.380. Why has the DOT/PF been selected as the agency responsible for determining the cost of living in areas of the state? How expensive will it be to make such determinations?

19) 45.96.390. What is the relationship of these loan limitations (up to 100% of the maximum amount to five year residents) to collateral requirements in other sections?

20) 45.96.400. Why are educational and industrial loans exempted from value limitations? 45.96.410. Isn't it unusual to secure loans with personal property?

21) 45.96.420. What kind of municipal subsidy is involved in loans at less than the cost of money? When the revolving loan fund (b)(c) is depleted by payments to cover the difference between rate to the borrower and the cost of money, what general fund costs can be anticipated and projected? Are future funds being appropriated by this legislature?

22) 45.96.425(b). It seems unfair that, if our loans are made to veteran's dependents, they can't be made to the veteran's parents, if they are still married.

23) 45.96.430-440. What sorts of costs will be incurred by these sections. Are large increases in general funds/growth of government going to result from new services (also re. .380)? Regarding the new divisions and positions, the same question should be asked?

24) 37.05.159. Is the establishment of the Comprehensive Loan Program Reserve Account within the general fund a dedication of funds in violation of the Alaska Constitution?

In conclusion, one more point can be made regarding the Loan Program. A great many separate accounts are established. Each will be invested and managed. Potential for abuse is inherent in money management at this scale. Are the oversight provisions (Legislative Budget & Audit) adequate?

#18:27

NOTES ON PURPOSES, ORGANIZATION, MANAGEMENT AND REPORTING PROPOSALS IN SB 1

I. The Alaska Permanent Fund

A. Purposes

- A separate fund consisting of certain state mineral revenues.

- Used for income-producing investments which may include in-state investments that have a risk level and expected yield comparable to specified alternative investment opportunities and consistent with the prudent-man rule.

- Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely" (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of the English Language, 1976)

- Accumulate sufficient income in the Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources (Source: Joint Chairman's Report on CS SSHJR 39, March 24, 1976).

- Purpose of the income is to secure obligations of the proposed Alaska Loan Programs Fund.

B. Organization Management and Reporting for the Principal (assets) of the Alaska Permanent Fund

- Policy decisions about permissible types and proportions of investments would be made by the legislature and contained in the statute.

- Operational decisions about specific investments would be taken by the Commissioner of Revenue and his staff.

- Commissioner of Revenue is appointed by the Governor, confirmed by the Legislature, and serves at the pleasure of the Governor.

- Annual operating budget subject to the Executive Budget Act.

- Quarterly and annual investment reports to the Legislative Budget and Audit Committee, Investment Oversight Division (proposed).

- Annual report to Governor, Legislature, and public.

II. The Alaska Loan Programs Fund

A. Purposes

- Use virtually all the State's financial resources, other than those required for normal operations of State government.

- Provide the lowest possible interest costs to Alaska borrowers, consistent with sound financial practices.

- Make available to all sectors of the Alaska economy loans including long-term financing.

- Establish a strong, single loan source.

- Make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector(s).

- Import capital to fund loans to the veterans, housing, commercial, public, non-profit, and education sectors in Alaska.

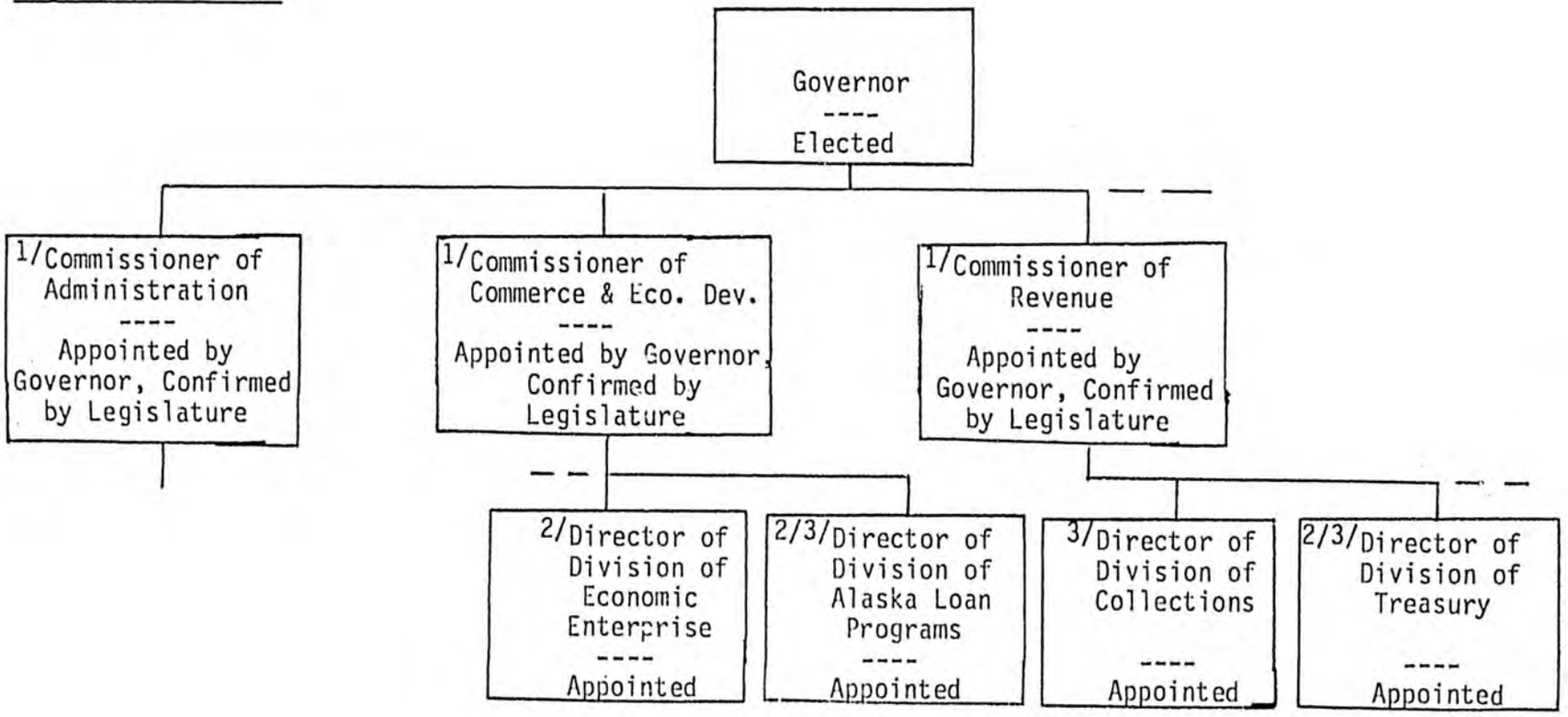
- Refund any or all existing state or municipal general obligation and revenue bonds.

- Provide fire and liability insurance for projects financed by the Alaska Loan Programs Fund.

- Provide a market for all future general obligation bonds issued by Alaska municipalities.

B. Management of the "Alaska Loan Programs Fund."

Organization Chart



Notes: 1/These three Commissioners function as the "State Bond Committee"

2/These three Directors would function as the "Alaska Loan Programs Evaluation Committee"

3/These three Directors could be classified as partially exempt

C. Decisions

- Policy decisions about general loan program sectors; i.e., municipalities with populations less than 5,000, non-profit corporations, all other municipalities, veterans, industrial development, education, tourism, child care facilities, fishermen and other business; individual loan amount upper limits and recipient categories would be made by the Legislature and included in the statute.

- Policy decisions about the amount of revenue bonds to be sold to provide funding of the Alaska Loan Programs Fund would be made by the State Bond Committee.

- Policy decisions about the investment of fund cash balances and reserve accounts would be made by the Director of the Division of Treasury, subject to the approval of the Commissioner of Revenue, unless disapproved by the Legislature within a period of 60 days.

- Policy decisions about the total amount of loans to be made to various sectors of the economy would be made by the Director of the Division of Loan Programs, apparently without reference to a Commissioner.

- Policy decisions about interest rates to be charged would be made by the Commissioner of Revenue.

- Policy decisions about further subsidies of interest rates to be charged would be made by other loan agencies such as the ARRC.

- Operating decisions about rescheduling and foreclosing on delinquent loans would be made by the Alaska Loan Programs Evaluation Committee apparently without reference to a Commissioner.

- Annual operating budget subject to the Executive Budget Act.

D. Reporting

- Monthly reports on investments by Director of the Division of Treasury to the Legislative Budget and Audit Committee.

- Monthly reports on loan defaults by the Department of Administration to the Departments of Revenue and Commerce and Economic Development, and to the Legislative Budget and Audit Committee.

- Monthly reports on loan collections by the Division of Collections to the Legislative Budget and Audit Committee.

- Quarterly reports on investments, defaults and collections by the Legislative Budget and Audit Committee to the Legislature.

P. B. McDowell
February 29, 1980

NOTES ON LOAN PROGRAMS/REVENUE BONDING AUTHORITIES

A. General Notes

What are the possible goals of the Legislature (House)?

1. Primary Goals

(a) Import capital to fund housing, business/industry and state/municipal capital projects in Alaska.

(b) Expand the Alaska economy in terms of GDP and personal disposable income of present residents, (not in terms of revenue to state government).

(c) Plan the economic development of Alaska, where

- State government is the planning agency
- Private and municipal sectors are encouraged (but not coerced) to fit into State plans with financial incentives provided by State bonding, loan and equity investment programs

(d) Provide loans at below market interest rates to Alaskan residents, municipalities, and non-profit corporations for limited and/or unlimited purposes.

(e) Make loan program/revenue bonding policy explicitly (on purpose) rather than implicitly (accidentally) as at present.

(f) Unify various state loan programs into a single program to enhance planning for priorities and increase organizational visibility and legislative control.

2. Secondary Goals Re Management

(i) Criterion: The distance from the Legislature with regard to policy and operating decisions.

(ii) Definitions: Policy decisions are those which define the size, classes of expenditure and general criteria for differentiating among individual recipients of program funds or services.

Operating Decisions are those which differentiate among individual recipients and determine the amounts allocated to individual recipients.

Possibilities

(a) Policy and operating management by the Legislature itself, or a subdivision thereof

(b) Policy and operating management by independent state corporation separate from the Commissioner-headed departments

(c) Policy and operating management by a single commissioner level department of the executive

(d) Policy management by multiple commissioners (a committee) and operating management by state civil servants not subject to confirmation

(e) Operating management by private sector commercial banking institutions

(f) Policy and operating management by municipalities

(g) Policy and operating management by non-profit and/or quasi-municipal government corporations

(h) Policy and operating management by state civil servants below the levels subject to Legislative confirmation.

N.B. For all the alternatives above, policy and operating management could be separately assigned to any two alternatives.

P. B. McDowell
February 1, 1980

#18:27

MEMORANDUM

TO: Hon. Peter Bushre
Deputy Commissioner of
Revenue-Investments
Pouch SB
Juneau, Alaska 99811

FROM: Wohlforth & Flint

DATE: March 23, 1979

SUBJECT: Substitute for Senate Bill No. 1
"An Act Relating to the Alaska
Loan Programs Fund, the Alaska
Permanent Fund, State Investment
Policy and other State Revenues;
and providing for an effective date"

Since I cannot be in Juneau to testify on the above bill at the hearing scheduled for March 29, 1979, I would like to submit in writing the following comments.

I understand that the questions arising from the bill concerning "arbitrage" issues under Proposed Regulations 1.103-13 and 14 of the Internal Revenue Service will be dealt with by Mr. George Woolfe, of the law firm of Orrick, Herrington, Rowley & Sutcliffe. The questions alluded to in my memorandum dated February 6, 1978, with respect to this bill last year (Senate Bill 429) have been made more acute by the issuance of the proposed regulations on September 1, with respect to the permitted spread between bond yield and the yield on acquired purpose obligations, yield on reserve funds and the invested sinking fund provisions of the proposed regulations.

Last year I noted in my memorandum that the bill effectively wiped out a major portion of the present state loan programs without regard as to whether such programs are being financed directly by the general fund or through the issuance of tax exempt bonds on the public market. In attempting to centralize state loan activities, the bill is apparently based on the assumptions in the report entitled "A Narrative on Senate Bill 429" issued last year by t e Senate's Special Committee on the Permanent Fund. This narrative is sharply critical of the history of state loan programs and independent corporations without detailing, except in broad terms, the particular deficiencies.

Admittedly there are deficiencies in State loan programs, as evidenced by the recent Haskins & Sells audit on the Veterans Loan Program. On the other hand, public borrowing entities which have financed home mortgage loans or loans to municipalities through tax exempt bonds have operated efficiently.

The following will attempt to detail some of the features of the bill especially worthy of note:

1. AS 45.96.120 creates the 'allocated reserve account' within the general fund. Income from the permanent fund is "allocated to the account". Amounts necessary to fund the capital reserve account, the fire insurance and liability reserve account and the loan loss reserve account are allocated to those accounts from the allocated reserve account. It is apparently conceived that income from the permanent fund is a perpetual source of funding for the allocated reserve account allocations to the above mentioned accounts. It is legally doubtful, in my view, that such an allocation without an annual appropriation for the purposes is effective. Section 125 establishes the unallocated reserve account which is to be funded through appropriation lapses at the end of each year. The amount available for this account therefore, would vary depending on budgetary and expense procedures and would be uncertain.

2. The capital reserve account created under Section 140 is to be capitalized from bond proceeds in the amount of 5% of the principal amount. This section is inconsistent with the provisions of Section 120 which provides that the allocated reserve account funds the amount in the capital reserve account.

3. With respect to Section 120 and other sections establishing percentages, it is suggested that legislation of this sort is not the correct place to fix percentages but that the matter should be left to negotiation in the light of market conditions pursuant to the underlying bond security documents.

4. Replenishment of the capital reserve account and the loan loss reserve account is to be made annually from the allocated reserve account. It is noted above that the allocated reserve account is allocated all of the income from the permanent fund. It is submitted that this income must be the subject of an annual appropriation unless the

Permanent Fund amendment to the Constitution specifically permits a permanent dedication and pledge to bond holders of income.

5. Although the narrative on Senate Bill 429 last year indicated that a virtue of the bill was reduction of State agencies and authorities it should be noted that the bill creates "a new Alaska loan programs evaluation committee" (Section 220) a new division of collections within the Department of Revenue (Section 240) and a new investment oversight division (Section 24.20.231).

6. Section 45.96.300 provides for purchase of local government bonds by the State. It was noted last year there is a technical mistake in providing that "loans to non-profit corporations should be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the Municipality in which the project to be financed by the loan is constructed" (lines 8 through 12, page 26.) The scheme for state bid for local government bonds is set at percentage points above or below the daily bond buyer average for differing maturities. This is an arbitrary scheme based on a todays estimate of what bonds in the rate categories may sell for and it may well be an inaccurate and inefficient scheme as Alaska bonds increase in value. As with the other percentages fixed in this bill, the bidding percentages above and below the daily bond buyer average ought to be left to administrative determination. The revenue bond bid formula is even less apt to be correct. For some reason the bill permits the purchase by the State of all revenue bonds issued on a competitive basis on behalf of a non-profit corporation as well. The criteria for non-profit corporations which are eligible for the loans as fixed in AS 45.96.300 paragraph (d) on page 29 do not currently comply with the proposed "on behalf of" regulations of the Internal Revenue Service.

7. Section 45.96.320(d) provides for industrial development loans for projects up to $5,000,000. 1978 amendments to Internal Revenue Code permit loans up to $10,000,000, depending on location and capital expenditures over a six year period.

8. In this connection, the provision of Section 14 of the bill on page 45 should be noted. This section flatly prohibits any municipality from issuing an industrial development bond under the provisisons of the Internal Revenue Code. Under this provision the City of Valdez could not have effectuated its oil terminal financing and the Municipality of Anchorage could not have issued its $50,000,000 in Home Mortgage Bonds in March, 1979.

The memo of February 6, 1978, last year, details other questions with respect to the bill.

In conclusion, the bill deals with the substantial subject matter of the means of funding all state loan programs based on the assumption that establishment of certain pre-determined and fixed reserves from permanent fund income, lapsed appropriations and bond proceeds will provide an efficient financing vehicle for this purpose. As noted above, the percentages fixed may or may not be adequate to support bonds secured by the many different types of loans which are to be made by the fund. The loans to be financed range from secure municipal bonds and housing loans to loans never before financed through publically marketed bond issues. The percentages established for the capital reserve account and the debt service reserve account may or may not be adequate to support bond issues for the varied purposes of the loan programs. In addition, the bill assumes in every case that it creates a more efficient financing vehicle than those presently existing in the state and fixes details of loan programs and the market rate on municipal bonds sold to the public (thus permitting sale to the state) which should be left to administrative discretion. Finally, the bill seeks to eliminate a large area of local government financing in the housing and industrial development bond field without any rationale suggested.

#18:27 S21

January 10, 1980

MEMORANDUM TO: ALASKA DEPARTMENT
OF REVENUE
TREASURY DIVISION

FROM: GEORGE G. WOLF
ORRICK, HERRINGTON, ROWLEY
& SUTCLIFFE

Re: CSSSSB 1

This memorandum discusses the relationship between Committee Substitute for Sponsor Substitute for Senate Bill No. 1, entitled "An Act relating to nonrenewable resource revenues; to legislative oversight; and providing for an effective date" (hereinafter referred to as the "Bill"), and Section 103 of the Internal Revenue Code of 1954, as amended (the "Code"), which governs the exemption from federal income tax for interest on state and municipal obligations. Particular emphasis will be placed on the questions raised in Deputy Commissioner Bushre's letter of June 20, 1979.

I. THE BILL

The central features of the Bill are (i) the creation of the Alaska Loan Programs Fund (the "Fund"), amalgamating several now separate loan programs of the State, to be funded with the proceeds of Revenue Bonds

issued for the Fund, and (ii) providing substantial security for such Bonds through the mechanism of the Allocated Reserve Account, which will receive one-half of the income from the Permanent Fund. As stated in Section 9 of the Bill (AS Sec. 45.96.010), "A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. ... A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector."

A schematic diagram of the relevant provisions of the Bill is attached as Exhibit A.

First, the Bill creates the Fund (45.96.020 (a)). Revenue Bonds are issued by the State Bond Committee to carry out the purposes of the Fund (45.96.030). Proceeds of the Bonds are deposited in the Fund (45.96.030 (a)), which are then used to make loans (45.96.230). Loans may be made for single-family and multi-family residential housing (45.96.240), for general commercial purposes (45.96.250), to small municipalities (45.96.290),

for industrial development activities (as defined in Section 103(b)(4) and (5) of the Code) (45.96.330), and for tourism, historical preservation, and open space purposes (45.96.350). Although the Bill provides that loans may also be made for educational purposes (45.96.230), the portions of a prior version of this Bill (SSSB 1) setting forth eligibility requirements, loan limits, and so forth for education loans have been eliminated in this Bill.

Interest on loans is to equal the Fund's cost of borrowing (45.96.420(a)) plus additional amounts described below to fund various reserve accounts. All of the assets of the Fund are pledged as security for the Revenue Bonds issued to finance the Fund (45.96.030 (b)). The Fund's operating budget is to be paid from the General Fund, unless appropriations for that purpose are made from the Unallocated Reserve Account (45.96.180).

Second, the Bill creates a series of reserve accounts and the mechanisms for funding them. Principal among these is the Allocated Reserve Account (45.96.120), which is funded with one-half of the average annual income from the Permanent Fund (45.96.120). The Allocated Reserve Account can, in addition, be funded with optional appropriations from the General Fund (45.96.120), from

the Unallocated Reserve Account (45.96.125(b)), or from the Comprehensive Loan Program Reserve Account (37.05.159 (a)).

The Unallocated Reserve Account is funded with the annual General Fund surplus exceeding $100,000,000 (45.96.125(a)). The Comprehensive Loan Program Reserve Account is funded with 15 percent of amounts received by the State for lease bonus, rents from State property, and royalties from the disposition of minerals owned by the State (37.05.159(b)).

The Capital Reserve Account is funded from the Allocated Reserve Account in an amount equal to 5 percent of each Revenue Bond issue outstanding (45.96.140). Amounts in the Capital Reserve Account may be used only to pay debt service on Revenue Bonds, with any surplus being returned to the Allocated Reserve Account (45.96.140).

The Loss Reserve Account (45.96.150(a)) is funded by amounts in the Allocated Reserve Account (45.96.120) and an additional one percent interest charge on the Fund's loans (45.96.150(c), 45.96.420(a)) in an amount equal to 5 percent of the amount of Fund loans outstanding each year. Amounts in the Loss Reserve Account may be used only to reimburse the Fund for losses realized from loans, with any surplus being

returned to the Allocated Reserve Account (to the extent of amounts previously advanced to the Capital Reserve Account and the Loss Reserve Account) and to the earned income account of the Fund (to the extent of the excess) (45.96.150(d)).

The Fire and Liability Reserve Account (45.96.165) is funded with an optional 0.6 percent additional interest charge on loans (45.96.165) and by amounts in the Allocated Reserve Account (45.96.120) in an unspecified amount but apparently to the extent necessary to reimburse the Fund for losses realized on uninsured property, which is the only permitted use of amounts in the Account.

The Debt Service Reserve Account is funded with Bond proceeds to the maximum extent permitted under Section 103(c) of the Code (45.96.130). Amounts in the Debt Service Reserve Account may be used only to pay debt service on the Bonds (to the extent that other amounts in the Fund and the Capital Reserve Account are insufficient to pay such debt service), with any surplus going to the Allocated Reserve Account (45.96.130).

The Municipal Bond Capital Reserve Account is funded by amounts in the Unallocated Reserve Account

in an amount equal to 5 percent of the amount of municipal obligations acquired by the Fund (45.96.320). The Bill is unclear whether amounts in the Municipal Bond Capital Reserve Account secure Revenue Bonds issued by the Fund the proceeds of which are used to acquire municipal obligations, or whether such amounts secure the municipal obligations themselves. Any surplus is returned to the Unallocated Reserve Account (45.96.320).

II. SECTION 103

Section 103(a) of the Code provides that interest on the obligations of a state or any political subdivision thereof is exempt from federal income tax. In general, Revenue Bonds issued by the Alaska State Bond Committee on behalf of the Fund would be exempt under this provision.

Tax exemption would be denied, however, if such Bonds were "industrial development bonds" ("IDB"), unless one of the specific exceptions for such treatment were satisfied. Tax exemption would also be denied if the Bonds were "arbitrage bonds."

In addition, tax exemption could be lost if the Bonds constituted "mortgage revenue bonds," "mortgage subsidy bonds," or some similar designation under

various bills now pending before the Congress.

It is presumed that the exemption from federal income tax on the Bonds is one of the fundamental objectives of the Bill. Bonds contemplated by the Bill, however, are affected by both of the existing exceptions to such treatment, as well as by the anticipated exception for mortgage bonds.

III. INDUSTRIAL DEVELOPMENT BONDS ASPECTS

A. IDBs Generally

Section 103(b)(2) defines IDBs in terms of two tests, commonly referred to as the "trade or business test" and the "security interest test." Both tests must be met for an obligation to be an IDB.

The trade or business test refers to the use to which the proceeds of bonds will be put, and provides that an obligation will be an IDB if "all or a major portion of the proceeds of [such obligation] are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person ..." Sec. 103(b)(2)(A). A "major portion" for this purpose means more than 25 percent of the proceeds of the obligation. Treas. Reg. § 1.103-7(b)(3)(iii).

Section 103(b)(3) defines the term "exempt person" to mean a governmental unit, or an organization

described in Section 501(c)(3) of the Code and exempt from tax under Section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business within the meaning of Section 513(a) of the Code). For this purpose, however, one must look to the ultimate use of the proceeds. For example, bonds issued by a state the proceeds of which are loaned to a city, which in turn loans the proceeds to a nonexempt person for use in a trade or business, will satisfy the trade or business test. Treas. Reg. § 1.103-7(b)(3)(ii).

In short, Bonds will meet the trade or business test for IDBs if more than 25 percent of the proceeds are loaned or otherwise made available to private commercial enterprises.

The security interest test relates to the security for repayment of the obligations. Under this test, an obligation will be an IDB if "the payment of the principal or interest on [such obligation] (under the terms of such obligation or any underlying arrangement) is, in whole or in major part - (i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or (ii) to be derived from payments in respect of prop-

erty, or borrowed money, used or to be used in a trade or business." Again, a "major part" means more than 25 percent, and the test is satisfied if more than 25 percent of the principal or more than 25 percent of the interest on an obligation is secured by property, etc. used in a trade or business. Treas. Reg. § 1.103-7(b)(4). If the security interest test is satisfied, the presence or absence of a pledge of the full faith and credit of the issuer is irrelevant. Ibid.

For the security interest test to be satisfied there need be no relationship between the property or borrowed money which provides security for the bonds and the use of the proceeds of the bonds. Treas. Reg. § 1.103-7(b)(4). In other words, if the proceeds of a bond issue are used in the trade or business of one nonexempt person, and the bonds are secured by property used in the trade or business of another person, the security interest test is satisfied, and the bonds are IDBs.

If an obligation is not directly secured by property, etc. used in a trade or business, the security interest test will nonetheless be satisfied if there is an "underlying arrangement" that the principal or the interest on such obligation will be paid from amounts derived from payments in respect of property,

or borrowed money, used in a trade or business. For example, if an industrial development authority issues bonds the proceeds of which are loaned to private commercial enterprises, and it is clear from all of the facts and circumstances that the only source of payment of debt service on the bonds (or more than 25 percent of either the principal or the interest on such bonds) will be payments received with respect to such loans, the security interest test is satisfied even if there is no direct pledge of the loans or the revenues therefrom as security for the bonds. Treas. Reg. § 1.103-7(c), Example (14). On the other hand, where a state issues general obligation bonds the proceeds of which are loaned to private commercial enterprises, the loans and payments with respect thereto are not pledged as security for the bonds, there is no particular correlation between loan repayments and payments of debt service on the bonds, and it is clear that the state has sufficient other revenues to repay the bonds, there is no underlying security arrangement between the bonds and the commercial loans and the security interest test is not satisfied. Rev. Rul. 75-403, 1975-2 C.B. 37.

In summary, an IDB is any obligation more than 25 percent of the proceeds of which are used in

private commercial businesses and more than 25 percent of the principal or interest on which is secured by property, payments in respect of property, or borrowed money, used in private commercial businesses.

B. IDB Exceptions

Notwithstanding that an obligation is an IDB because it meets both the trade or business test and the security interest test, it may nonetheless carry tax-exempt interest if it meets one or more of three exceptions set forth in the Code.

The first exception, referred to as the "exempt activities" exception, provides that tax-exempt treatment shall not be denied if substantially all of the proceeds of an obligation are used to provide certain types of facilities specifically enumerated in the statute. I.R.C. Sec. 103(b)(4). These facilities are residential real property for family units, sports facilities, convention or trade show facilities, certain types of public transportation facilities, sewage or solid waste disposal facilities, facilities for the local furnishing of electric energy or gas, air or water pollution control facilities, and facilities for the furnishing of water. All of these types of facilities have extensive requirements as set forth in Treasury

Regulations, § 1.103-8, the most significant of which is that most of such facilities must be available on a regular basis for general public use. Treas. Reg. § 1.103-8(a)(2).

The second exception is for bonds substantially all of the proceeds of which are used for the acquisition or development of land as the site of an industrial park. I.R.C. Sec. 103(b)(5). This exception does not permit bond proceeds to be used for the construction of buildings. Again, Treasury Regulations, § 1.103-9, provide extensive refinement.

The third exception, referred to as the "small issue" exception, permits the issuance of up to $1 million in tax-exempt obligations if substantially all of the proceeds are used to provide or improve land or depreciable property. I.R.C. Sec. 103(b)(6)(A). Under stringent restrictions relating to the total cost of the project being financed, the $1 million limit may be increased to $10 million. I.R.C. Sec. 103(b)(6)(D).

The term "substantially all" for purposes of each of the above exceptions means 90 percent or more. Treas. Reg. § 1.103-8(a)(1)(i). In addition, this test is satisfied if 90 percent or more of the bond proceeds are used in some combination to provide exempt facili-

ties, industrial parks, and/or loans to exempt persons. Treas. Reg. § 1.103-8(a)(1)(ii).

C. Applications to CSSSSB 1

As pointed out in more detail in my testimony on SSSB 1 before the House Special Committee on the Permanent Fund on March 29, 1979, that Bill did not make clear whether there would be a complete pooling of all Bond proceeds for making all types of permissible loans, whether proceeds of particular Bonds would always be targeted to particular loans or types of loans, or whether there would be some combination of these alternatives (i.e., proceeds of some Bonds would be targeted with the rest pooled). A similar ambiguity is present with respect to Fund revenues. For purposes of this memorandum, it will be assumed that AS 45.96.030(f) would give the State Bond Committee sufficient discretion on this point as to give them the maximum latitude to issue all types of Bonds while retaining tax exemption under Section 103 of the Code.

1. You have asked "To what degree can a multiple purpose be commingled and still retain tax exempt status? Would a pooling of various commercial loans, such as is proposed by this legislation, violate the single purpose rule? To what degree must non-

commercial purposes exceed commercial purposes to retain the tax exempt status of the issue?"

There is nothing in Section 103 that limits the number of purposes to which the proceeds of tax-exempt bonds may be put. On the contrary, the regulations explicitly acknowledge that a single issue of obligations may be used for several different purposes. See, e.g., Treas. Reg. § 1.103-8(a)(1)(ii). For example, a city may issue $10 million of bonds and use $2 million to provide sewer facilities, $2 million to build a school, $2 million to improve roads, $2 million to provide single-family housing subsidies (under current law), and $2 million to make commercial loans without losing the tax exemption (assuming common security, to be discussed below). Provided that the ratio of noncommercial uses to private business uses in at least 3 to 1, the bonds will not be IDBs.

The types of loans contemplated by the Bill include both commercial and noncommercial loans. Noncommercial loans would include single-family residential housing loans (under current law), municipal loans (keeping in mind the ultimate use of proceeds), and noncommercial historical preservation and open space loans. The commercial loans would include multi-family

residential housing loans, general commercial loans, industrial development loans, tourism, and commercial historical preservation and open space loans. It is important to keep in mind that loans for exempt activities, industrial parks, and small issues are commercial loans for this purpose even if they might qualify for exemption. If, under a complete pooling of proceeds arrangement, the noncommercial loans constituted at least 75 percent of the total principal amount of loans made by the pool, Revenue Bonds issued by the Fund should not be IDBs. This would be true also under limited pooling if the noncommercial loans in the pool were at least 75 percent of the total loans made by the pool.

It must be emphasized that it is the ratio of noncommercial to commercial loans to be made from the pool of Bond proceeds that will determine whether the trade or business test is satisfied. Outstanding loans made with the proceeds of prior Bonds will not count. For example, if prior Bond issues totalling $100 million had been used to make exclusively noncommercial loans, the Fund could not use such loans to leverage a new $25 million issue all of the proceeds of which would be used to make commercial loans.

Because of the novelty of the concept of an omnibus loan program, it would be advisable to obtain a ruling from the Internal Revenue Service ("IRS") on this point. The IRS could take the position, for example, that the proceeds of particular Bonds must be traced to particular loans to determine whether the trade or business test is met, notwithstanding the fact that such proceeds are pooled with the proceeds of several other Bonds. It might also require extensive accounting procedures to insure compliance with the proper ratios.

2. You have asked "Would this fund have the ability to issue revenue bonds under the exempt activity, industrial park and small business exception provisions? Would this fund have the ability to issue exempt revenue bonds under the Housing Act?"

If all Bonds, or some portion of the Bonds, were targeted to specific loans or types of loans, the Fund could issue Bonds under the exempt activities, industrial park, and small issue exemptions under Section 103(b)(4), (5), and (6), respectively. Similarly, under complete or limited targeting, the Fund could issue tax-exempt Bonds under Section 11(b) of the Housing Act of 1937 (42 U.S.C. 1437), provided that requirements set forth in Housing and Urban Development

Department Regulations (24 C.F.R., § 811.0 et seq.) are satisfied (which could separately cause serious problems).

As indicated above, certain types of loans may be combined under these exceptions. That is, Bonds the proceeds of which are targeted to exempt facilities, industrial parks, and/or exempt persons (e.g., municipalities) will be tax exempt, provided that 90 percent or more of the proceeds are used for such purposes and that the other requirements for exemption are met.

These exceptions would not be available under a complete pooling approach. Treasury Regulations, § 1.103-8 (dealing with exempt activities) and § 1.103-9 (dealing with industrial parks), clearly contemplate a tracing of Bond proceeds into the required expenditures in order to determine compliance. Of course, if more than 90 percent of the total loan pool consisted of exempt activities, industrial park, and exempt persons loans, this problem could be eliminated.

Under no circumstances, however, could Bonds be issued under the small issue exception under a complete pooling approach. This exception generally requires that each small issue be separately secured. Rev. Rul. 74-380, 1974-2 C.B. 32; Rev. Rul. 77-55, 1977-1 C.B. 20. Housing Act Bonds also could not be

issued in combination with other types of Bonds. Housing and Urban Development Department regulations specifically contemplate that such Bonds will be linked to specific housing projects.

3. You have asked "Would you please define the 'security interest test' and how does this test impact the legislation as proposed?"

As applied to Bonds issued by the Fund as contemplated by the Bill, the test would almost certainly be met because of the pledge of the assets of the Fund as security for the Bonds if commercial loan repayments constituted security for as much as 25 percent of the interest on the Bonds.

As I mentioned in my previous testimony, it is possible that the security provided by a very large number of very small commercial borrowers is insufficient to satisfy the security interest test. The argument would be that such Bonds are hardly different from those issued by a city and secured by the general property taxing power of the city, where more than 25 percent of the value of all such property is commercial. Such bonds ordinarily are not thought to meet the security interest test. It is uncertain, however, whether the IRS would agree with that proposition,

and a ruling should be sought before relying on the theory.

Another possibility exists for completely breaking the security interest test for all Bonds issued by the Fund, thus eliminating IDB status entirely. At the March 26, 1979 hearing before the House Special Committee on the Permanent Fund, the State's financial advisor stated that for the substantial reduction in interest expense contemplated by the Bill to be achieved, potential purchasers of the Fund's Bonds would ignore the Fund's assets (i.e., its loans) and look solely to the various reserve accounts as security for the Bonds. In other words, to achieve lower interest rates, the amount of Bonds that could be issued by the Fund would be limited to the amount of debt service that could be covered by the income from the Permanent Fund that is pledged as security for such Bonds. If that is the case, the pledge of the Fund's loans as security for the Bonds could be eliminated (and in fact specifically be precluded from being used to pay debt service on the Bonds). If commercial investments (e.g. corporate bonds) were eliminated as permissible investments for the Permanent Fund and the various reserve accounts, there would be no commercial

security for the Bonds, and the security interest test would not be satisfied. Although serious arbitrage bond questions would still remain, such an arrangement would largely eliminate any IDB problems.

Under such an arrangement, whatever was collected on loans made by the Fund could be placed in a separate account and be used to make additional loans. Assuming some reasonable return on such loans, the Fund's need to borrow money could be eliminated entirely at some time in the future.

4. Another question raised by the IDB provisions as applied to the Bill is what constitutes a separate "issue" of bonds. As mentioned previously in connection with the small issue exemption, the IRS takes the position that two or more obligations are part of a single "issue" if they are sold at substantially the same time and have common security. A similar concept is applied under the arbitrage regulations (Treas. Reg. § 1.103-13(b)(10)), and it is likely that the IRS would apply this concept to bonds generally. For this reason, Bonds the proceeds of which are targeted to particular loans or particular types of loans may have to be secured solely by those loans in order to insure that such Bonds are not aggregated with other Bonds

issued at substantially the same time. This may be important for determining whether substantially all of the proceeds of a particular "issue" of Bonds is used, for example, to provide an exempt facility. On the other hand, it is possible that a ruling could be obtained from the IRS that, so long as the use of the proceeds of a particular series of Bonds can be traced into an exempt activity, etc., common security will not result in aggregation.

In any event, a ruling may be advisable that the common security provided to all Bonds by the Capital Reserve Account, the Loss Reserve Account, and the Fire and Liability Reserve Account does not result in pooled security for purposes of determining what constitutes a separate "issue" not only for general IDB purposes but also specifically for any Bonds intended to qualify under the small issue exemption.

IV. MORTGAGE REVENUE BOND BILLS

A. Proposed Bills

On April 26, 1979, Mr. Al Ullman, Chairman of the House Committee on Ways and Means, introduced H.R. 3712, 96th Cong., 1st Sess. That bill proposed to add a new subsection (g) to Section 103 of the Code, which would eliminate tax exemption for any "mortgage subsidy

bond." The bill defined a mortgage subsidy bond as any obligation "all or a significant portion of the proceeds of which are to be used directly or indirectly for mortgages on (or other owner-financing of) owner-occupied residences." The only exception would be for veterans loan programs. In addition, restrictions were placed on the residential housing exempt activities exception, restricting tax-exempt bonds to finance such projects to low or moderate income rental housing.

H.R. 3712, as reported out of Committee, was substantially revised. Significant for purposes of this memorandum, the revised version of that bill provided that any "mortgage subsidy bond," again defined as any obligation all or a significant portion of the proceeds of which are used directly or indirectly for mortgages on owner-occupied residences, would not be tax exempt unless it constituted a "qualified mortgage bond" or a "qualified veterans' mortgage bond." A qualified mortgage bond was further defined as one all of the proceeds of which were to be used to finance owner-occupied residences and which satisfied extensive loan eligibility requirements, basically geared to targeting such loans to low and moderate income persons. The most current version of this bill now pending in

the House (H.R. 5741) is substantially similar to H.R. 3712 in these respects.

Various other bills have been introduced more or less to the same effect, including the so-called Williams Bill, the Heinz Bill, and the Leahy Bill. All such bills either prohibit mortgage subsidy bonds entirely or restrict tax exemption to bonds where either all or substantially all of the proceeds are used to provide residential mortgages under various restrictions.

It is likely that some form of restriction on mortgage revenue bonds will become law some time this year, although congressional interest has wanned somewhat in recent months.

B. Effects on CSSSSB 1

Assuming one of the mortgage reserve bond bills becomes law in the near future, its likely effect on Revenue Bonds issued by the Fund would be to eliminate single-family residential housing as a source of noncommercial loans for purposes of determining whether the trade or business test for IDB classification is satisfied. In other words, commercial loans could not be "leveraged" with mortgage loans either at all or at best at a ratio of 1 to 9, for purposes of determining whether the Fund's Revenue Bonds are IDBs.

In order for the Fund to make single-family residential mortgage loans, Revenue Bonds would likely have to be specifically targeted for that purpose. Together with the other types of loans contemplated by the Bill that would require such treatment, virtually the only remaining source of noncommercial loans upon which to leverage the commercial loans for determining IDB status would be municipal loans and noncommercial historical preservation and open space loans.

V. ARBITRAGE BOND ASPECTS

A Arbitrage Bonds Generally

Section 103(c) of the Code denies tax exemption to any "arbitrage bond." An arbitrage bond, in essence, is an obligation the proceeds of which are invested at a profit. More particularly, Section 103(c)(2) defines an arbitrage bond to be any obligation all or a major portion of the proceeds of which, at the time of issuance, are reasonably expected to be used, directly or indirectly, to acquire securities or obligations which may be reasonably expected at the time of issuance to produce a yield, over the term of the issue, which is materially higher than the yield on the obligation, or to replace funds that were used to acquire such other securities or obligations.

Section 103(c)(4) provides that an obligation shall not be treated as an arbitrage bond solely by reason of the fact that the proceeds are invested for a temporary period until needed for the purpose for which the obligation was issued, or that amounts in a reasonably required reserve or replacement fund (not to exceed 15 percent of the proceeds) are invested at a materially higher yield.

The Treasury Department has adopted extensive regulations (Treas. Reg., §§ 1.103-13, 1.103-14, and 1.103-15) providing complex rules for the application of the arbitrage bond statute. These rules include definitions of proceeds, major portion, materially higher yields, and temporary periods, as well as rules for allocating acquired obligations to particular bond issues and for computing yield. This memorandum will address only those aspects of the arbitrage regulations and other IRS rulings that are particularly relevant to the provisions of the Bill.

(a) Proceeds

Bond proceeds are the funds of the Fund that are subject to the arbitrage rules. However, not all Bond proceeds are treated identically, and some funds not received from the sale of Bonds are treated as

Bond proceeds under the arbitrage rules. Accordingly, it is important to determine what constitutes Bond proceeds and how they will be treated. The different types of proceeds covered by the arbitrage regulations are:

1. "Original proceeds" are net amounts (after payment of all expenses of issuing the obligations) received by the issuer as a result of the sale of bonds. Treas. Reg. § 1.103-13(b)(2)(i).
2. "Investment proceeds" are amounts received at any time by the issuer, such as interest and dividends, resulting from the investment or reinvestment of any proceeds of an issue. Amounts lose their character as investment proceeds of an issue (other than a refunding issue) if, within one year of receipt, such amounts are commingled for purposes of accounting for expenditures with substantial tax or

other substantial revenues from operations of the issuer. Treas. Reg. § 1.103-13(b)(2)(ii)(A).

3. "Sinking fund proceeds" are amounts not otherwise treated as proceeds that are held in any fund, to the extent that the issuer reasonably expects to use such fund to pay principal or interest on the issue. Amounts may be treated as sinking fund proceeds of an issue notwithstanding that the source of such amounts has no connection with the issuance of bonds. If a fund is pledged as security for bonds, amounts in such fund will be treated as sinking fund proceeds unless the issuer has such discretion over expenditures of such amounts that there is no reasonable assurance that such amounts will be available if needed to pay debt service on the bonds.

Amounts lose their character as sinking fund proceeds upon withdrawal. Treas. Reg. § 1.103-13 (g); Rev. Rul. 78-302, I.R.B. 1978-33, 6; Rev. Rul. 78-349, I.R.B. 1978-39, 10.

Under the above definitions, amounts in the Capital Reserve Account, Loss Reserve Account, Fire and Liability Reserve Account, and Municipal Bond Capital Reserve Account, as well as amounts held in the Fund itself (other than original and investment proceeds), would constitute "sinking fund proceeds." It is anticipated that this aspect of the regulations will be challenged in court, but the result of such challenge cannot be known at this time.

(b) Major Portion

The statute provides that an obligation is an arbitrage bond only if all or a "major portion" of the proceeds are expected to be invested at a materially higher yield. The regulations provide that a "major portion" is any amount in excess of 15 percent of the original face amount of the Bonds (unless original proceeds determined without regard to issuing expenses are less 98 percent of the face amount, in which event a

"major portion" is an amount in excess of 15 percent of such original proceeds). Treas. Reg. § 1.103-13(b)(1)(ii).

Any amount held in a reasonably required reserve or replacement fund is counted against this less-than-major-portion, commonly referred to as the "minor portion."

The result of the minor portion exception is that, other than in a refunding context, any combination of Bond proceeds or amounts treated as Bond proceeds (such as sinking fund proceeds), regardless of the fund or funds in which held, up to an amount equal to 15 percent of the original face amount of the Bonds (subject to the modification mentioned above) may be invested without yield restrictions. Amounts in excess of 15 percent are subject to investment yield restrictions. It should be pointed out that the regulations also provide that, if there is deliberate issuance of Bonds in an amount exceeding by more than 5 percent the amount reasonably expected to be required for a project or program, solely to allow the issuer to invest the excess at an unrestricted yield under the minor portion exception, all Bond proceeds are subject to investment yield restrictions. Treas. Reg. § 1.103-13(b)(5)(iv).

(c) Temporary Periods

Obligations are not arbitrage bonds if the proceeds are invested for a temporary period before being used for the project or program for which the obligations were issued. The regulations define several different temporary periods that are variously applicable at different times and for different types of proceeds. The potentially relevant temporary periods for Bonds of the Fund are as follows:

1. Original proceeds and investment proceeds are entitled to an initial temporary period of three years, beginning on the date of issue of the bonds, provided that three tests are met. These tests are referred to as the "expenditure test," the "time test," and the "due diligence test." It could be anticipated that the Fund would comply with these tests. Treas. Reg. § 1.103-14(b)(1), (2), (3), (4), and (5).

2. Investment proceeds are, in addition, entitled to a one-year

temporary period beginning on the date of receipt of such investment proceeds. Treas. Reg. § 1.103-14(b)(6).

3. Sinking fund proceeds are entitled to a 30-day temporary period, beginning on the date that the amount is deposited in the sinking fund, except that amounts deposited in a bona fide debt service fund, as defined in the regulations, are entitled to a 13-month temporary period and investment proceeds derived from sinking fund proceeds are entitled to a one-year temporary period. Treas. Reg. § 1.103-14(b)(8), (9), and (10).

4. Bond proceeds or amounts treated as bond proceeds held in a "revolving fund" are entitled to a 3-year temporary period, beginning on the date of de-

posit in such fund. A revolving fund is a fund that consists of receipts from the sale of property acquired with bond proceeds and payments of principal on program obligations, and that will be used for the acquisition of additional property or additional program obligations to the extent that suitable property or obligations are reasonably available. Treas. Reg. § 1.103-14(b)(11).

Under the above rules, amounts held in the (i) Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account (together with amounts in the Allocated Reserve Account to the extent such amounts are transferred to any of the prior accounts), plus (ii) amounts in the Debt Service Reserve Account, plus (iii) amounts in the Municipal Bond Capital Reserve Account (together with amounts in the Unallocated Reserve Account to the extent transferred to such account) would be entitled to a 30-day temporary period whenever the total amount in all such accounts exceeded the 15 percent minor portion exemption, unless such

accounts constituted bona fide debt service funds. A bona fide debt service fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Treas. Reg. § 1.103-13(b)(12). In that event, amounts in such accounts would be entitled to a 13-month temporary period. Whether such accounts would constitute bona fide debt service funds would depend upon the actual operation of the Program.

Properly structured, the Fund itself could be made to qualify for the 3-year temporary period as a revolving fund.

(d) Yield Computations and Allocations

The regulations require that, in the case of Bonds, the computation of the yield on such obligations must be made separately for each issue except that a single computation may be made for two or more issues if, before the issuance of the last issue, the issuer establishes to the satisfaction of the IRS that a joint computation will not distort yield "or otherwise tend to defeat the purposes of section 103(c)." Treas. Reg. § 1.103-13(c)(1)(ii).

In the case of acquired obligations, yield must be computed separately with respect to each class of acquired obligations allocated to an issue. Treas. Reg. § 1.103-13(c)(1)((ii).

Where the issuer acquires obligations with the proceeds of several different issues of Bonds or from several types of proceeds, it must allocate such acquired obligations among the various issues and/or proceeds. Such allocations may be made at any time and under any reasonable method provided (i) all such allocations are consistent with one another at any particular time, (ii) obligations purchased with original proceeds of a refunding issue must be allocated to such proceeds, and obligations not purchased with original proceeds of a refunding issue may not be allocated to such proceeds, and (iii) obligations purchased with sinking fund proceeds must be allocated to such amounts. Treas. Reg. § 1.103-13(f).

A sinking fund for two or more issues must be allocated between the issues either (i) in proportion to their original face amounts, or (ii) according to the total amount of debt service on the issues that will actually be paid from the sinking fund. Treas. Reg. § 1.103-13(g)(6).

Under the above rules, unless the State seeks and obtains a ruling from the IRS each time it issues Bonds to the effect that it may compute yield jointly with all prior issues, the Fund will be required to

maintain accounts allocating particular loans to particular Bond issues in order to insure that the Fund is in compliance with investment yield restrictions.

(e) Materially Higher

Obligations are not arbitrage bonds unless the proceeds are invested in other obligations expected to have a "materially higher" yield. The regulations provide the following rules for the amount of arbitrage profit that can be earned on the proceeds of Bonds that are applicable in different circumstances:

1. Proceeds that are subject to yield restrictions may generally be invested at a yield one-eighth of one percentage point higher than the yield on the bonds. If the initial 3-year temporary period is waived, bond proceeds may be invested at a yield up to one-half of one percentage point higher than the yield on the bonds. Treas. Reg. § 1.103-13 (b)(5)(i).

2. Sinking fund proceeds that are subject to yield restrictions,

as well as proceeds of a deliberate overissuance, are effectively limited to a yield spread of zero. Treas. Reg. § 1.103-13(b)(5)(iv), (vi), and (vii).

3. Bond proceeds that are invested in "acquired program obligations" may be invested at a yield 1-1/2 percentage points higher than the yield on the bonds, or such higher amount as is necessary to pay expenses reasonably expected to be incurred as a direct result of administering the program (to the extent not payable with funds from other sources). Treas. Reg. § 1.103-13(b)(5)(viii), (ix), and (c)(5).

(f) Governmental Programs

The regulations define a governmental program as one which meets all of the following requirements:

1. The program involves the acquisition of acquired purpose obligations (which

are then referred to as "acquired program obligations");

2. At least 90 percent of all such obligations acquired under the program, by amount of cost outstanding, are evidences of loans to a substantial number of persons representing the general public, loans to exempt persons within the meaning of Section 103(b)(3), loans to provide housing and related facilities, or any combination of the foregoing;

3. At least 90 percent of all of the amounts received by the issuer with respect to the program obligations shall be used to pay debt service on its bonds, administrative costs of the program, or to make additional loans; and

4. Certain other procedural requirements are satisfied. Treas. Reg. § 1.103-13(h)(2).

In determining the yield on acquired program obligations, the issuer may exclude amounts received as reimbursement (or treated as reimbursement) of certain administrative costs. The administrative costs that are subject to this rule are the cost of issuing, carrying, or repaying Bonds to fund the program, the underwriter's spread, and the cost of purchasing, carrying, and selling or redeeming the program obligations. Treas. Reg. § 1.103-13(c)(5).

The application of the governmental program rules to the Fund will be discussed in more detail below.

(g) Reasonably Required Reserves

A reasonably required reserve or replacement fund may consist of one or more funds, or portions of funds, however labeled, derived from one or more sources. For example, a sinking fund might also be a reasonably required reserve or replacement fund. Treas. Reg. § 1.103-14(d)(1).

(h) Replacement Proceeds

The "replacement clause" of Section 103(c)(2)(B) is not covered by the regulations. However, the IRS has held that bond proceeds have "replaced" funds invested at a materially higher yield where a sinking fund for an issue is used to pay operating expenses

for a project, and operating revenues from the project are used to pay debt service on the bonds. Rev. Rul. 78-302. On the other hand, where a city established an investment fund to enhance its general credit rating, which fund was not specially pledged as security for its bonds, proceeds of general obligation bonds were not held to replace amounts contributed to the investment fund. In addition, the regulations implicitly acknowledge that endowment funds for institutions such as colleges, hospitals, and charities, held as part of the institution's permanent capital, do not result in bond proceeds being treated as "replacement proceeds." Treas. Reg. § 1.103-14(b)(4).

B. Other Applications to CSSSSB 1

1. You have asked "Would current arbitrage regulations permit this fund to earn yield adequate to cover operating costs?" and "Is a loan program, as defined in this legislation, considered a 'governmental program' under current IRS regulations?"

If the proceeds of the Bonds issued by the Fund were reloaned under a complete pooling approach, there could be little doubt that the loan program should constitute a "governmental program" within the meaning of the arbitrage regulations. Under a complete pooling

approach, more than 90 percent (and probably 100 percent) of the loans would be to substantial numbers of persons representing the general public, loans to exempt persons (i.e., municipalities), and for housing units, and it would appear that the other requirements for a governmental program would be met. Because of the novelty of such a loan program, however, a ruling from the IRS on this point should be obtained.

Under a targeting approach, either complete or partialy, the question is more difficult. In that circumstance, there is nothing in the regulations, published revenue rulings, or private letter rulings to indicate whether each series of Bonds that is targeted for a specific purpose would be considered separately or could nonetheless be "pooled" for purposes of determining whether the aggregation of all loans constituted a governmental program. If treated separately, some loans would not be treated as governmental program obligations (for example, individual loans under the small issue exemption, or one or a very few number of loans under the exempt activities exemption), while other loans probably would qualify (for example, housing loans, municipal loans, and large numbers of "leveraged" commercial loans). Although there is

nothing in the regulations to indicate that targeting for purposes of meeting the IDB requirements is incompatible with pooling for purposes of meeting the governmental program requirements, and while treating the entire program as a single program is certainly reasonable, there is simply no authority upon which to base a definitive answer to that question. A ruling from the IRS would be required.

Whether the entire loan program constitutes a single governmental program is significant because it determines the amount of yield spread that can be earned on the Fund's loans. If the loan program is treated as a single program, the Fund can earn an arbitrage profit up to 1-1/2 percent on its loans. Furthermore, in determining the yield on the loans, the Fund can exclude amounts representing repayments of certain administrative costs, such as costs of issuing Bonds. Whether after excluding such reimbursed costs, the possible 1.6 percent spread on the loans (cost of borrowing, plus 1 percent to Loss Reserve Account, plus optional 0.6 percent to Fire and Liability Reserve Account) would be within the 1-1/2 percent limit would require a detailed accounting.

The Fund could not charge a higher rate of

interest on its loans (i.e., higher than a 1-1/2 percent spread, after adjustment) if necessary to cover the costs of operating the program (e.g. staff expenses), because AS 45.96.180 provides that the Fund's operating budget is to be paid from other sources. See, Treas. Reg. § 1.103-13(b)(5)(ix).

If the loan program, or some part of it, is not a governmental program, those loans that are "outside" of the program will be limited to a yield spread of 1/8th of one percentage point and the costs attributable to that portion of the Fund, such as the costs of issuing and repaying Bonds to fund that portion, cannot be taken into account in determining the yield. If the one percent interest charge payable to the Loss Reserve Account and/or the 0.6 percent optional interest charge payable to the Fire and Liability Reserve Account were charged on such loans, the Bonds to which such loans were allocated would be arbitrage bonds and would not be tax exempt.

It should be pointed out that any excess yield problems can be solved under AS 45.96.420, which gives the Commissioner of Revenue the authority to reduce the interest rate on any loan to avoid Bonds being arbitrage bonds under Section 103(c).

2. You have asked "Under what conditions

would the Allocated Reserve Account, as proposed by this legislation, be considered 'an invested sinking fund?'"

Because the Capital Reserve Account, the Loss Reserve Account, and the Fire and Liability Reserve Account are pledged directly or indirectly as security for Bonds, and the State has no discretion over the expenditure of amounts held in such accounts unless there is a surplus, such accounts constitute sinking funds. However, to the extent that they do not exceed 15 percent of the original face amount of Bonds issued by the Fund and outstanding at any particular time (or such lesser amount determined under the 98 percent original proceeds rule), the three accounts mentioned will be within the minor portion exception and will not be subject to arbitrage yield restrictions.

The balance of the Allocated Reserve Account should not be treated as a sinking fund because the Legislature has the power to appropriate the excess over the amounts needed to fund the previously mentioned accounts (AS 45.96.120). Accordingly, there appears to be no reasonable assurance that such excess amounts held in the Allocated Reserve Account will be available if needed to pay debt service on the Bonds.

3. You have asked "What would be the impact of the replacement clause in Section 103(c)(2) have on an issue of this nature?"

The replacement clause in the arbitrage bond statute has no clear parameters. Treasury Regulations and IRS rulings clearly recognize that states, municipalities, and other entities need not spend every penny at their disposal before they may issue bonds. Under various circumstances, the IRS sanctions the issuance of bonds without risk of running afoul of the replacement clause notwithstanding the fact that the issuer maintains a permanent endowment fund or an investment account to enhance its general credit rating.

On the other hand, where a state or municipality, for example, issues bonds to finance general expenditures, while general revenues are invested, the replacement clause would have fairly clear application. That was the type of situation addressed in Rev. Rul. 78-302, the only known application of the replacement clause.

The IRS could raise the argument that amounts held in the Allocated Reserve Account, the Unallocated Reserve Account, and the Comprehensive Loan Program

Reserve Account should be used to fund the loan program before Bonds are issued for that purpose. It could even go so far as to argue that amounts held in the Permanent Fund should be used to make loans. However, amounts held in the various reserve accounts, and especially amounts held in the Permanent Fund, are more akin to an endowment fund, which is sanctioned by Treasury Regulations, than to the unusual application of funds presented in Rev. Rul. 78-302. Furthermore, although it is likely the IRS would agree with that proposition, because this point could have such a significant impact on the tax-exempt status of Bonds issued by the Fund (or the investment of Permanent Fund or other assets), a ruling confirming that point should be obtained.

This situation would be reversed if the Allocated Reserve Account and the other reserve accounts were the the sole source of payment of debt service on the Bonds, and loan repayments were used to make additional loans, whether that situation arose by operation of the statute or through the economics of the loan program. In that event, although application of the replacement clause would still be doubtful, the IRS would have a much better argument that the usual appli-

cation of funds had been reversed in order to produce an arbitrage profit. Under that set of circumstances, a ruling that the replacement clause was not applicable might well be required.

4. Two other significant arbitrage questions are raised by the Bill. First, AS 45.96.320 provides that the Municipal Bond Capital Reserve Account shall be funded from the Unallocated Reserve Account in an amount equal to 5 percent of municipal obligations guaranteed or purchased by the Fund. It is not clear whether this reserve account is in substitution of, or in addition to, the amounts in the Capital Reserve Account (or perhaps the Loss Reserve Account) that would otherwise be applicable to such municipal obligations. If the 5 percent held in the Municipal Bond Capital Reserve Account is in addition to the amounts held in all other reserve accounts, there is a substantial likelihood that a combination of the Capital Reserve Account, Municipal Bond Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account will exceed 15 percent of the face amount of Bonds to which such municipal obligations are allocated, which would require that the excess be limited to a yield spread of essentially zero.

Second, AS 45.96.130 provides that the Debt Service Reserve Account is to be funded directly with Bond proceeds up to the maximum amount permitted under Section 103(c) of the Code. Although that amount should never be more than 5 percent of the Bonds (because amounts in the Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account would probably always total more than 10 percent of the amount of Bonds outstanding), if the amount deposited from a Bond issue in the Debt Service Reserve Account exceeds 5 percent, and such amount does not constitute a reasonably required reserve or replacement fund, there may be deliberate overissuance, and proceeds of that issue would also be subject to an arbitrage yield spread of zero.

VI. PROCEDURAL ASPECTS

You have asked "Would IRS rule prior to enactment of this legislation or must its provisions become law first? Can multiple IRS rulings be obtained or must all the issues raised by this legislation be addressed in one ruling? If the latter, would future rulings be precluded? Must the fund be in actual operation before a ruling can be obtained?" and "What time frame could be anticipated as necessary to obtain

the IRS rulings advisable for a program of this nature, with particular reference to the 'complete pooling' concept and the joint yield computation on two or more issues?"

The answers of these questions require a discussion of several different aspects of IRS ruling procedure in general and Section 103 rulings in particular.

First, the announced policy of the IRS with respect to ruling requests generally is that it will rule on the tax consequences only of specific transactions actually proposed (or on completed transactions before a return reporting such transactions should be reported is filed). Rev. Proc. 72-9, 1972-1 C.B. 719. The corollary of this policy is that the IRS will not rule on the tax consequences of so-called hypothetical transactions. In the Section 103 area, this policy ordinarily requires that a ruling request be predicated upon a particular "proposed" issuance of bonds.

Although an argument may be made to the contrary, it appears reasonable to conclude there can be no "proposed" bond issuance pursuant to legislation that has not yet been enacted. Coupled with the fact that the IRS often invokes the hypothetical transaction rationale to decline to issue any ruling in areas it

wishes to avoid, there is a substantial risk that the IRS would not accept a ruling request with respect to Bonds to be issued by the Fund until the proposed legislation is enacted.

The IRS does, however, occasionally issue so-called special rulings. These are sometimes issued with respect to admittedly hypothetical transactions but where there is substantial public interest and there is no other practical way of determining the tax consequences of a particular situation. Such a special ruling might be obtainable here, if the IRS were convinced of the public importance of the question.

Second, if the hypothetical transaction objection is overcome (which is problematical), it is probable that the IRS would accept a ruling request prior to enactment of the legislation or actual operation of the Fund. Experience over the past several months indicates that the IRS is not requiring an effective bond resolution prior to acceptance of a ruling request.

Even in this circumstance, however, unless a special ruling could be obtained, the IRS will rule only on whether a particular series of proposed obligations will carry tax-exempt interest under Section 103. For

this reason, documents relating to one or more series of Bonds proposed to be issued by the Fund would have to be drafted. In connection with the drafting of such documents, the State Bond Committee (or other appropriate State officials) would have to choose among their various alternatives under the Bill, especially with respect to the pooling versus targeting question.

However, if the IRS issued an adverse ruling, and you desired to utilize the declaratory judgment procedure in the Tax Court to challenge the IRS determination, Section 7478 of the Code would require a bond resolution. S. Rep. 95-1263, 95th Cong., 2nd Sess., 151. Such a resolution must be adopted "in accordance with State ... law authorizing the issuance," which would require that the legislation be enacted.

Third, if the ruling request were submitted by the State, Rev. Proc. 79-4, I.R.B. 1979-1, 31, requires that every issue raised under Section 103 with respect to the particular proposed Bond issuance be covered in the ruling request. This does not necessarily mean that every Section 103 issue raised by the legislation must be covered, however, if, because of its structure, the proposed Bond issue does not raise some of the issues.

If someone other than the State (for example, an underwriter) were to request a ruling with respect to a particular series of proposed Bonds, Rev. Proc. 79-12, I.R.B. 1979-8, 49, permits fewer than all of the issues to be addressed. Declaratory relief in the Tax Court is unavailable under this procedure. Whether this would be a desirable procedure in this circumstance would depend upon the nature of the issues that were left unaddressed.

Fourth, one of the factors to bear in mind, because of the pendency of the various mortgage revenue bond bills, is that the IRS might be reluctant to issue any ruling involving Bonds all or a portion of the proceeds of which might be used for residential mortgage subsidies. Alternatively, it might issue a ruling under current law that would, of necessity, be superseded by enactment of one of the mortgage revenue bond bills. To the extent that the ruling was inconsistent with the subsequent legislation, the ruling could be worthless. In this connection, you should be aware that most of the mortgage subsidy bond bills have April, 1979 effective dates.

Fifth, a ruling on one prospective issue of Bonds does not preclude submitting requests on subsequent

proposed issues. However, if the first ruling was adverse, and the second ruling raised essentially the same issues, there would be little point to submitting the second request unless you had reason to believe that the IRS had changed its position or the State was prepared to litigate the issue(s) in the courts.

Sixth, the average time taken by the IRS to issue a fairly standard ruling is currently about three to four months. An initial ruling request raising several of the more difficult issues raised by the Bill, however, would likely not be viewed as a standard ruling request. Such a ruling request very likely would take up to six months (the maximum time permitted the IRS before the State could invoke the declaratory judgment procedure) or even longer (if the State is not in a position to go to court). Subsequent ruling requests, such as for permission to compute yield jointly, which do not raise substantial new issues, could probably be handled with relative dispatch.

The State could request expedited treatment. However, prior to enactment of the legislation, which has been pending now for almost a year, it is unlikely that you could persuade the IRS that such treatment was appropriate. In any event, the novelty of the

issues probably dictates extensive review within the IRS, which would preclude speedy issuance of a ruling.

Finally, current IRS policy is not to issue rulings granting blanket permission to compute yield jointly on all obligations issued or to be issued with respect to a particular program. Accordingly, for every new Bond issue proposed by the Fund for which a joint yield computation with prior issues would be desired, a ruling permitting such computation will have to be obtained separately.

VIII. THE FUTURE

1. You have asked "Do the IDB provisions of 1968 prohibit the activity contemplated by this legislation? Is it likely that enactment of this legislation would provoke retaliatory legislation on the part of the U.S. Treasury?"

Whether Revenue Bonds issued by the Fund will be tax exempt under the IDB provisions of Section 103(b) of the Code depends, as explained above, on the approach that the State Bond Committee adopts in the issuance of such Bonds. Bonds the proceeds of which are specifically targeted to qualifying expenditures likely could be structured to qualify for the exempt activities, industrial park, and small issue exemptions. Bonds the

proceeds of which were completely or partially pooled would not be IDBs if the ratio of noncommercial loans to commercial loans was at least three to one.

As to the likelihood of retaliation, one can only look to history. In response to increased use of tax-exempt bonds to finance commercial activities in the early and middle 1960s, the Treasury Department published proposed regulations dealing with industrial development bonds, denying them tax-exempt status. 33 Fed. Reg. 4,950. The Congress, while not permitting such regulations to become effective, enacted the IDB provisions having a similar effect. Revenue & Expenditure Control Act of 1968, P.L. 90-364, 90th Cong., 2nd Sess., § 107 (1968); S. Rep. No. 1014, 90th Cong., 2nd Sess. (1968-2 C.B. 790, 794-795).

Similarly, the IRS responded to increased requests for rulings on arbitrage bonds with a stated policy of refusing to grant such rulings. T.I.R. 840 (1966). States and municipalities continued to issue such bonds without rulings, and the Congress responded with the arbitrage bond provisions now contained in Section 103(c) of the Code. Tax Reform Act of 1969, P.L. 91-130, 91st Cong., 1st Sess., § 601(a) (1969); H. Rep. No. 91-413 (Part I), 91st Cong., 1st Sess. (1969-3 C.B. 200, 308-309).

In response to the substantial increase in single family mortgage subsidy bonds in 1978 and early 1979, several bills have been introduced to prohibit tax exemption for such bonds. These have the support of the Treasury Department, and some form of restriction on such bonds likely will become law this year.

The Treasury Department has been active on its own to prohibit real or perceived abuses of Section 103. The succession of amendments to the proposed arbitrage bond regulations, until finally adopted in mid-1979, was in large part due to the imaginative methods of issuers, underwriters, and others to avoid arbitrage restrictions. Also, where issuers have found methods of complying with the letter, but not the spirit, of the IDB regulations, the Treasury has changed the regulations to prohibit future abuses.

All of this should lead to the awareness that both the Congress and the Treasury Department are keenly aware of trends in the bond market and are responding ever more quickly with restrictive legislation or regulations to prohibit actual or apparent abuses. Applying this lesson to CSSSSB 1, if this legislation is enacted and successfully permits the raising of large amounts of capital at tax-exempt interest rates, to be reloaned to

commercial enterprises, two things must be recognized as distinct possibilities. First, the Treasury Department is likely to view it as outside the spirit of the IDB restrictions. Second, the omnibus loan program approach is likely to be copied in other states, thus magnifying any perceived "abuse." The combination of these two factors would undoubtedly produce calls for corrective legislation, which may or may not pass but certainly cannot be ignored.

2. You have asked "Would an increasing number of judicial decisions have an unsettling effect on the revenue bond legislation and/or regulatory climate? What is the value to a potential issuer of following customary practices?"

Prior to the adoption of the declaratory judgment procedure for state and municipal obligations as part of the Revenue Act of 1978, there were serious obstacles to bringing issues raised by Section 103 and the regulations thereunder into court. Because of the amounts of money involved, the traditional conservatism of the bond community, and the possible effects on the credit ratings of issuers of having outstanding bonds become taxable, issuers, underwriters, bond counsel, and investors were extremely reluctant to be involved

with a bond issuance that was contrary to published rules and regulations, or even where there might be a serious risk of litigation. For this reason, the vast majority of bond issues faithfully complied with published rules and regulations and known IRS policy. In the relatively few cases where bonds would be issued contrary to published rules and regulations, the chances of the unreported interest income being picked up on audits of individual taxpayers would be quite small. Accordingly, there are relatively few court decisions addressing issues that may arise under Section 103.

The new declaratory judgment procedure now permits issuers to go to court before bonds are issued, to seek a determination whether interest on such bonds will be exempt from tax. Although it cannot be known at this time how many issuers will utilize this procedure, some have announced their intention to challenge particular aspects of the Treasury Regulations, especially the arbitrage regulations. Others can be anticipated to follow suit. These cases will be decided by judges who have little or no familiarity with Section 103 and the oftentimes peculiar aspects of government finance. Lawyers representing the government are likely to be equally inexperienced in this area. Accordingly, as often happens

when judges delve into areas outside of their realm of knowledge, there are likely to be some surprising results in Section 103 cases, with ramifications extending beyond particular cases to issues that may not be raised or even thought of at the time.

In addition, bond lawyers tend to take a rather technical view of Section 103 and the Treasury's regulations thereunder, strictly construing them against the government. In other areas of the tax law, however, lawyers and judges tend more broadly to apply doctrines such as "substance over form" to their analyses of whether a particular transaction complies with a particular statute or regulation. In Section 103 cases judges are likely to decide many cases in terms of the abuses that were sought to be prevented by the IDB and arbitrage provisions, which attitude may make a significant difference in close cases.

This may have a destablizing effect on the law as it relates to tax-exempt bonds, which may in turn prompt adjustments by the Treasury to its regulations and policies as well as to prompt issuers and their advisors to make adjustments in the structure of bond transactions.

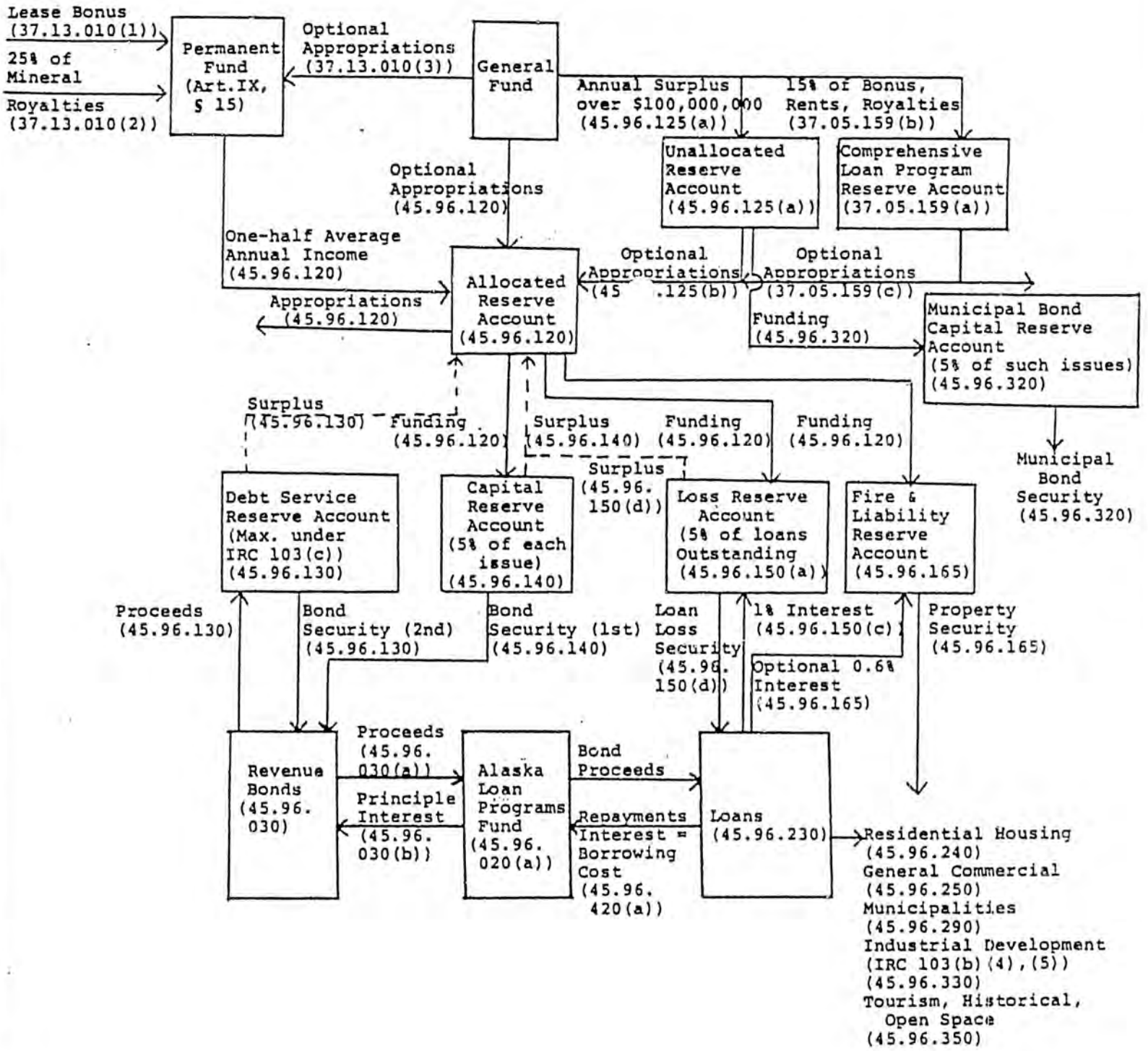
In this climate, the value of following

customary financial practices is difficult to assess. It is always better for one's transaction or practices to be materially similar to hundreds or thousands of others, first, because it is harder to pick a garden variety transaction out of a crowd, and second, because the Treasury Department is aware of the political risks of attempting to challenge a particular transaction when such a challenge could have enormous economic repercussions. Novelty invites scrutiny, and the consequences of challenge are relatively limited. By the same token, settled practices are generally those that have weathered the tests of time and administrative acceptance; changes proposed by the Treasury Department are almost invariably prospective in their application and often have generous transition periods. Judges also tend to be influenced by standard practice (especially in areas outside their expertise), a factor that can be quite important in deciding between two equally reasonable interpretations of an unclear statute or regulation.

On the other hand, there is certainly no prohibition against innovation. An omnibus loan program and permanent security fund that comply with both the letter and the spirit of the law and regulations should not be subject to serious challenge.

CSSSSB No. 1
State of Alaska
11th Legis., 1st Sess.

EXHIBIT A



STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 21, 1979

SUBJECT: Permanent Fund
(Work Order No. 6582)

TO: Representative Hugh Malone

FROM: Kenneth E. Vassar, Legislative Counsel KEV

Enclosed is the bill you requested which duplicates SB 1.

Also enclosed is a memorandum delivered to me from Donna Spragg Pegues, our revisor of statutes, pointing out some technical and legal problems in the bill.

KEV:nem

Enclosures

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M February 20, 1979

SUBJECT: The Permanent Fund Bill:
(Work Order No. 6582)

TO: Kenneth E. Vassar, Legislative Counsel

FROM: Donna Spragg Pegues, Revisor of Statutes

This memorandum is written to outline:

1. Some problems of clarity encountered in my review where changes may need to be made;

2. A few legal problems with the bill.

I will discuss the last category first. Then I will simply move through the bill section by section outlining certain problems encountered.

The Title. You will recall that we discussed the problem involved in putting together the title for this bill which would:

1. Be confined to one subject; and

2. Express that subject,
(art II sec. 13, Alaska State Constitution).

In my opinion, the title does not meet the requirements of the Alaska constitution. But, if the legislation were challenged, the Alaska supreme court might well be more liberal than I seem to be. In the case of North Slope Borough v. Sohio Petrolem et. al, P.2d OPN. No. 1750 (October, 1978), the Court stated:

> "[a]ll that is necessary is that the act should embrace some general subject; and by this is meant, merely, that all matters treated should fall under some one general idea, be so connected with or related to each other, either logically or in popular understanding, as to be parts of, or germane to, one general subject. Johnson v. Harrison, 50 N.W. 923, 924 (minn. 1891)."

Perhaps here the "one general subject" required by the Court is the overall use of state revenues.

Local Hire. AS 45.96.450 establishes "employee practices" for a loan recipient who contracts for work to be done on the project financed by a loan. It requires that 90 to 95 percent Alaska resident hire on the project and calls for immediate foreclosure of the loan for a violation of the section. I think the constitutionality of this section is highly questionable in light of the United States Supreme Court opinion Hicklin v. Orbeck, (1978).

Confirmation of Members of Permanent Fund Corporation. AS 37.13.050 requires that the members appointed by the governor to the Permanent Fund Board of Trustees be confirmed by the legislature. It seems to me that this section is questionable under Bradner v. Hammond, 553 Pacific 21 (alaska 1976). The Board of Trustees is not the head of a principal department under section 26 of the Alaska constitution. Likewise, it is not a regulatory or quasi-judicial board under section 26 of the Alaska constitution. However, I note that the legislature passed a similar provision when it enacted the Renewable Resource Corporation Act (Chapter 179, SLA 1979). I also note that there are other "independent" corporations in title 44 which include the same provision. The question is probably debatable and, none of the independent "corporations" has been challenged in court. I assume the legislature will want to let this one go through as drafted, but I did want to let you know of my concern about the constitutionality of the provision.

Removal of Board Members. In AS 37.13.070 the legislature is involved in the removal process. This is also a characteristic of the Alaska Renewable Resources Corporation which was enacted last session. The same comments apply as in the matter of confirmation.

Disposition of Permanent Fund Money. As you know, article IX, section 15 of the Alaska state constitution establishes the Alaska Permanent Fund. The final sentence of that section requires that "all income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law."

I do not see any disposition of income in this act. Is the income meant to go the the General Fund? Also, as I earlier noted, I do not observe any tie-in between money from the Permanent Fund and the resources of the loan fund. I assume none was intended in this version of the bill?

Perhaps the income tax rebate section was meant to be a disposition of the income of the Permanent Fund. However, that section does not actually require the disposition of any money. In effect, the section relating to taxes only allows for an increased credit when the income reaches a certain level. No actual disbursal of income is involved.

Unallocated Reserve Account. As you know, AS 45.96.125 sets up an "unallocated reserve account" which apparently consists of the General Fund unobligated balance. It is not clear to me just what is to happen to that balance (for example, is it subject to regular appropriation?) after it is swallowed up by this reserve account. The precise money flow here evades me. So, in your absence I took up the matter with Billy Berrier. He told me that he thought that the legislature intended to make the "unallocated reserve account" an account in the General Fund. However, in the context of the bill it reads as if it were an account in the Loan Fund. You may want to take up this question with Billy Berrier.

I will now go through the bill and list some of the technical questions encountered.

37.13.130(g)(1) I do not understand the exception in this subsection. I think it needs some redrafting and will be happy to discuss it with you.

37.13.130(i). In this subsection "secured loans" are mentioned which may be purchased under (h). But, (h) describes only "mortgages." Subsection (h) does not mention "secured loans." I find this somewhat confusing. It seems to me that only mortgages should be listed in (i). I have the same problem with AS 37.13.130(j).

37.15.150(b). This is the section concerning the tax credit which we discussed earlier. It remains unclear. This is especially true because of the difficulty of tieing a tax year into a fiscal year. The Permanent Fund is apparently on a fiscal year basis and the income tax is levied on a calendar year basis.

45.96.020(b). See the same language at 45.96.240 and 44.25.025. Because a salary and not a "range" is what is received by an individual, I think this section needs redrafting.

45.96.040. See the last sentence of this section where the "fund" is selling its assets. Here and there throughout the bill we find the "fund" doing particular things. David and I agree that a fund is inanimate and cannot actually do anything. Rather, things are done with the money in the fund. I also wonder who the "officer" is in 45.96.050. We have not had any officers of the fund identified at any point in the bill.

45.96.240. In the last line of this section the phrase "business practice" is used. I am not certain exactly what this means.

45.96.300. As I noted to you earlier, I have had some difficulty with this section on "public purpose" loans. I still believe that (a)(1) says the same thing as (a) in general, since both kinds of bonds are included in both places. It seems to me that this is one of the matters that should be taken up with the sponsor. Let's discuss. This section could also probably use some reworking for clarity.

As for (b), I cannot tell if this includes the municipalities which are already included in (a) or not. What do you think? I am just not certain what they are trying to do through these sections.

As for (e) - is the "major" part 51 percent? I am not sure what they mean by "major" part. Also, I am not certain whether (e) limits all "public purpose" loans under 45.96.300 or just some of the subsections. What do you think?

45.96.440(c). I believe this subsection needs to be tied back to 45.96.430(b) as to which fund pays this additional difference.

45.96.470(c). I believe there is a statute setting the rate of interest. It should be cited here.

37.10.070(a)(14). I wonder how the state can purchase a "trading practice?"

45.25.025(c). The exception here is unclear to me and I think the subsection should be redrafted for clarity. I will, of course, be glad to explain my problem with it.

A few other notes follow.

David pointed out that he thinks we should change the system so that section numbers change on a count of five rather than ten. In other words, AS 45.96.055 would follow AS 45.96.050. This gives more room for additions to the statutes. I do not think it is necessary to attempt to change this bill to conform with this new approach, but I did want to call it to your attention for future reference.

There is a section in the bill which provides that the legislature has power to pass on the executive branch investment policy. That policy can be rejected by the legislature. I note that the issue of the legislature's power to annul an executive action is now before the Alaska Supreme Court and may be decided sometime during the next session. It is something to think about as this bill proceeds.

I also note that almost all of the provisions for loans in the bill have residence requirements and in one section the limitations on the amount of loans is tied to length of residence. These sections may at some point be subject to challenge because of the durational residence requirements.

DSP:nem

Introduced: 2/23/79
Referred: Commerce and Finance

IN THE SENATE BY HOHMAN

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, <u>investment oversight</u> and post-audit functions.

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment oversight division is established as a permanent staff agency responsible to the Legislative Budget and Audit Committee for the performance of oversight and review functions to provide information on the policy

and performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.331. STAFF. (a) The committee shall hire and determine the salary of the division director who shall serve both at the direction and pleasure of the committee. The director shall serve as head of the investment oversight division and, within the limits of the budget approved by the committee, shall employ and determine the compensation of the professional and clerical staff of the division.

(b) The director and members of the professional and clerical staff shall not join or support a partisan political organization. This prohibition does not prevent the director or members of the staff from joining social organizations, expressing private opinion, registering as to party or voting.

Sec. 24.20.341. DUTIES. The investment oversight division shall

(1) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(2) review periodic reports from all agencies of the state which perform lending or investment functions;

(3) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the Legislative Budget and Audit Committee at the time the committee directs;

(4) present to the committee within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d);

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

Sec. 37.13.020. INVESTMENT OF THE PERMANENT FUND. (a) The prudent-man rule is applicable to the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the permanent fund means that in making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large in-

vestments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital.

(b) The permanent fund assets may only be used for income-producing investments.

(c) The commissioner shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The commissioner shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) Subject to (a) and (b) of this section, the commissioner may invest permanent fund assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

(1) No portion of the assets of the permanent fund may be used in the purchase of stock of a corporation which is not paying dividends on that stock in cash at the time of purchase; nor in the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the permanent fund may be used in the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the fund would exceed 30 per cent of the assets of the fund.

(f) Subject to (a) and (b) of this section, the commissioner may

invest permanent fund assets in

(1) Federal Housing Administration mortgages;

(2) Federal Veterans Administration mortgages;

(3) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage.

(g) To qualify as a mortgage or secured loan which may be purchased by the commissioner under (h) of this section, the mortgage or secured loan shall

(1) be secured by real estate in the state;

(2) have as a mortgagor an Alaska resident or a corporation in which at least 60 per cent of the stock is owned by Alaska residents;

(3) be certified by the originating financial institution that the loan being sold has been made in compliance with law and that liens supporting the loan have been perfected;

(4) have no initial closing fees or service fees which exceed one-half of one per cent, excluding closing costs.

(h) The commissioner may purchase loans provided for in (f) of this section only from financial institutions which are operating under the national banking laws, federal savings and loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

(i) The commissioner shall establish and from time to time as necessary modify guidelines for the investment of permanent fund assets. Before adoption of any investment guidelines, the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment. Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.030. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by

gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.040. INCOME. The interest and dividends received in a year are the income of the permanent fund for that year. The income available for allocation to the allocated reserve account established in AS 45.96.120 shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for allocation will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

Sec. 37.13.050. BUDGET. The operating budget is from the general fund unless the legislature specifically appropriates from the unallocated reserve and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.060. ACCOUNTING. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee

on at least a monthly basis. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 37.13.020(d) and (i) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the fund.

Sec. 37.13.070. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the commissioner of revenue shall publish a report for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by the legislative audit division, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of fund investments including an appraisal at market value, a description of fund investment activity during the period covered by the report, an examination of the impact of the investment criteria of this chapter on the fund portfolio with recommendations for any needed changes and any other information the commissioner believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the fund shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet.

* Sec. 6. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. Efficient use of the capital resources

of the state will be promoted by creating a single loan fund to provide a single source from which potential users can acquire a state loan and obtain information about existing federal or private loan programs which will better serve the needs of the user or which will complement a proposed state loan. A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The purpose of the loan programs fund is to provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least eight years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan

programs fund in accordance with AS 45.96.010 - 45.96.490.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in order to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipation notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may be paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for

bonds or bond anticipation notes when the definitive bonds or bond anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee, will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge is made, and assets or revenues pledged are immediately subject to the lien of the pledge without physical delivery or further action. The lien of a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except that a sale may be restricted by the resolution providing for the issuance of the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce all

rights granted under the coupons or under any other contract executed by the fund under this chapter, and may enforce and compel the performance of all duties required by this chapter to be performed by the fund or by an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them, and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this chapter shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued

by a body corporate and public of this state and for an essential public and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may sell bonds at public or private sale until July 1, 1984. After July 1, 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account within the general fund called the allocated reserve account is established. The income from the Alaska permanent fund established in AS 37.13.010 is allocated to the account. Other money may be appropriated to the account. The amounts necessary to fund the capital reserve account established under AS 45.96.140, the fire insurance and liability reserve account under AS 45.96.160, and the loss reserve account under AS 45.96.150 are allocated to those accounts from the allocated reserve account. All other expenditures from the allocated reserve account shall be in accordance with annual appropriations.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account within the general fund called the unallocated reserve account is established. The unallocated reserve account consists of any amounts remaining in the

general fund at the end of a fiscal year which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in AS 45.96.120 from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regulations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principal and interest account or the capital reserve account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the capital reserve account. The commissioner of revenue shall pay into the capital reserve account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequent sales, if any, of obligations of the issue secured, an additional amount equal to five per cent of the principal amount of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserve

account any amount in the capital reserve account in excess of five per cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaining principal balance of the obligations secured, pay into the account from the allocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by AS 45.96.120. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into the loss reserve account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the loss reserve account from the allocated reserve account the amount necessary to bring the balance of the loss reserve account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into the loss reserve account from the allocated

reserve account the amount needed to bring the balance of the loss reserve account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest paid by the fund required by sec. 430 of this chapter shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of the loss reserve account exceeds five per cent of the remaining principal balance of the total amount of loans projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obliga-

tions of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the division of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund under the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthly reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.190. BUDGET. The operating budget is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemi-

zation of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under AS 45.96.180(b) and 45.96.240(b) and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices as necessary which shall be headed by district directors. The office shall provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

(b) Each district loan office shall include a veterans' loans section. The veterans' loans section shall process loan applications from applicants who meet the eligibility requirement of AS 45.96.440. The veterans' loan section shall also provide information and assistance to veterans relating to loan applications under this chapter, other state loan programs or state grant programs, federal loan or grant programs, and to the extent feasible, private loans.

Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a) There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Evaluation Committee consisting of the directors, or their designees, of the following divisions: (1) the division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Department

of Revenue, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development.

(b) The committee shall notify recipients of loans under the provisions of this chapter who have been delinquent in their loan repayments for a period in excess of 30 days. Upon notification of delinquency, the borrower may request reevaluation and technical assistance from the committee. If the borrower requests reevaluation, the committee shall consider the terms and conditions of the loan as well as all other pertinent information to determine whether there are feasible alternative terms and conditions which will protect the interest of the state and prevent the default of the loan.

(c) In performing the duties described in (b) of this section, the committee shall have access to all nonconfidential records, data, information, and statistics of all departments, boards, commissions, agencies, and institutions of the state. The committee shall also have access to any records or other information of the borrower which are pertinent to its investigation. Failure on the part of the borrower to provide the records or information shall be grounds for refusal to reevaluate.

(d) If the committee determines that alternative terms and conditions are available which will protect the interest of the state and prevent default of the loan, it may renegotiate the loan in accordance with those terms.

Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There is established within the Department of Revenue the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the depart-

ment is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

(b) If a borrower who has received notification of delinquency in accordance with AS 45.96.220 does not request reevaluation, or if the evaluation committee determines that renegotiation of the existing terms and conditions is not feasible or justified, and the loan is not brought current within 30 days after the notification of delinquency is sent, the loan shall be transferred to the loss reserve account and transmitted for collection to the division of collections. A monthly report of the status of the collection effort shall be made to the Legislative Budget and Audit Committee. The total principal and interest due shall be transferred from the loss reserve account to the fund upon assignment of each loan.

Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, public purposes, and education.

Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of AS 45.96.370,

(1) make or participate in the making of construction loans from the fund to sponsors, developers, and builders of residential housing;

(2) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(3) purchase or participate in the purchase of mortgage loans

made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(4) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(5) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(6) purchase, in order to meet the requirements of the sale of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(7) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, the security instrument shall be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or

corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of AS 45.96.295 and 45.96.297;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the fund a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of

Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of AS 45.96.410 and 45.96.420, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under AS 45.96.270(5) on the basis of the following criteria:

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of

receipt of the application.

Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under AS 45.96.270(2) shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States and so long as the Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39 Stat. 728), as amended, remain ambiguous with respect to whether or not a state or state agency qualifies as a citizen of the United States for purposes of those Acts, the first lien requirement of this section may be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection of a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of the United States. In the case of a security agreement given to secure a loan made under AS 45.96.270(2) and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a first preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary of

Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.297. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a) Loans under AS 45.96.270(2) for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan programs, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

(1) the certificate for the pledged permit lists the director as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be made through the purchase by the fund of municipal bonds. Loans to nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality in which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued by the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this subsection shall be the same as the cost of borrowing to the fund. Loans made under this subsection may not exceed $5,000,000 and are subject to the following conditions:

(1) The borough or city attorney shall certify that all legal requirements relating to required bond elections, if necessary, and to bond issuance have been met, or if the bonds are issued outside a municipality, certification shall be made by the Department of Law.

(2) The bonds shall be prepared by the municipality's attorney, approved by the attorney general and need not be in definitive form.

(3) The bonds shall be for a term commensurate with purpose, but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive

basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five years maturity;

(C) 50 points under the average for the next five years maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five years maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly or indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years

maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in AS 45.96.400 - 45.96.430 do not apply to loans or purchases made under this section.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest c bonds of the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if

default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state and those bonds on behalf of nonprofit corporations guaranteed or issued under this chapter there is established a special account called the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of the obligations issued and sold after July 1, 1979 and upon subsequent sales, if any, of obligations of the issue secured an additional amount equal to five per cent of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reserve account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if the amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any income or interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director

of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted, unless the municipality has provided otherwise by a resolution adopted before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is performed has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not performed within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of greater than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has

a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the sum total of all costs of financing and carrying out a project are eligible for bonding under AS 45.96.300 - 45.96.330. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expenses of the issuer; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

Sec. 45.96.350. EDUCATION. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make scholarship loans from the fund to students selected under (b) - (g) of this section.

(b) Proceeds from scholarship loans may only be used for transportation, books, tuition and required fees, and for room and board. The loans may only be used to attend a career education program approved by the Alaska Commission on Postsecondary Education or a college or university accredited by the accreditation association for the region in which the college or university is located or approved by the commission.

(c) To maintain a loan the student must continue to be enrolled as

a full-time student in good standing in a work study program approved by the Department of Education, in a career education program, or in a college or university designated under (b) of this section.

(d) Loans are noninterest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (g) of this section if appropriated funds are available for payment to the fund of the interest.

(e) The repayment period for student loans is 10 years. Unless a deferment of payments has been granted under (g) of this section, repayment shall commence when the student terminates his studies. In case of hardship, the Alaska Loan Programs Evaluation Committee may extend repayment of a loan for an additional period of up to five years.

(f) If, upon completion of the course of study for which the loan was granted, the borrower repays 60 per cent of the principal amount of the loan with interest with no delinquency, the remaining 40 per cent owing shall be forgiven if appropriated funds are available for payment to the fund of the amount forgiven.

(g) The Alaska Loan Programs Evaluation Committee shall defer repayment of a loan during any of the following:

(1) the first year after a student terminates his studies;

(2) return by the student to student status as provided in (c) of this section;

(3) performance by the student of military or required alternative service; or

(4) 50 per cent or greater disability of the student, as certified by competent medical authority.

Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to a

business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan under this chapter, other than a loan made under AS 45.96.350, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. Except for loans made under AS 45.96.330, a corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full indi-

vidual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility requirements. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of AS 45.96.260 for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling; (2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of AS 45.96.270 may not exceed:

(1) $500,000 per individual for business activities; farm development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish manufacturing and processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other activity not otherwise specifically provided for in this section;

(2) $350,000 per individual for farm chattel other than for irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10

individuals participating in the project and the loan to each individual does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

(d) Educational loans made under the authority of AS 45.96.350 may not exceed:

(1) $4,000 per individual per year for undergraduate studies;

(2) $8,000 per individual per year for graduate studies;

(3) $4,000 per individual per year for vocational studies;

(4) $4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled

by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan amounts established in AS 45.96.380(a) and (b) shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determination.

Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in AS 45.96.380(b) and 45.96.390 shall be further limited, based upon the actual technical and managerial experience of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience is less than two years, he

may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.410. VALUE LIMITATION. The provisions of AS 45.96.-380 - 45.96.400 notwithstanding, no loan made under this chapter, unless it is a loan made under the provisions of AS 45.96.330, may exceed

(1) 90 per cent of the appraised value of real property pledged as security for the loan;

(2) 95 per cent of the appraised value of real property pledged as security for the loan if the loan is for residential housing in an area where Federal Housing Administration mortgage insurance is not available; or

(3) 80 per cent of tangible personal property pledged as security for the loan.

Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property pledged as security for the loan nor

(1) 30 years on a loan secured by real property;

(2) 15 years or the life of the equipment on a loan secured by equipment used for production of income;

(3) seven years on a loan secured by tangible personal property.

Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest

charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost for the loss reserve account plus the amount required for any necessary insurance, but the rate of interest charged may be lower if necessary to prevent bonds issued under this Act from being arbitrage bonds under the provisions of and regulations under section 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost by the commissioner is conclusive. Rates of interest less than that, except as provided in (b) of this section, may be charged if the renewable resource development fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or if appropriation for the purpose of paying the difference has been made.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made to a veteran or is made for agricultural purposes. If the loan is made to a veteran, the World War II veterans' revolving fund, created in AS 26.-15.090, shall pay the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made to a veteran and for agricultural purposes, the rate of interest shall be reduced by two per cent and each fund shall pay one-half the difference.

(c) When the World War II veterans' revolving fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made to veterans apply only if

appropriation is made for the purpose of paying the difference. When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The following persons are eligible for special interest rates for veterans established in AS 45.96.430(b);

(1) a person who served in the armed forces of the United States for 90 days or more, or whose service was for less than 90 days because of injury or disability incurred in the line of duty, between April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to six months after termination of hostilities involving United States forces in Indo-China, or in a combat zone during any period of armed conflict, who was separated from the armed forces with a discharge other than dishonorable, and

(A) who at the time of induction into the service was a resident of the territory or state, who had been a resident for not less than one year immediately before his induction, and who returned to the territory or state after discharge as a resident with the intention of remaining in the territory or state; or

(B) who, not being a bona fide resident of the territory or state before his entry into the service, has been a resident of the territory or state for five or more years;

(2) a person who was dependent on a member of the armed forces or a veteran of World War II at the time of the member's or veteran's death if

(A) the member or veteran was a resident of the territory for one year before induction into the service;

(B) he served in the armed forces for at least 90 days between September 16, 1940, and July 25, 1947, but no benefits for loans accrue to dependents of an enlistee or reenlistee for time served after November 1, 1945, regardless of whether the enlistment or reenlistment was before or after November 1, 1945;

(C) he died before the official date of the termination of that war; and

(D) his discharge was not dishonorable;

(3) a person who has served in the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia for not less than six years and who has not received a discharge other than honorable.

(b) The provisions of AS 45.96.430(b) are extended to persons who served other than dishonorably on active duty between June 25, 1950, and January 31, 1955, who served other than dishonorably on active duty between August 4, 1964, and six months after termination of hostilities involving forces of the United States, and to dependents of those persons, subject to the following provisions and eligibility qualifications:

(1) a discharge other than dishonorable from the armed forces of the United States or release to a reserve component;

(2) at the time of entry into the service residency in the territory or state for not less than one year before entry into the service, and return to the territory or state within a reasonable length of time after discharge or separation with the intention of remaining in the territory or state; or lacking residency before entry into the service, residency in the territory or state for at least five years following release from active military service; and

(3) service in the armed forces of the United States for

90 days or more, or service for a lesser period because of injury or disability incurred in line of duty, between June 25, 1950, and January 31, 1955, or service in the armed forces of the United States for 90 days or more or service for a lesser period because of injury or disability incurred in line of duty, between August 4, 1964, and July 1, 1977.

(c) A person who is eligible under more than one of the qualification provisions of (a) and (b) of this section shall have the rate of interest on his loan reduced by one and one-half per cent.

Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from the fund the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan programs as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund created in AS 45.96.020.

* Sec. 7. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 8. AS 14.40.751(a) is amended to read:

(a) There is created a scholarship revolving loan fund. [THE FUND SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUND AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FROM THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

* Sec. 9. AS 14.40.755(b) is amended to read:

(b) A person whose [LOAN OR] grant application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application.

* Sec. 10. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR GRANTS [LOANS]. Only public or nonprofit private corporations are eligible for grants [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. 501(c)(3) and (4) [501(e)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 11. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corporations designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 12. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 13. AS 29.13.100 is amended by adding a new paragraph to read:

(39) AS 29.58.290 (industrial development bonds)

* Sec. 14. AS 29.58 is amended by adding a new section to read:

Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality, home rule or otherwise, may issue a revenue bond which is an industrial development bond under the provisions of the Internal Revenue Code of 1954 (26 U.S.C. 103).

* Sec. 15. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO DIVISION OF TREASURY [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the division of treasury of the Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the division of treasury [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 16. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obli-

gations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

(5) corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Federal Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) [AS 03.10 AND AS 26.15];

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements, reverse repurchase agreements, or any trading practice or instrumentalities that may evolve investment management.

* Sec. 17. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the approval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income

and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

* Sec. 18. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and execution of transactions, in or out of Alaska.

* Sec. 19. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 20. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 21. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in AS 37.10.070, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure state deposits provided for under this section.

* Sec. 22. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury and division of collections are in the classified service and may not be designated as partially exempt;

* Sec. 23. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to municipalities, of up to one-half the nonfederal share of costs of projects described in AS 41.22.010 which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 24. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 25. AS 44.21.020 is amended by adding new paragraphs to read:

(13) provide accounting services for the permanent fund (AS 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable resources development fund (AS 37.11), and all other state funds;

(14) provide detailed accounting of state loans outstanding and securities held by the state.

* Sec. 26. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established

within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking, economics, or another closely related field;

(2) have 10 years of experience in banking or investment management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department, except that the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of these functions.

* Sec. 27. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 28. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 29. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 7 - 12, 23 - 24, and 30 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than January 1, 1980.

* Sec. 30. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771; AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4), 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 31. AS 37.10.065, 37.10.075(b) - (d), 37.10.079; and AS 44.25.-020(2) are repealed.

* Sec. 32. Sections 1 - 6, 13 - 22, 25 - 29, and 31 of this Act take effect June 30, 1979. The unobligated general fund surplus as of June 30, 1979 shall lapse into the unallocated reserve account created in AS 45.96.125 on June 30, 1979.

* Sec. 33. Sections 7 - 12, 23, 24 and 30 of this Act take effect June 30, 1980.

STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

JAY S. HAMMOND, GOVERNOR

POUCH F - STATE OFFICE BUILDING
JUNEAU, ALASKA 99811
(907) 465-2855

February 28, 1979

The Honorable Hugh Malone
Chairman, Special Permanent
Fund Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

I have read with interest HB 279; "an act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues," and I would like to submit the following comments for your consideration and the consideration of your committee.

The Alaska Loan Programs Fund proposes to combine existing loan programs into one administrative loan structure. The purpose is to improve service, to secure better interest rates and terms, and ostensibly, to provide more efficient management. I do not believe that abolishing the current student loan program and creating a new student loan program as described in SSSB 1 and HB 279 accomplishes any of the stated purposes.

Improved Service. After seven years of program operation, the student loan program, as administered by the Alaska Commission on Postsecondary Education, is providing excellent service to the student borrowers of Alaska. An automated system has finally been developed and is currently being implemented. During this spring, all collections will be on our automated system, and by next winter, all awards will also be converted. As an educational agency which handles other student assistance programs, we are able to advise students of other available sources of aid and to thereby keep indebtedness at a minimum. I do not feel that moving the loan program into another agency, which does not have responsibility for other educational programs and which does not interface with educational institutions and organizations both locally and nationally, will improve client service. It could, in fact, prove to have the opposite effect.

Better Interest Rates and Terms. The current interest rate for student loans is five percent. Under the proposed plan, the interest rate would be set by the commissioner of revenue at a level sufficient to cover anticipated costs to the fund plus one percent for a loss reserve account. It is highly doubtful that this interest rate would be as low as five percent. I recognize that five percent is a very low interest rate, but I believe the foregone interest which might be collected by a higher rate, to be an excellent investment in the youth of Alaska.

05-EBLH

I do not feel the terms of the loan program as described in SSSB 1 and HB 279 are an improvement over the existing program. In fact, I feel the terms are not as desirable as those currently in law. The new program changes the terms in essentially four ways. Each of these will be briefly discussed.

1. transportation: Under the new terms, transportation expenses would be an allowable loan item. This is not currently the case. The current philosophy is to provide assistance for room, board, books, and tuition. If a student wishes to attend out-of-state, the transportation costs to and from that school are borne by the student. I believe this to be justifiable and do not feel these expenses should be allowable loan items.

2. cancellation benefits: The new loan terms provide for 40 percent of a loan to be cancelled (considered a grant) as long as a borrower has remained current in repaying the first 60 percent of what was borrowed. The current loan program provides for up to 40 percent of a loan to be cancelled if, upon completion of a course of study, the borrower lives and works in Alaska. This is an incentive for the student to remain here upon graduation, or return to the state if educated "outside".

First, I believe strongly in the provision of this incentive for working in the state, and I would encourage its continuation. Second, I consider the student loan a legal debt and obligation. A person who meets this obligation is simply complying with the law. Those who do not meet the obligation are penalized through interest charges. I do not endorse a system which has its sole basis for reward (through cancellation), the simple meeting of one's legal responsibility.

3. loan limits: The current program provides $3,000 and $5,000 per year as maximum loans for undergraduate and graduate student, respectively. The new program provides $4,000 and $8,000. I have no evidence to warrant increasing the loan limits to these higher levels at the current time.

4. collateral: Security is required for all loans under the new program (except certain industrial development loans). Further, the provisions set loan limits based upon that security (or its appraised value). This is currently not required, and we feel it is inappropriate for student loans.

Efficient Management. The Alaska Commission on Postsecondary Education is an educational agency. It administers the student loan program, the WICHE student exchange program, the memorial scholarship loan programs, the guaranteed student loan program, and the state educational incentive grant program. Additionally, it works with educational institutions, agencies, and associations at the local, state, and national levels and administers a number of non-student aid programs.

In determining a student loan, a student aid "package" is developed in cooperation with the institution of attendance. All of our aid programs are coordinated. If a WICHE grant is awarded, the loan need is adjusted; if an incentive grant is

awarded, the loan is adjusted; and so on. The benefit of one office handling all these closely related educational aid programs are many. To pull out one educational aid program and combine it with other loan programs simply because they all provide funds to people in the form of loans, does not guarantee management efficiency.

I do not believe the student loan program can operate with fewer people than currently required (17 full-time and 2 temporary) regardless of where it is operated. We have a division with four supervisory personnel (Range 14). We do not have a director; those duties are shared by commission staff. The structure as described in SSB 1 and HB 279 does not appear to provide any personnel savings. In fact, the other aid programs which are operated by the Commission would require additonal personnel if total aid packaging is no longer possible.

Conclusion and Recommendations

I do not believe the student loan program should be incorporated into a state loan division. I recommend that the program be left substantially as it currently exists, both administratively and programmatically. If it is desired that the permanent fund be utilized as the fudnign source for student loans, this can be accomplished under the present structure.

If the state loan division is established, excluding the student loan program, I would recommend that the student loan division be able to utilize the collection services for those defaulted loans which are currently processed through the Attorney General's office. Routine collections could continue to be handled in the current manner, but those chronic default accounts could beneficially be channeled through a central office.

If you have any questions, or if I can be of any assistance, please let me know.

Sincerely,

Kerry D. Romesburg
Executive Director

cc: Representative C. V. Chatterton
Representative Sam Cotten
Representative Oral Freeman
Representative Phillip Guy
Representative E. J. Haugen
Representative Joe Hays
Representative Brian Rogers
Representative Leo Schaeffer

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S – JUNEAU 99811

February 28, 1979

The Honorable Hugh Malone
Chairman
House Special Permanent Fund
Committee
Room 647 - Court Building
Juneau, Alaska

Re: House Bill No. 279

Dear Mr. Malone:

House Bill No. 279, an Act relating to the Alaska loan programs fund, the Alaska permanent fund, and statement investment policy and other state revenues, was introduced in the HOuse on February 22, 1979 and was referred to the House Special Permanent Fund and Finance Committees.

For the consideration of the House Special Permanent Fund Committee, I am enclosing a copy of a Fiscal Note propared by Mr. Peter Bushre, Deputy Commissioner, Department of Revenue concerning the proposed legislation.

Sincerely,

R. D. Stevenson
Special Assistant

cc: The Honorable Russ Meekins
Chairman
House Finance Committee

John Messenger
Commissioner
Department of Revenue

Peter Bushre
Deputy Commissioner
Department of Revenue

04-D2LH

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB279 - An Act relating to the Alaska loan programs fund, the Alaska Permanent Fund, and state investment policy and other state revenues; and providing for an effective date.

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Revenue, Department of Commerce & Economic Development

Program Category Affected General Government

BRU, Program, or Subprogram(s) Affected Treasury Management

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES		2667.7	2667.7	2667.7	2667.7	2667.7
200 TRAVEL		210.7	21.0	21.0	21.0	21.0
300 CONTRACTUAL		1481.7	1481.7	1481.7	1481.7	1481.7
400 COMMODITIES		48.3	48.3	48.3	48.3	48.3
500 EQUIPMENT		111.8	6.0	3.5	2.0	1.5
600 LAND & STRUCTURES		248.1	167.1	167.1	167.1	167.1
700 GRANTS, CLAIMS, ETC.						
TOTAL		4768.3	4662.5	4660.0	4658.5	4658.0

FUNDING (Thousands of Dollars)

GENERAL FUND		3329.2	2961.7	2959.2	2958.7	2958.2
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Permanent Fund		1439.1	1430.1	1430.1	1429.1	1429.1
Total		4768.3	4391.8	4389.3	4387.8	4387.3

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

All costs represented herein are incremented and pertain only to those charges added by the subject legislation. Existing agency budgets remain in effect. See attached for analysis.

	Total	Loan Programs	Collections	Investment Oversight	Permanent Fund Corp.	Treasury
100 - Personal	$2,667,703	$ 768,576	$ 917,814	$ 287,892	$ 510,102	$ 183,319
200 - Travel	210,750	57,800	40,000	21,050	80,460	11,440
300 - Contractual	1,481,700	86,500	369,500	115,900	776,400	133,400
400 - Commodities	48,300	15,000	10,000	4,100	16,000	3,200
500 - Equipment	111,800	50,000	35,800	6,500	10,000	9,500
600 - Office Space	248,100	75,000	81,000	31,000	46,100	15,000
	$4,768,353	$1,052,876	$1,454,114	$466,442	$1,439,062	$ 355,859

DIVISION OF ALASKA LOANS

100 - Personal

		Per Position (wages)	Employer Charges	Annualized
(1)	Director - Range 27	$ 3,752	$ 669.05	$ 53,052
(1)	Secretary - Range 10	1,254	274.16	18,348
(1)	Comptroller - Range 24	3,401	623.82	48,300
(2)	Loan Examiner - Range 19	2,355	468.18	67,764
(1)	Bond Specialist - Range 23	3,161	588.10	45,000
(1)	Muni. Finn. Analyst - Range 18	2,186	443.03	31,560
(4)	Loan Examiner II - Range 17	2,031	419.96	117,648
(2)	Ind. Dev. Specialist - Range 16	1,888	588.10	59,436
(5)	Loan Examiner I - Range 15	1,751	378.29	127,764
(3)	Ed. Loan Specialist - Range 14	1,629	360.15	71,616
(7)	Process Clerk - Range 10	1,254	270.78	128,088
		$ 24,662	$5,083.62	$ 768,576

200 - Travel

12 trips per year for 1 Director in Alaska	$ 2,400
4 trips per year outside Alaska for 1 Director	2,400
12 trips per year for loan examiner in Alaska	26,400
6 trips per year for muni. Finn Analyst	1,200
12 trips per year for 2 Indus. Dev. Specialists in Alaska	4,800
4 trips per year for Bond Specialist outside Alaska	2,400
364 day perdiem at $50 per day	18,200
	$ 57,800

300 - Contractual

Telephone	$ 30,000
Postage	3,500
Printing/Production	15,000
Auditing	20,000
Equipment Rental	15,000
Miscellaneous	3,000
	$ 86,500

400 - Commodities $ 15,000

500 - Equipment $ 50,000

600 - Office Space $ 75,000

DIVISION OF COLLECTION

100 - Personal Services

Director - Range 27	$ 3,940
Secretary I - Range 10	1,254
Administrative Officer III - Range 21	2,728
Collection Officer IV - Range 20	2,532
Accountant IV - Range 18	2,186
Accountant II - Range 14	1,629
Accounting Clerk II - Range 9	1,178
Accounting Clerk II - Range 9	1,178
Accounting Clerk II - Range 9	1,178
Data Control Clerk - Range 8	1,108
Collection Specialist - Range 12	1,426
Collection Specialist - Range 12	1,426
Collection Specialist - Range 12	1,426
Collection Specialist - Rante 12	1,426
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Collection Officer III - Range 18	2,186
Clerk Typist III - Range 8	1,108
Anchorage:	
Collection Officer IV - Range 20	2,532
Collection Officer III - Range 18	2,186
Collection Officer II - Range 16	1,888
Accountant III - Range 16	1,888
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Collection Specialist - Range 12	1,426
Accounting Clerk II - Range 9	1,178
Fairbanks:	
Collection Officer IV - Range 20	2,934
Collection Officer II - Range 16	2,186
Accountant III - Range 16	2,186
Clerk Typist III - Range 8	1,254
Clerk Typist III - Range 8	1,254
Accounting Clerk II - Range 9	1,339
Collection Specialist - Range 12	1,629
	$ 58,437
Total for 12 Month Period	701,244
Benefits at 17.70	124,120
Health 420 mo.	49,464
FICA at .0613	42,986
	$917,814

200 - Travel

Field (210) 65%	$ 26,000
Administration (220) 30%	12,000
Conventions (230) 5%	2,000
	$ 40,000

300 - Contractual

Postage, Telephone, Etc. (310)	$ 56,000
Printing Forms, Etc. (320)	15,000

300 - Contractual (cont'd)

Space Expense (Rent) (330)	$ 60,000
Copiers (360)	14,500
Date Entry - 3742	8,300
Terminals	44,400
Printers	4,500
(6) Mag Card "A" (364)	16,800
Contract for Legal Service (380)	150,000
	$369,500

400 - Commodities $ 10,000

500 - Equipment

Desk, Executive	$ 8,515
Desk, Secretary	4,180
Chairs	6,830
Calculators	5,465
Side Chairs	1,650
Filing Cabinets, Legal	4,280
Typewriters	3,285
Bookcases	720
Tables, 70 x 36	820
	$ 35,800

600 - Office Space $ 81,000

'ESTMENT OVERSIGHT DIVISION

00 - Personal Services

(1) Director - Range 27	$ 3,940	$ 47,280
(1) Secretary II - Range 11	1,339	16,068
(3) Investment Analyst II - Range 18	2,186	78,696
(2) Clerk Typist II - Range 7	1,045	25,080
(1) Investment Analyst III - Range 20	2,532	30,384
(1) Investment Analyst I - Range 16	1,888	22,656
		220,164
	Benefits	67,728
		$287,892

00 - Travel

Legislative Budget & Audit Meetings:	
Travel	$ 3,150
Per Diem	1,800
Field/Administrative Travel:	
Travel	3,500
Per Diem	4,000
Conventions/Meetings:	
Travel	6,600
Per Diem	2,000
	$ 21,050

00 - Contractual

Communications	$ 8,000
Printing/Advertising	9,500
Repairs/Maintenance	2,300
Equipment Rental - Word Processing	7,900
Financial Consulting	85,000
Other Fees and Expenses	3,200
	$115,900

00 - Commodities $ 4,100

00 - Equipment $ 6,500

00 - Office Space $ 31,000

OTAL $446,442

PERMANENT FUND CORP.

100 - Personal Services

(1)	Director - Range 27	$ 3,940	$ 47,280
(1)	Secretary II - Range 11	1,339	16,068
(1)	Comptroller - Range 24	3,401	40,812
(1)	Secretary I - Range 10	1,254	15,048
(1)	Accountant IV - Range 18	2,186	26,232
(2)	Investment Officer III - Range 24	3,401	81,624
(2)	Accounting Technician II - Range 14	1,629	39,096
(2)	Accounting Clerk III - Range 10	1,254	30,096
(2)	Accounting Clerk I - Range 8	1,105	26,520
(2)	Clerk Typist II - Range 7	1,045	25,080
(1)	Clerk Typist II - Range 7	1,045	12,540
(1)	Loan Examiner III - Range 19	2,355	28,262
			388,656
		Benefits	121,446
			$ 510,102

200 - Travel

Board Meetings In State:	
Travel	$ 6,300
Travel/Director and Staff	6,300
Per Diem	7,200
Honorarium	18,000
Field/Administrative Travel In State:	
Travel	6,300
Per Diem	5,400
Field/Administrative Travel Out of State:	
Travel	7,920
Per Diem	2,400
Conventions/Meetings Out of State:	
Travel	15,840
Per Diem	4,800
	$ 80,460

300 - Contractual

Communications	$ 49,200
Printing/Advertising	16,500
Repairs/Maintenance	2,600
Equipment Rental - Word Processing	8,700
Equipment Rental - Computer	65,000
Software Design nad Installation	450,000
Safekeeping	50,000
Consulting	104,600
Other Fees and Expenses	25,000
	$ 776,400

500 - Commodities $ 16,000

600 - Equipment $ 10,000

700 - Office Space $ 46,100

TOTAL $1,439,062

DIVISION OF TREASURY

00 - Personal Services

(1)	Director - Range 27	$ 3,940	$ 47,280
(1)	Secretary II - Range 11	1,339	16,068
(1)	Accountant IV - Range 18	2,186	26,232
(1)	Accounting Technician III - Range 16	1,838	22,656
(1)	Accounting Clerk III - Range 10	1,254	15,048
(1)	Clerk Typist II - Range 7	1,045	12,540
			139,824
		Benefits	43,495
			$ 183,319

00 - Travel

Legislative Budget and Audit Meetings:	
Travel	$ 3,150
Per Diem	1,800
Field/Administrative Travel:	
Travel	1,750
Per Diem	1,500
Conventions/Meetings:	
Travel	2,640
Per Dien	600
	$ 11,440

00 - Contractual

Communications	$ 12,000
Printing/Advertising	16,500
Repairs/Maintenance	1,100
Equipment Rental - Word Processing	8,700
Consulting	93,000
Other Fees and Expenses	2,100
	$ 133,400

00 - Commodities $ 3,200

00 - Equipment $ 9,500

00 - Office Space $ 15,000

OTAL $ 355,859

MEMORANDUM

TO: Hon. Peter Bushre
Deputy Commissioner of
Revenue-Investments
Pouch SB
Juneau, Alaska 99811

FROM: Wohlforth & Flint

DATE: March 23, 1979

SUBJECT: Substitute for Senate Bill No. 1
"An Act Relating to the Alaska
Loan Programs Fund, the Alaska
Permanent Fund, State Investment
Policy and other State Revenues;
and providing for an effective date"

Since I cannot be in Juneau to testify on the above bill at the hearing scheduled for March 29, 1979, I would like to submit in writing the following comments.

I understand that the questions arising from the bill concerning "arbitrage" issues under Proposed Regulations 1.103-13 and 14 of the Internal Revenue Service will be dealt with by Mr. George Woolfe, of the law firm of Orrick, Herrington, Rowley & Sutcliffe. The questions alluded to in my memorandum dated February 6, 1978, with respect to this bill last year (Senate Bill 429) have been made more acute by the issuance of the proposed regulations on September 1, with respect to the permitted spread between bond yield and the yield on acquired purpose obligations, yield on reserve funds and the invested sinking fund provisions of the proposed regulations.

Last year I noted in my memorandum that the bill effectively wiped out a major portion of the present state loan programs without regard as to whether such programs are being financed directly by the general fund or through the issuance of tax exempt bonds on the public market. In attempting to centralize state loan activities, the bill is apparently based on the assumptions in the report entitled "A Narrative on Senate Bill 429" issued last year by the Senate's Special Committee on the Permanent Fund. This narrative is sharply critical of the history of state loan programs and independent corporations without detailing, except in broad terms, the particular deficiencies.

Admittedly there are deficiencies in State loan programs, as evidenced by the recent Haskins & Sells audit on the Veterans Loan Program. On the other hand, public borrowing entities which have financed home mortgage loans or loans to municipalities through tax exempt bonds have operated efficiently.

The following will attempt to detail some of the features of the bill especially worthy of note:

1. AS 45.96.120 creates the 'allocated reserve account' within the general fund. Income from the permanent fund is "allocated to the account". Amounts necessary to fund the capital reserve account, the fire insurance and liability reserve account and the loan loss reserve account are allocated to those accounts from the allocated reserve account. It is apparently conceived that income from the permanent fund is a perpetual source of funding for the allocated reserve account allocations to the above mentioned accounts. It is legally doubtful, in my view, that such an allocation without an annual appropriation for the purposes is effective. Section 125 establishes the unallocated reserve account which is to be funded through appropriation lapses at the end of each year. The amount available for this account therefore, would vary depending on budgetary and expense procedures and would be uncertain.

2. The capital reserve account created under Section 140 is to be capitalized from bond proceeds in the amount of 5% of the principal amount. This section is inconsistent with the provisions of Section 120 which provides that the allocated reserve account funds the amount in the capital reserve account.

3. With respect to Section 120 and other sections establishing percentages, it is suggested that legislation of this sort is not the correct place to fix percentages but that the matter should be left to negotiation in the light of market conditions pursuant to the underlying bond security documents.

4. Replenishment of the capital reserve account and the loan loss reserve account is to be made annually from the allocated reserve account. It is noted above that the allocated reserve account is allocated all of the income from the permanent fund. It is submitted that this income must be the subject of an annual appropriation unless the

Permanent Fund amendment to the Constitution specifically permits a permanent dedication and pledge to bond holders of income.

5. Although the narrative on Senate Bill 429 last year indicated that a virtue of the bill was reduction of State agencies and authorities it should be noted that the bill creates "a new Alaska loan programs evaluation committee" (Section 220) a new division of collections within the Department of Revenue (Section 240) and a new investment oversight division (Section 24.20.231).

6. Section 45.96.300 provides for purchase of local government bonds by the State. It was noted last year there is a technical mistake in providing that "loans to non-profit corporations should be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the Municipality in which the project to be financed by the loan is constructed" (lines 8 through 12, page 26.) The scheme for state bid for local government bonds is set at percentage points above or below the daily bond buyer average for differing maturities. This is an arbitrary scheme based on a todays estimate of what bonds in the rate categories may sell for and it may well be an inaccurate and inefficient scheme as Alaska bonds increase in value. As with the other percentages fixed in this bill, the bidding percentages above and below the daily bond buyer average ought to be left to administrative determination. The revenue bond bid formula is even less apt to be correct. For some reason the bill permits the purchase by the State of all revenue bonds issued on a competitive basis on behalf of a non-profit corporation as well. The criteria for non-profit corporations which are eligible for the loans as fixed in AS 45.96.300 paragraph (d) on page 29 do not currently comply with the proposed "on behalf of" regulations of the Internal Revenue Service.

7. Section 45.96.320(d) provides for industrial development loans for projects up to $5,000,000. 1978 amendments to Internal Revenue Code permit loans up to $10,000,000, depending on location and capital expenditures over a six year period.

8. In this connection, the provision of Section 14 of the bill on page 45 should be noted. This section flatly prohibits any municipality from issuing an industrial development bond under the provisisons of the Internal Revenue Code. Under this provision the City of Valdez could not have effectuated its oil terminal financing and the Municipality of Anchorage could not have issued its $50,000,000 in Home Mortgage Bonds in March, 1979.

The memo of February 6, 1978, last year, details other questions with respect to the bill.

In conclusion, the bill deals with the substantial subject matter of the means of funding all state loan programs based on the assumption that establishment of certain pre-determined and fixed reserves from permanent fund income, lapsed appropriations and bond proceeds will provide an efficient financing vehicle for this purpose. As noted above, the percentages fixed may or may not be adequate to support bonds secured by the many different types of loans which are to be made by the fund. The loans to be financed range from secure municipal bonds and housing loans to loans never before financed through publically marketed bond issues. The percentages established for the capital reserve account and the debt service reserve account may or may not be adequate to support bond issues for the varied purposes of the loan programs. In addition, the bill assumes in every case that it creates a more efficient financing vehicle than those presently existing in the state and fixes details of loan programs and the market rate on municipal bonds sold to the public (thus permitting sale to the state) which should be left to administrative discretion. Finally, the bill seeks to eliminate a large area of local government financing in the housing and industrial development bond field without any rationale suggested.

HOUSE SPECIAL PERMANENT FUND COMMITTEE

TESTIMONY BY WALTER FILKIN

ON MARKETING ASPECTS OF BONDS

29 MARCH 1979

Filkin: A key consideration in a program of this type is the fact that there would be two sources of security for bonds, and it almost by definition says that one is not sufficient. Judging from the permitted acts or the permitted loan activities that can be engaged in, I think it is reasonably clear that some might require additional security. The broad categories of municipal, housing, residential, and commercial do lend themselves to all grades of lending activities. Certainly in the municipal category alone, which I'm most familiar with, there are borrowing activities that are equal to that of the Federal government which would be AAA rated down to activities that are of very highly questionable ability to repay such as start-up ventures by very small water or sewer systems, or other sorts of bond issues in areas where there are declining populations or reducing tax bases, or in the case of New York City, some of the problems in borrowing are well documented and we need not go into them. But in any event, there is a vast range of quality. So when you come to an activity of borrowing in the long-term market, the question of can the issue repay and pay not only the debt but also the interest on a timely basis, is the critical question in terms of what additional will be needed if there is some question about its marketability. So we get into the area of a loan program covering a vast array of possibilities, having as an ultimate or a backup security the earning power of the Permanent Fund. I think that's what we're really dealing with today.

To the extent that the security of the loans that are being made are sufficient in the market place, the Permanent Fund pledge itself isn't necessary. And so what we are dealing with is something where I presume the drafters of the bill would say the pledge of the Permanent Fund would be a vital necessity here and the question is, first of all, how does it impact the ability of the State to conduct its more typical or more normal borrowing programs and, secondly, what is the prospect of being able to conduct a continuing program like this in the general market.

Let's consider the make-up of the Permanent Fund itself. I think it is important if it is viewed as a true source of security for this loan program and the financing of this loan program, that sufficient boundaries be put on the investment uses of the Permanent Fund so that the benefit that is hoped for doesn't get dissipated. I mention that because part of the uses of the Permanent Fund might certainly be valid but their impact on security for bonds might be very limited... For instance, the Permanent Fund, at an extreme, if it were used for loans that had little or no chance of being repaid, the pledge of that fund as security for another loan would not be viewed as a good security in the market place. The other extreme, if the Permanent Fund were restricted to its investment only in U.S. Government Treasury bills and bonds as the Texas Permanent Fund is for example, the security of that Fund on another borrowing would make that other borrowing AAA rated. And that's exactly what the U. of Texas, whose Permanent Fund secures much of its borrowing, has right now... Somewhere in the middle is probably where the Alaska Permanent Fund would fall, but keep in mind that two independent pledges are important for the market to view the combination of the two as adequate in the long term. If, for instance, you had a $100 million Permanent

Fund that was currently 50% in U.S. Government and 50% in commercial loans such as fisheries and other small business type loans, that in itself probably wouldn't be sufficient without some other parameters around that Permanent Fund and some other limitations on the amount of debt that could be incurred that would be secured by a pledge of that fund. Even though at the outset you could say our first borrowing is going to be $25 million and we have the income from that $100 million fund as a backstop pledge. So I would suggest that it is important that the limitations on the investment opportunities in that fund be considered carefully in order to gain what is hoped to be gained by a pledge of the fund for borrowing to secure these various loan programs.

The impact of the loan programs on the State borrowing program itself which today is in the neighborhood of about 250-300 million dollars every two years; it could have some impact. If in the transition of the General Fund surplus there is a view of the market place that it can be funneled into the loan program to the extent that they are not credit worthy programs could somehow draw down on the balance in the State's bank account, the market place could view the State far differently than it currently does. In the last ten years, the State excess of revenue over expenditures has been about four years out of ten. The other six years, there's been a slight to large excess of expenditure over revenue. The market place has not disregarded this but has accepted it, because ten years ago there was roughly a billion dollar surplus in the General Fund and has accepted the fact that there could be an excess of expenditures from time to time but overall has not looked at it as an alarming trend. It might have if there had been no surplus... If in the future there is a program which in some way could draw down, in the view of the market place, an unlimited amount of that surplus through the operation of the program

such as the Permanent Fund pledge and State loan programs, then I think the impact on the State for its own borrowings would be negative.

Rogers: If we're going to use this money to guarantee one form of loan, or one issue, then we'd have to pledge that we wouldn't use it to guarantee something else?

Filkin: That would go without saying. What I'm suggesting, though, is that, in addition to that, if you comtemplate selling a block of bonds, and you've got an adequate revenue flow from the Permanent Fund to support the debt service on that issue, the only real way that the market would accept that sort of an arrangement would be if they could be assured that a year from now or ten years from now you wouldn't issue ten times the amount of debt with the same revenue projections that you now have. In other words, you'd be relying more on the loans themselves to provide the cash flow rather than the Permanent Fund. And to the extent that they thought that might happen, you'd probably feel it today when you issue that first issue of bonds.

Rogers: Are you saying that that would effectively put a lid on our other issuances that are completely unrelated; revenue bonds or G.O. bonds that were not secured by...?

Filkin: No, not necessarily. What I'm saying is that the way you would get your Permanent Fund bond program off the ground would be to show two things: first of all, that the debt service on that first issue can be well secured by the cash flow from the Permanent Fund; and secondly, that if you're going to incur more debt in the future, that the cash flow from the Permanent Fund will have to have increased sufficiently to support that debt as well.

Rogers: You're only referring to debt which is guaranteed by Permanent Fund income? You're not referring to other debt...?

Filkin: I was in an earlier comment and I'll get back to that, but on this question

here that is all I'm referring to. If your principal and interest requirements are $5 million per year... and suppose you have $4 million of Permanent Fund income pledged to the payment of those bonds, then another bond issue is proposed a year or two years out that's going to have an additional $5 million of debt service; if it can't be shown that Permanent Fund income is going to increase at least proportionately to support that additional debt, then you've got problems not only doing it then but selling this first issue....

If there are ways in which the unappropriated General Fund balance, which I guess now becomes an unallocated reserve, can be utilized; in other words, if there are deficiencies in various accounts that have to be filled, and the Commissioner of Revenue or whoever is going to administer it is required or even has permission to fill those reserves because they've been drawn down to pay bonds or something due to the fact that the loan program itself hasn't been self-supporting, then that would have an impact on State borrowing for general obligation purposes.

Rogers: Because the market would realize that even though we've been keeping a fairly steady even revenue vs. expenditure you'd have in effect a possible sudden large expenditure drawing out all of our surplus...?

Filkin: The market would view that as a possible leak even though every year there is that possibility... this sort of a program, it might focus as a new program and focus on that....

Rogers: The market sort of weighs these as probabilities and this would increase just a new opportunity for leak as a higher probability...?

Filkin: That's a good way to put it, yes.

Rhode: Unless I'm ahead of your remarks, we spoke a moment ago about the possibility

of issuing up to a billion in revenue bonds on behalf of the Northwest proposal, assuming we got an IRS exemption, and others are talking about the Susitna project, the current estimate of the Corps of Engineers brings the final cost of that up to 3½ billion. How interrelated are these things? Is the market going to judge Susitna or Northwest proposal strictly on its own without regard to a large revenue bond program of the kind in this bill or?

Filkin: That really depends on where the possible relationship between the State and these particular projects... what that relationship is. If it is truly a revenue bond project, payable only out of the revenues that flow from the gas pipeline or from the Susitna and the contracted sale of power, they should have little impact on the State's finances. The fact that they are so large and the fact that today the State is so committed to petroleum (means that) something that happens in the petroleum area does have an impact on how the market views the State of Alaska general obligation bonds. If that weren't the case, the State of Alaska probably would still be rated BAA1, but instead it's rated A1 and so that was a positive thing, but at the same time if negative things do happen in areas so vast as petroleum or in the future so vast as natural gas or hydro power, those each could have some impact on the State's loan financing arrangements.

Rhode: Maybe another way to put the question, when New York City got in trouble, did other agencies,say of the State of New York or revenue bonding authorities, ... (get in trouble)?

Filkin: For a time there was sort of a ripple effect or a neighborhood effect on municipals and it was felt the greatest on the East Coast. It was felt in greatest in New York City. To some extent it had little or no impact

and in fact there were a number of municipalities in New York State that really suffered a close out from the market place for several months. As a result of New York City's problems, people didn't want to associate with anything close to New York. It was a little bit irrational but nevertheless that's what some of the investors as a group decided to do. They had enough of an alternative in the Midwest and the West and Alaska that they said, wait this one out. That's more temporary -- even though for somebody else it's minor, when it happens to you it's major -- but it was a temporary thing that ultimately corrected itself and the problem was zeroed in on and sort of isolated. Just to give you some idea, seven or eight years ago when the State of Alaska went to the market place to borrow money, the comparison was sort of three-way: should this be a slightly higher rate or slightly lower rate than New York City and Puerto Rico? Well, today the conversation is: how much more should it be than the State of California, which is AAA rated, or Virginia, or Minnesota or Illinois, and there's no discussion at all about how Alaska rates with New York State or Puerto Rico, because they have declined at a time when Alaska has improved. The one area, though, where there was some valid concern was if this is happening in New York, is it also happening in Boston and Baltimore and Detroit and Cleveland. And the fact is, it was, and people weren't focusing on it quite as much. So it did highlight the problem and probably bring it to light in other areas a little more clearly....

Malone: Are there other points you think you should touch on in the legislation?

Filkin: I hesitate to go through point by point in the legislation. I guess my concern is that it appears to be so all-inclusive that I would urge a little concern on that point alone. If I could cite just one example, the permitted investments have a long list, starting with U.S. Government and going all the

way down through prime corporate bonds and then any other sorts of securities as a separate category.

Malone: This is the Permanent Fund you're referring to?

Filkin: Yes. Again, given the objective of the Permanent Fund as a source of security for another group of loans which needs that source of security, the opportunity to invest in such a broad range loses the impact that was designed for that fund. I'm not suggesting how the investments ought to be made, but the restrictions on the investments ought to be made with the objective of what the pledge of that fund is designed to do.

In the area of the municipal loan program, there is a section dealing with the fund's purchase of municipal bonds on a set formula.

Malone: It requires the loan fund to submit a bid for certain types of municipal bonds according to the formula.

Filkin: Where we've observed formulas like this in the past and there haven't been many but the experience has been roughly the same, the fund either buys all the bonds in a given market or none of them simply because there hasn't yet been devised a formula that is simple enough to administer and yet sensitive enough to react to the changes in the market place on a day-to-day basis. And I would say that even though there has been some care taken in drafting that section, I think the experience would prove to be true in Alaska, too, that the fund would wind up the purchaser of alot of bonds or no bonds depending on the market; and I guess a corollary to that is that the marketable bonds which might go to the rest of the bond market and the poor security or those that are not deemed credit worthy would line up in the portfolio of the Permanent Fund because there isn't any limitation other than A rated and better or BAA rated or worse, as I recall.

Rhode: Another witness from New York the other day gave his judgment that revenue bonds of the kind in this bill which are a mixture of everything from student loans to commercial lending would not, at least initially, be marketable without this guarantee of earnings coming off the Permanent Fund.

Filkin: I think that's a good generalization. You could always find a situation where the source of security for an unusual commercial loan or a student loan was so strong that it wouldn't need any additional security, but I think, by and large, a combination such as this with its broad ability to lend under just about any circumstances, is dependent on the fund. I think the pledge of a very strict source of pretty much unrelated security is a requirement.

APPROVED

HOUSE SPECIAL PERMANENT FUND COMMITTEE

TRANSCRIPT OF TESTIMONY BY SAMUEL PLAIA ON SS SB 1

27 MARCH 1979

Plaia: Senator Hohman's bill is a very extensive one, but rather than make a detailed analysis of it, due to time constraints I'd prefer to make some general comments on the intent of the bill and what problems I feel may arise from the bill as it's presently constituted.

Your comments earlier about the use of the income of the Permanent Fund to support debt to provide the capital funds quickly to bring massive investment into the State to help the State develop a series of industries and help the State's citizens receive money under favorable terms and conditions is certainly the essence of Sen. Hohman's bill. The theory of it is that the income from the Permanent Fund could be used as the security for the sale of so-called revenue bonds (being revenue in the sense that they would be paid back not by the general obligation resources of the State, but from the income produced from the investments that such a loan program would make... i.e., the loans themselves when repaid or paid down on a schedule would presumably amortize the revenue bonds). But recognizing that such programs would require a substantial amount of time to put into action, as well as several of the purposes for such loans being ones which would require extensive time for their repayment, the attempt is made to provide the specific income from the Permanent Fund's investments as the security or collateral which would make an investor willing to buy the bonds. Because the investor does not have the specifics of what the particular loans would be made in and, therefore, could not make a judgment as to the value of that particular program and the likelihood as to whether the investment is going to be repaid through the earnings of that particular loan, he would need such additional collateral. In addition, it would provide the investor an opportunity to examine perhaps more closely the projected income of the P.F. over a period of years and give the investor a certain sense of security that without regard to whether the loan programs succeed or fail, in effect the money is going to be segregated and kept there so that principal and interest can be paid when due. It is also true that that kind of a collateral would allow bonds to be sold at a somewhat lesser interest rate and, as a matter of fact, without it, I don't think bonds for such programs as proposed here in this bill could be sold at least for some of the purposes which have been outlined in the bill.

Given that introduction, I'd prefer to address some of the loan purposes. There are certain areas I feel require comment.... (page # referred to are from original version of SB 1, and same as HB 279)

Starting on page 25, we have the loan purposes: residential housing, commercial purposes, public purposes, and education. In the case of residential housing, I see no general problems since that is a well-established public purpose and is being used in the State presently and throughout the lower 48.

The area that I have the prime concern with is commercial purposes... (here reads what bill says about commercial loans). It seems to me that the intent here is somewhat similar to that of the Federal government Small Business Administration, which is to provide loans for smaller industries which do not have ready access to capital from other sources, either because there's an inefficient market mechanism by which they can raise such funds or there are not appropriate investors prepared to make such funds available.

The record of the SBA has not been particularly good. The intent has been sound and despite the very elaborate documentation that is required before such loans are granted, there have been a significant and outstanding number of defaults. When I read this bill, I tried to imagine a situation which could arise, and that is let's assume we have an idea which we believe is commercial and can create cash flow and, presumably profit. And what I'm concerned about is what can happen as a result of the State making an investment in such a commercial venture. And that is that a group of people would get together as provided in the bill and form a corporation and put in a certain amount of capital and then go to this particular program and outline a plan for the expenditure of let's say one million. And they make projections and show that if they are successful they will be able to produce a profit and a cash flow and after administrative costs and expenses will then produce a source of funds which can be used to repay the loan. There will be an enormous temptation, if this program is put into effect, for somebody who's always wanted to be a successful entrepreneur to come up with some pretty good ideas which seem to be sound, and form a corporation and get let's say the million dollars, which will provide for salaries and the rent and overhead and travel expenses of the corporation, and set aside a certain amount as a reserve for the repayment program and successfully repay their obligation. Unfortunately, what they can also do.... (Here tape was changed; scenario of corporation that might default on loan payments was continued).

And the only recourse is that the State or the program can now go to the individual who has personally guaranteed the particular obligation and say now I want to collect from you or the group of shareholders the $750,000 that's not been paid back. And at that point any individual who does not have the money has available the appropriate mechanism through bankruptcy court to be relieved of that obligation.

As a result, the funds which made this investment have now lost this principal and the Permanent Fund income will now have to be used to make up that deficit. So that you have here a State going into the business of loaning funds to corporations in ways in which that corporation can very, very easily bleed off the assets leaving you with nothing at some particular time, either by intent or unintended, because of poor business judgment.

Malone: In the commercial loan section of the bill, it provides for collateralization... such safeguards... can they be built into the law so the loan fund or the Permanent Fund, I don't know, would have recourse against the collateral...?

Plaia: Yes, that can certainly be done, however if collateral is a building, it's pretty hard to move a building; and if collateral is inventory and expended money, then the collateral is not existent. A ship, for example, yes you could probably re-capture a ship... and we have records of the attempt to collect such collateral... but it's not so easy to collect....

Malone: ...To what extent would the legislation concept encourage defaults... Is the fact that the buyer of the revenue bond is not looking to the operation of the loan fund (unclear)...?

Plaia: It's the only security he has, and that's the only reason he would buy the bond. For example, several years ago the Small Business Administration encouraged the formation of private small businesses and corporations to get the private sector into particular businesses and it provided certain incentives and tax advantages to encourage them to develop these small business investment corporations (SBIC). And there was a great flurry of raising capital for these SBICs, publicly held but non-governmental corporations, to provide such funds because the assumption was that you could put together a sophisticated group of investment decision-makers and that they could provide the funds for let's say a small company that needed $350,000 for expansion of existing facilities or that had a new idea or a new patent which seemed to have a strong possibility of success. And the SBICs would provide the capital for this in return for a share in the equity of the corporation. The record of this as it stands today is pretty dismal despite the presumed sophistication... there were banks, for example, that had SBICs formed as subsidiaries and the record of investments is extremely poor, and these were investments that were made with the same intent and purposes as here by people who presumably had a great deal of sophistication and the record is that it was not successful. Not only was it not successful, but in most cases it failed. Now the value of these SBICs has (unclear) because the portfolios have not produced the income which would allow them to pay the dividends to the equity shareholders in a way which would make good market price on the security. In addition, ...over the last five years the SBA itself, in guaranteeing or making some of these loans, has found that the primary purpose of the loans seems to have been to feather the nest of the officers of the corporations who borrowed the money.

Malone: Why did the SBICs encounter these problems?

Plaia: The problem is the pressure for investment. If you have the funds sitting around, you want to put them to work. Now if the purpose in putting them to work is not just to invest the principal and get a prudent income out of it, you're going to have to find investment opportunities, and you become far more willing to look at investment opportunities when the job that you have is to make investment in such opportunities. So while you may not seek them out, you certainly become far more receptive to them when they come in because who knows when the next opportunity is going to come along for you to make such an investment and fulfill your duties and responsibilities. Pressure -- the funds are there and they are supposed to be put to work.

Malone: What sort of standards do the officers of the SBIC have to meet...?

Plaia: Judgment, mature judgment, in terms of the people involved, what their record is in making a company go. They look at officers, they look at the product, they look at the product's share of the market or they make a judgment of how valuable the product is....

Malone: I understand that they do that... But what I'm getting at is what is the essential difference... I mean if we talk about a loan fund secured by a separate fund with its own earnings... maybe there's no incentive for the loan fund to turn in a good record as opposed to a bad one... What is the parallel with the SBICs?

Plaia: In the case of the SBICs, number one they would require far less equity than a bank because they are depending much more on their judgment.

Kocsis: Re. value limitations section of the bill, isn't that a fairly conservative way of approaching it and that would protect it about as much as a private bank or anyone could be protected?

Plaia: If banks are doing that, it's not for some of the kinds of purposes as these commercial loans. No bank would make a commercial loan on these standards, at least in my opinion. They might make it for housing... 90% is pretty standard but that's based on the theory and feeling that real estate is a continual and constantly increasing asset because of its diminishing availability... But this is not the case in commercial ventures. Take fishing for example, which depends solely on nature... Re. 95% of the appraised real property... I'm not sure the bank would go along with that. 80% of tangible personal property... what might constitute tangible personal property as security for the loan... car, furniture, paintings, jewelry... you can't get 80%....

(Comments from Haugen and Bushre unclear).

Rhode: Mr. Chairman, I just have a comment. Surely it must make a difference if I have some kind of plant and equipment worth a half million, but it's located in Barrow. If the State has to go in on a default and sell off the property, it's true the replacement cost of that project is as I stated in my appraisal, but can you get that kind of money? You are asking someone to come in to take over a failed business.

Plaia: You will sell it at so-called distress prices, so that even 75% would be good if this is in an area that is remote or has been chosen simply because that is the place where the incorporated individual has chosen to live and reside. If you want to encourage somebody else to come in there, you are going to have to give them a big carrot. The big carrot is that they are going to be able to buy something really cheap. The market place is pretty vicious when it comes to things like that.

Malone: To summarize the points you've raised so far... In at least the initial years, the operational loan fund may not be held to reasonable standards because at least in the issuance of bonds the buyer is going to be looking at the Permanent Fund for security, not the operation of a new loan fund. Secondly, you have said that the operators of the loan fund may be under considerable pressure to get the money out and that may lead to problems in getting money back again. (Plaia confirms these).

One of the things that came up in the last session of the last legislature... a very complicated area... The public purposes section here, particularly the section where the loan program or fund would purchase municipal bonds....

Plaia: (Referring to series of formulas on pp.32-3). First of all, let me give you a little background. Municipal securities for the most part are sold in what's called serial maturities, in other words the total loan will mature over let's say a 20-year period and in the first year x amount of principal will be paid and whatever the interest is and in the second year another amount of principal will be paid etc. so that in each year you have part of the debt maturing. So it's called a serial loan, as opposed to a so-called term loan... Serial maturities sell at generally increasing rates of yield. In other words, the shorter the maturity, the less the yield; the longer the maturity the higher the yield. For example, a bank would be willing to accept a much lesser rate of interest for a bond due in one year than it would for one due in several years. So we have then what is called a yield curve... that is a curve whereby the shorter maturities generally sell at a lower price, the longer maturities sell at a higher price... Now the yield curve itself is subject to constant changes and distortions in the market place, depending upon the amount of investment money available for certain maturity ranges. Therefore, you go into periods where you will have a so-called normal yield curve whereby the one year maturity will be much lower than the longest maturity... But in cases of fluctuations in interest rate patterns and the availability of money, there may be less money available for shorter term investments than are available for longer term investments. Therefore, to create an interest in the shorter term investments, the yield has to be raised so there you get what is called flattened yield curve...i.e. the differential between these two is much closer... we are currently going through what is called a flat yield curve... Now this formula fixes the rate at which the State must buy securities, and it fixes it in such a way that it does not take into account the distortions that may occur from time to time in the yield curve. So consequently, the State would be forced to buy securities whether it wanted to or not, because the investor would not under this formula be able to find a way in which he could develop a security and a yield curve that he could sell in the market place....

Malone: Then you're saying the formula set out in the bill may result in the director of the loan program buying bonds for more than they can be sold for. (Plaia confirms). Is that because the formula is defective?

Plaia: It's not that the formula itself is defective. It's not possible to accept such a formula. Any formula of this type would be defective. It might be effective at one particular time, but a year later that formula is still fixed, you haven't changed it, and the conditions in the market has changed so that distortions occur which would then force the State to buy not at so-called market rates.

(Discussion among members re. subsidies unclear).

(Comment from Bushre re. State loan programs unclear).

In this particular instance, I'm saying this formula simply will not work. It will encourage investment bankers to not bid on the bonds at times in certain maturities and under other conditions it will not only discourage them but it will make it impossible for them to submit bids for the bonds. So that in effect, the State would have to purchase those bonds... at rates which are not so-called market rates and therefore, the State would also lose the benefit of the additional income it could get by investing in non tax-exempt securities. (Discussion re. interest rates, guarantees, and more about yield curve unclear).

...If the yield curve proposed here is different from the yield curve in the market place, people are going to buy which is the more effective and in this instance they are not even going to be able to buy it because the State....

Kocsis: Do you think mixing the bonds together would still have that effect of lowering it?

Plaia: No, the market is the market. It makes its own curve and what makes the curve is the amount of money that's available for investment in a particular security range. For example, now we have a flattened yield curve where the differential between one year securities and thirty year securities is very narrow, the reason being that the banks do not have that much money available to put into tax-exempt securities. (Example of insurance companies having money to invest recently, compared to several years ago when natural disasters left them with less money but at that time banks had plenty of dough).

(Question from Malone re. municipal bonds and discussion unclear).

Malone: Re. commercial loans, to what extent are we likely to run into any problems for issuing tax-exempt bonds for that? How is this treated in other jurisdictions?

Plaia: One can under certain conditions issue tax exempt bonds for so-called industrial purposes, e.g. in the area of pollution control that's being done frequently. I believe the limit has recently been raised to $10 million from 5 million. Most of the bonds that I do see issued, however, for pollution control run from 1-3 million. That has been defined as a genuine public purpose. I think that what would happen in this particular program would be that the very people who would come to you to receive the benefits from this kind of a program would not qualify... therefore, there is serious question here as to whether the bonds that would be sold would be tax exempt. In other words, the bonds would be sold using the income of the Permanent Fund to provide the... to make these loans and there might be very serious questions and it would have to be examined, yes.

Kocsis: It was examined by E.F. Hutton and they felt it would be tax exempt.

Plaia: But in all due respect to E.F. Hutton, they are investment bankers as I am and they are not tax counsel....

To continue with my conerns about the loan purposes as drafted here, re. the student loans as it's drafted here I would think that it would be an encouragement to default on the loans... It's not so much an invitation but it's certainly a suggestion that if you do default you won't be punished very severely. And in effect that's a subsidy and that's all right, too, except that it's a little unfair because in effect the person who does pay the loan off is subsidizing the person who doesn't pay it off.

I believe the [illegible]

HOUSE SPECIAL PERMANENT FUND COMMITTEE

PARTIAL TRANSCRIPT OF TESTIMONY BY THEODORE SWICK

10 APRIL 1979

Swick: ...From my experience and from examination of the procedures that are outlined in this proposed legislation (HB 279), this method of aid to local government, in my judgment, will not work at all unless the intent of this provision is to have the State, in fact, buy all of the bonds put up for sale by these various cities. If that's the goal, then I think this will work. If it's a provision that's trying to help the weaker cities, why that's fine, too, and I think it will happen. But the fact that the State will be making a bid that is presumably competitive with the marketplace; I think this thing is all out of shape and all out of reality. In fact, I don't believe it even could be restructured to work. It'd really almost be re-inventing the wheel....

First of all, it's based on the Bond Buyer average. The Bond Buyer is a newspaper that services the municipal bond industry... That average is made up of a determination of the market every Thursday morning in New York by a series of phone calls and is established by the market price for a 20-year a-rated or aa-rated bonds....

The municipal market is a over-the-counter market in the purest sense... On any particular list of bonds,... if you ask ten traders what they're worth, you're going to get a disparity in the price. That's the way the Bond Buyer average is made up....

For example, Matanuska-Susitna recently sold $20 million in the public marketplace, a-rated bonds... If we took this formula in the bill and took

the Bond Buyer average as it was that day, that issue would've been bought by the State. And it would've been bought at prices which were probably 50/100s off the marketplace... The State would've paid on the average about $7 per 1,000 more than competitive marketplace said the bonds were worth. I don't think the motive here was to provide a financing mechanism with State funds for a-rated (unclear) in Alaska. Now if it was, you've got it.

Again, based on ratings and on the index, the thing is I think unworkable because in the marketplace there are very subtle variations within a rating category... So when you apply a pricing mechanism based on credit rating as this does, there's no way that that formula is going to come up with a price that has any reality to the real market for those bonds.

Another flaw in it is we have what we call a yield curve and that deals with the fact that most municipal issues are issued in serial form... In so-called normal times, each year you go out in the life of the loan, and each principal installment attached to each year, has a yield on it higher than the one proceeding it. So as the bonds get longer in life the yield goes up, and as a result the interest rate goes up.

Now when you take an artificial arrangement, where you have every five years a set... where your yield curve is absolutely flat for five years... again, no reality to the marketplace at all.

...If the intent were to buy all the bonds put up for public sale by issuers in Alaska, then this thing would work like a charm. But you will not get any competition from Wall Street people.

Now the act goes on to say that the award will be made to a combination of bidders... that they will combine pieces of the best bids of several parties and come up with an award... From our point of view, on the

underwriting side in Wall Street, if that is the prospect we would not even bid on the bonds... The reason for that being that the way your procedure is structured, the chances are that if we were going to make a split award, the State would buy the shorter years and we on Wall Street would end up with the longer years.

Again, the award of the securities is made on the best cost of money to the issuer. (Describes calculation of arrival at "net interest cost")... What happens is we have our profit built into the short bonds and we make no money or sell at a loss for long bonds... So again, in the marketplace, this is all out of reality... I don't think this thing will work and that's an attempt to explain why. If the State, through this formula, takes off the bonds where we have some profit in it and leaves us the ones where we have some loss in it, we're only going to do that once, and probably never....

(Re. proposal in HB 414 for use of Permanent Fund income to guarantee debt for power projects, Swick gives some history of how he and other consultants to prior committee came up with idea)... The opportunity appeared to be there to take advantage of this very high quality cash flow to contribute to other needs in the State of Alaska and at the same time not invade or violate the spirit or intent of this trusted part of the income. So what we came up with led to this 595. Here's the way we envisioned it. That money comes out of very high grade investments and we took this towards another developing major problem in Alaska which was the demand for energy....

So this seemed a positive place to go to make an important contribution with this very high grade cash flow. The idea then would be that under the Power Authority Act... they are only permitted to fund "feasible"

projects... so first of all we want our projects to pass all those tests... and they'd be revenue projects which would be funded... in the bond market... the people who lend money to tax-exempt borrowers are used to that sort of thing....

So you have a project that already passed all those tests and seems feasible, but the lenders are still depending on estimates of experts that 10, 20, 30 years from now certain events are going to take place so that lender is going to get his money back. We can lend that guy alot of comfort in his examination of an Alaska revenue project as to whether he wants to lend them any money or not by saying we will take and pledge the income from this very high grade investment account and we will have that available in the event that the predicted results of the revenue producing project did in fact not occur in any given year, you would have access to the cash flow from the Permanent Fund to make you whole and pay the interest and principal.

Now, one thing that would accomplish would be to drive down the cost of borrowing for that particular project... And I think you could come up with aa bonds... I could envision that guarantee providing a aa-rating for project security.

Secondly,... I could see the cost of borrowing for a project getting down to within about 50/100s of the cost of your general obligation borrowing. In other words, if it cost the State of Alaska 5½ to borrow towards general obligation debt, I could envision these bonds selling for something like 5 3/4 or 6%, I think no more that 50/100s. I would go further to say that if that income flow guarantee was not there, the cost of borrowing could be anywhere from 6½ to 7, 7½, depending wholly on the

belief of the figures in the feasibility study and the convictions of the consulting engineer. Now, the important thing in this is the expectation that the project will be self-supporting and that the money will never be used. If it's needed it is there and it will be used, of course. But the expectation is that the project will be self-supporting and feasible.

Now what happens -- every year that those bonds are outstanding, you have an obligation to either pay interest or interest and principal on the project debt. If that year goes by, and the project in fact does cover its debt service obligations, then that flow of money from the Permanent Fund income is freed up and can be used for anything else. If you didn't do anything with it, it would go to the General Fund. The legislature could provide a second use for it.

In very simple terms, you're getting a double dip on that money. And if you want to go on to a development program and use the money for that, or if you wanted to subsidize some other lesser feasible project after the guarantee has been removed, you have it. And the delay is only a year, one year's income. Once it isn't needed, you can do anything you want to with it. It is not committed to the debt issue for 30-year bonds.

I think it's a valuable thing to do with that flow. I think it can perform a great service for you. You're not tying up any money in a long term way. It would be possible because in the way we handle cash flow in a revenue project is (technical description)....

So it serves a purpose, it drives down the cost of borrowing, but it's a one-shot deal on that dollar income. And once you don't need it, you can do whatever you want to with it. I wouldn't want any grant program... As I see it, I want to hold that trusted part of this Permanent Fund so

it can't be attacked at all. You could eat into the income as one of these projects goes by of course, but you could put into the agreements that... it can be recovered. You never violate the principal at all, and you never give anything away.

Malone: So the basic argument is this be done for projects that were, first of all, adjudged by standard criteria to be financially and economically feasible to begin with and that, secondly,... it'd be for those projects for which bonds could be sold but they'd be sold at higher rates than this would bring?

Swick: That's correct.

Freeman: What you're talking about here, isn't that what's normally referred to as double barrel bonds, guaranteed not only by the revenues but also backed up by funds...?

Swick: Yes,... it is... In a double barrel bond you have a revenue flow which is dedicated and you have a general obligation pledge which is there and they're both there all the time. But I guess that's right, once that revenue flow in any one year goes by then it's no longer an obligation... I hadn't thought of it that way. There are double barrel bonds that have a very enviable position in the market.

Haugen: Is it adviseable to get yourself into a double barrel bond... heavy front end costs in the development of hydro projects... if you pledged revenue and other income so you have the ability to say to the borrower here's what I can offer you...?

Swick: If it's a revenue producing project, you have the income flow which is pledged to the bonds... but you also, in a classic double barrel situation, you also pledge to the lender or the bond holder that you will use the full taxing power of your community if necessary. And the result of that is to drive down the cost of borrowing because the lender sees

additional security for his protection.

Haugen: ...You're pledging the income of (unclear)?

Swick: No, I was talking about the double barrel bond itself. The suggestion here that this bill embraces is that you're not pledging anything but the revenues of the project. And the Permanent Fund income is there in the event that everybody who guessed what those revenues were going to be on a projected basis is totally wrong and the... revenue will not meet the obligations for bonds, then you have the Permanent Fund. But as I say... the project would have to pass the tests... in regards to what the Power Authority can do and what the legislature will in fact authorize them to do.

Hayes: I've heard the concern expressed about power projects that initially there is alot of front end costs and possibility of negative cash flow, but as any power project proceeds on into time it becomes more and more viable in terms of cash flow to retire bonds. To the extent that guarantees from the Permanent Fund would lower the interest rate on the bonds, it would accommodate the negative cash flow, the problem in the earlier years which is part of the problem that Ernie's concerned about....

Swick: ...You would be saving somewhere in the neighborhood of 100 (unclear)... it's the difference between a 5% and a 6% bond.

Hayes: It's enough to possibly make a very tight situation a viable project.

Swick: The point of the feasibility test that any of these engineers make is what is the cost of money.

(Duscussion of effect of difference of one percentage point).

Rhode: I want to clarify one point. The use of the earnings of the Permanent Fund as a guarantee was described as a double barrel and in a large sense I see that's true. But,... with a G.O. pledge you are at least initially

cutting down your bond capacity....

Swick: Absolutely. That is a committment which lasts for the whole length of the debt.

Malone: We have a number of proposals to use income from the Permanent Fund to guarantee debt... As I understand the difference here is that, number one, that this would be done on a project basis and the particular project would meet standard criteria for practicality and feasibility. And that the debt or bonds would be issued pretty much on a project basis... so we wouldn't be aggregating apples and oranges....

Swick: That's my view. Again,... the point being is you can get something of value out of this income flow, you're putting it in very mild jeopardy if any, hopefully none, and it doesn't stop you from using it for whatever else at a very nearby later date. Two shots with the same dollar.

Malone: ...The reason this is probably possible in this case, does it rest on those points I raised or does it rest on other things? Because an argument made previously to the committee was that in the case of debt issued on the strength of a Permanent Fund income guarantee, that the creditor was going to look solely to the Permanent Fund income as his source of guarantee and was not going to pay any attention to the possibility of the project or the use of the proceeds paying back his loan that he's made. This is in cases where the Permanent Fund is guaranteeing revenue bonds that were issued to buy home mortgages or small business loans or fisherman's loans, etc. If there's a difference in this case, I want to isolate what it is....

Swick: Your points are right. That the project will be evaluated to the best of the professional peoples' ability that it will never in fact touch any of the Permanent Fund income money. That's the first series of tests but that's what it comes to. Now, if you had a loan program to which this revenue flow was pledged, particularly if it had multiple purposes, there is

no way that anyone could make a prediciton that you were never going to touch that Permanent Fund money, because you're going to have a default ratio... You are right that the investor will forget about the ingredients of an issue unless in the marketing of the securities and the solicitation of lenders' money it is carefully pointed out that that's the intent of this thing and that's what the legislation says and that's the way it's going to be because it would be a very bad thing, in my judgment, if the cost of money as a result of this guarantee caused an unfeasible project to be made feasible. I don't think they should be in there.

Malone: Could you comment on the energy reserve account?

Swick: I don't believe that that fund, as it's presently legislated and constituted, is the basis for security for any borrowing. I just don't think it will work... Secondly, I think it could be a source of a grant program, whether it's an out-and-out contribution of, say, a couple of million dollars here and there... It could be used for early investigation of a project, for some of these front end costs we're talking about. The pot, if you will, as I understand it, renews itself at a fairly modest but regular rate each year... probably generating about, roughly, $20 million a year. I think you can use that in conjunction with all these other things we've been talking about as a source of money for, in effect, a subsidy type item where you put a little equity into a project to help a small thing get off the ground. It could be used for these small hydro developments that I think are going to be developed all over the lower 48... I don't think it can be an ingredient of security for borrowing in it's present state.

Malone: Because it's subject to appropriation?

Swick: That's correct.

Haugen: Way I understood, that fund would be used to leverage money for energy development projects.

Swick: In my judgment, I'm putting a squash on that. I'm saying that the way that money is generated and the way it's handled, it will not support debt, it will not support leverage, because the lender has no assurances that it's going to be there next year.

(End of testimony).

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

HOUSE BILL NO. 279

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, <u>investment oversight</u> and post-audit functions.

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund;

(10) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment

oversight division is established as a permanent staff agency responsible to the Legislative Budget and Audit Committee for the performance of oversight and review functions to provide information on the policy and performance of all agencies of the state which perform lending or investment functions.

Sec. 24.20.331. STAFF. (a) The committee shall hire and determine the salary of the division director who shall serve both at the direction and pleasure of the committee. The director shall serve as head of the investment oversight division and, within the limits of the budget approved by the committee, shall employ and determine the compensation of the professional and clerical staff of the division.

(b) The director and members of the professional and clerical staff shall not join or support a partisan political organization. This prohibition does not prevent the director or members of the staff from joining social organizations, expressing private opinion, registering as to party or voting.

Sec. 24.20.341. DUTIES. The investment oversight division shall

(1) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(2) review periodic reports from all agencies of the state which perform lending or investment functions;

(3) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the Legislative Budget and Audit Committee at the time the committee directs;

(4) present to the committee within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d);

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the legislature, report to the legislature through the Legislative Budget and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment funds of the state; and

(2) alternative investment policy for the general fund surplus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) one hundred per cent of mineral lease bonuses after deduction of amounts allocated

(A) to the Alaska Native Fund under the Alaska Native Claims Settlement Act and implementing state legislation; and

(B) in AS 37.11.020 to the Alaska renewable resources development fund;

(2) twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments received by the state; and

(3) any other money appropriated or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 per cent of

all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of future generations of Alaskans;

(2) the corporation's primary goal should be to maximize total return while maintaining safety of principal;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation as needed for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings established in sec. 20 of this chapter.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by a board of trustees but has a legal existence independent of and separate from the state. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter.

Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session.

(b) The board shall annually elect a chairman from among its

members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. Initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years.

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a vacancy is not created but the member of the board may not participate in board business and may not be counted for purposes of establishing a quorum. The joint session of the legislature shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the member of the board shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim member of the board who shall exercise all powers of a permanent member of the board until such time as the legislature in joint session fails to confirm the interim appointment.

(c) A vacancy on the board does not impair the authority of a

quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.13.080. QUALIFICATIONS OF BOARD MEMBERS. (a) No person may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of the United States or of this state.

(c) At least one member of the board shall have recognized competence and wide experience in finance, investments, or other business management-related field. No two members may be appointed to the board who share substantially similar professional or occupational backgrounds.

Sec. 37.13.090. QUORUM. Two members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.13.100. COMPENSATION. Each member of the board shall receive an honorarium of $250 for each meeting day in attendance. Members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and all other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee acquires, owns or

controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is applicable to the board in the management and investment of permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital.

(b) The corporation assets may only be used for income-producing investments.

(c) The board shall seek to maintain a reasonable diversification among corporation investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation. It may contract with the division of treasury of the Department of Revenue for services.

(g) Subject to (a) and (b) of this section, the board may invest

corporation assets in obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States; corporate securities which under the Securities Act of 1933 are freely marketable; and short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

(1) No portion of the assets of the fund may be used in the purchase of stock of a corporation which is not paying dividends on that stock in cash at the time of purchase; nor in the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(2) No portion of the assets of the corporation may be used in the purchase of stock if immediately following the purchase the proportionate market value of all stocks held by the corporation would exceed 30 per cent of the assets of the corporation.

(h) Subject to (a) and (b) of this section, the board may invest corporation assets in

(1) Federal Housing Administration mortgages;

(2) Federal Veterans Administration mortgages;

(3) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage.

(i) To qualify as a mortgage or secured loan which may be purchased by the board under (h) of this section, the mortgage or secured loan shall

(1) be secured by real estate in the state;

(2) have as a mortgagor an Alaska resident or a corporation in which at least 60 per cent of the stock is owned by Alaska residents;

(3) be certified by the originating financial institution

that the loan being sold has been made in compliance with law and that liens supporting the loan have been perfected;

(4) have no initial closing fees or service fees which exceed one-half of one per cent, excluding closing costs.

(j) The board may purchase loans provided for in (h) of this section only with the approval of each purchase by the division of Alaska loan programs of the Department of Commerce and Economic Development, and the loans may be purchased only from financial institutions which are operating under the national banking laws, federal savings and loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the corporation's assets. Before adoption of any investment guidelines, the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(l) Nothing in this section may be interpreted to preclude in-state investments that have a risk level and expected yield comparable to alternative investment opportunities.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal

year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the fund.

Sec. 37.13.150. INCOME. (a) The interest and dividends received in a year are the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the fund at cost, and after adjustment for capital losses charged to that fiscal year.

(b) When 50 per cent of the income of the corporation available for distribution, as certified by the commissioner of revenue, exceeds the amount estimated by the commissioner as equal to the amount of the tax credits allowed by AS 43.20.015, the credit allowed in AS 43.20.-015(b)(3) shall be $300 plus an additional amount equal to the quotient obtained by dividing that excess by the number of eligible taxpayers claiming credit under AS 43.20.015(b)(3).

Sec. 37.13.155. MORTGAGE LOSS RESERVE ACCOUNT. The board may establish a mortgage loss reserve account for the purpose of protecting the financial integrity of the fund.

Sec. 37.13.160. BOARD BUDGET. The board's operating budget is by appropriation from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.170. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment

programs.

Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the permanent fund from each investment during the period covered, a statement of corporation investments including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations for any needed changes and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet. The board may also publish other reports it considers desirable to carry out its purpose.

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of trustees and employees of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

* Sec. 6. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 7. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(QQ) Alaska Permanent Fund Corporation Board of Trustees.

* Sec. 8. TRANSITION. The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act after request for transfer is made by the corporation board of trustees.

* Sec. 9. AS 45 is amended by adding a new chapter to read:

CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

Sec. 45.96.010. PURPOSE. Efficient use of the capital resources of the state will be promoted by creating a single loan fund to provide a single source from which potential users can acquire a state loan and obtain information about existing federal or private loan programs which will better serve the needs of the user or which will complement a proposed state loan. A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The purpose of the loan programs fund is to

provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing. A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is created within the Department of Commerce and Economic Development a special fund of the state known as the Alaska loan programs fund.

(b) There is established within the Department of Commerce and Economic Development the division of Alaska loan programs. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Commerce and Economic Development is paid if that range is higher than Range 27. In order to qualify for the position of director, a person must be graduated from college and have at least eight years of supervisory or administrative experience in loan management.

(c) The division of Alaska loan programs shall manage the loan programs fund in accordance with secs. 10 - 490 of this chapter.

Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond committee may issue bonds and bond anticipation notes in order to provide funds to carry out the purposes of the fund.

(b) The principal and interest on these bonds or bond anticipation notes are payable from assets of the fund. Bond anticipation notes may be payable from the proceeds of the sale of bonds or from the proceeds

of sale of other bond anticipation notes or, if bond or bond anticipation note proceeds are not available, the bond anticipation notes may be paid from other assets of the fund. Bonds or bond anticipation notes may also be secured by a pledge of a grant or contribution from the federal or state government, a corporation, association, institution or person, or a pledge of money, income, or revenues of the fund from any source.

(c) Bonds or bond anticipation notes may be issued as provided by the state bond committee, in one or more series and shall (1) be dated; (2) bear interest at the prescribed rate per year or within the maximum rate; (3) be in a certain denomination or form, either coupon or registered; (4) carry the conversion or registration provisions; (5) have rank or priority; (6) be executed in a certain manner and form; (7) be payable from the sources in the medium of payment and place or places inside or outside the state; (8) be subject to authentication by a fiscal agent; and (9) be subject to terms of redemption, with or without premium as the resolution of the bond committee may provide. Bond anticipation notes mature at a time determined by the commissioner of revenue. Bonds mature at a time determined by the state bond committee. Before the preparation of definitive bonds or bond anticipation notes, the state bond committee may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when the definitive bonds or bond anticipation notes have been executed and are available for delivery.

(d) Bonds or bond anticipation notes may be sold in the manner, on the terms, and at the price the state bond committee determines.

(e) If an officer whose actual or facsimile signature appears on any bonds or notes or coupons attached to them ceases to be an officer before the delivery of the bond, note or coupon, his signature is valid

as if he had remained in office until delivery.

(f) In authorizing or issuing bonds or bond anticipation notes, the state bond committee may, with holders of the bonds or bond anticipation notes, make covenants as may be necessary or desirable, to better secure bonds or notes or which, in the discretion of the committee, will tend to make bonds or notes more marketable and shall, for each issue, create a principal and interest account for repayment of the principal and interest of that issue.

Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or revenues of the fund to the payment of the principal or interest of obligations of the fund is valid and binding from the time the pledge is made, and assets or revenues pledged are immediately subject to the lien of the pledge without physical delivery or further action. The lien of a pledge is valid and binding against all parties having claims of any kind in tort, contract or otherwise against the fund, regardless of whether those parties have notice of the lien of the pledge. Nothing prohibits the fund from selling assets subject to a pledge, except that a sale may be restricted by the resolution providing for the issuance of the obligations.

Sec. 45.96.050. REMEDIES. A holder of obligations issued under the provisions of this chapter or coupons attached to them if not restricted by the resolution, either at law or in equity, may enforce all rights granted under the coupons or under any other contract executed by the fund under this chapter, and may enforce and compel the performance of all duties required by this chapter to be performed by the fund or by an officer of it.

Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and interest coupons attached to the obligations are negotiable instruments under the laws of this state, subject only to applicable registration

provisions.

Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with the state or municipal officer of an agency or political subdivision of the state for any purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide for the issuance of refunding obligations for the purpose of refunding outstanding obligations issued under the provisions of this chapter, or bonds issued by the state, political subdivisions of the state, or agencies or instrumentalities of the state, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the obligations, the maturities and other details of them, the rights of the holders of them, and the rights, duties and obligations of the fund in respect of them are governed by the provisions of this chapter which relate to the issuance of appropriate obligations.

(b) Refunding obligations may be sold or exchanged for outstanding obligations issued under this chapter. If sold, the proceeds may be applied, in addition to other authorized purposes, to the purchase, redemption or payment of the outstanding obligations. Pending the application of the proceeds of refunding obligations, with any other available funds, to the payment of the principal (accrued interest and any redemption premium on the obligations being refunded, and if so

provided or permitted in the authorization for issuance of the refunding obligations, to the payment of any interest on the refunding obligations and any expenses in connection with the refunding), the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which mature or which will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued under the provisions of this chapter are not a debt, liability or obligation of the state but are payable solely from the revenues or assets of the fund. Each obligation issued under this chapter shall contain on its face a statement that the fund is not obligated to pay it nor the interest on it except from the revenues or assets pledged for it and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or interest on the obligation.

Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public property devoted to an essential public and governmental function and purpose and is exempt from all taxes of the state or a political subdivision of the state. All bonds issued under this chapter are issued by a body corporate and public of this state and for an essential public and governmental purpose, and the bond and the interest and income on and from the bonds and all income of the fund are exempt from taxation except for transfer, inheritance and estate taxes.

Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may sell bonds at public or private sale until July 1, 1984. After July 1, 1984, the state bond committee may sell bonds only at public sale.

(b) Before selling an issue or series of bonds at public sale, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of securing obligations of the fund, a special account called the allocated reserve account is established. The amounts necessary to fund the capital reserve account established under sec. 140 of this chapter, the fire insurance and liability reserve account under sec. 160 of this chapter, and the loss reserve account under sec. 150 of this chapter are allocated to those accounts to the extent appropriations for that purpose are available. All other expenditures from this account shall be in accordance with annual appropriations.

Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose of securing obligations of the fund, a special account called the unallocated reserve account is established. The unallocated reserve account consists of any amounts remaining in the general fund at the end of a fiscal year which have not been obligated.

(b) The legislature may, by appropriation, fund the allocated reserve account created in sec. 120 of this chapter from funds in the unallocated reserve account.

Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the debt service reserve account and shall pay into the account from the proceeds of the sale of that issue of its obligations the maximum amount permissible under federal law and regu-

lations for tax exempt obligations which may be invested without limitation as to yield. All money held in a debt service reserve account may be used as required, when money is not available from the principal and interest account or the capital reserve account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any amount remaining in a debt service reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of securing each issue of its obligations, the fund shall establish a special account called the capital reserve account. The commissioner of revenue shall pay into that account from the allocated reserve account upon establishment an amount equal to five per cent of the principal amount of the obligations issued and sold and upon subsequent sales, if any, of obligations of the issue secured, an additional amount equal to five per cent of the principal amount of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from each capital reserve account and pay to the allocated reserve account any amount in the account in excess of five per cent of the remaining principal balance of the obligations secured or, if the amount in the account is less than five per cent of the remaining principal balance of the obligations secured, pay into the account from the allocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a capital reserve account may be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations or

(4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Income or interest earned by a capital reserve account shall be paid to the allocated reserve account established by sec. 120 of this chapter. Any amount remaining in a capital reserve account when the issue the account secures is fully retired shall be paid to the allocated reserve account.

Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of protecting the financial integrity of the fund, a special account called the loss reserve account is established. The commissioner of revenue shall pay into that account from the allocated reserve account an amount equal to five per cent of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of the succeeding fiscal year and each fiscal year thereafter, the commissioner shall pay into the fund from the allocated reserve account the amount necessary to bring the balance of this account to five per cent of the total amount of loans projected to be outstanding during that fiscal year.

(b) If during the fiscal year the total amount of loans outstanding exceeds the amount projected to be outstanding, the commissioner of revenue shall pay into this account from the allocated reserve account the sum needed to bring the balance of this account to five per cent of the amount of loans outstanding.

(c) The one per cent difference between the rate of interest paid by a borrower and the rate of interest paid by the fund required by sec. 430 of this chapter shall be allocated to the loss reserve account.

(d) Money in the loss reserve account may only be used for losses realized from loans made under this chapter, except when, at the beginning of a fiscal year, the balance of this account exceeds five per cent of the remaining principal balance of the total amount of loans

projected to be outstanding during the fiscal year, the amount in excess of five per cent shall be paid to the allocated reserve account until all amounts paid to the loss reserve account and the capital reserve account have been paid and then to the earned income account of the loan programs fund.

Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The fund may issue loans without requiring proof of insurance against fire and liability if an additional charge of six-tenths of one per cent per year is made. The receipts from this charge shall be deposited in the fire insurance and liability reserve account and may only be used to reimburse the fund for losses which occur on property for which the charge provided by this section was in effect at the time of loss.

Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director of the division of treasury in the Department of Revenue shall invest money in the reserve accounts established by this chapter, other than funds in the debt service reserve account, only in

(1) obligations of, or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member; or

(3) corporate bonds rated "A" or better by a nationally recognized rating service.

(b) Funds in the debt service reserve account may only be invested in obligations described in (a)(1) or (2) of this section.

Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed for the fund by the director of the

division of treasury in the Department of Revenue. The director shall determine investment policy and manage the investments of the fund under the same criteria applicable to other state investments he manages.

(b) The director of the division of treasury shall provide monthly reports to the Legislative Budget and Audit Committee relating to the investment of funds described in (a) of this section, including

(1) a summary of long-range and short-term investment policy;

(2) a list of investments made during the previous month;

(3) an evaluation of the performance of investments made;

(4) other information requested by the budget and audit committee.

Sec. 45.96.190. BUDGET. The operating budget is by appropriation from the general fund unless the legislature specifically appropriates from the unallocated reserve account. The operating budget is subject to the Executive Budget Act (AS 37.07).

Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by that department to the Department of Revenue, the Department of Commerce and Economic Development, and the Legislative Budget and Audit Committee at least once a month. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. The Legislative Budget and Audit Committee shall provide quarterly reports to the legislature summarizing the information it receives under this section and under secs. 180(b) and 240(b) of this chapter and including comments and suggestions the committee determines to be of interest to the legislature relating to the administration of the loan program. Other reports shall be made as prescribed by the Department of Commerce and Economic Development.

Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the division of Alaska loan programs shall establish district loan offices in Juneau, Fairbanks, and Anchorage and may establish other loan offices as necessary which shall be headed by district directors. The office shall provide information concerning the loan programs under this chapter, other state loan programs, state grant programs, federal loan or grant programs, and, to the extent feasible, private loans.

(b) Each district loan office shall include a veterans' loans section. The veterans' loans section shall process loan applications from applicants who meet the eligibility requirement of sec. 440 of this chapter. The veterans' loan section shall also provide information and assistance to veterans relating to loan applications under this chapter, other state loan programs or state grant programs, federal loan or grant programs, and to the extent feasible, private loans.

Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a) There is established in the Department of Commerce and Economic Development the Alaska Loan Programs Evaluation Committee consisting of the directors, or their designees, of the following divisions: (1) the division of economic enterprises in the Department of Commerce and Economic Development, (2) the division of collections in the Department of Revenue, and (3) the division of Alaska loan programs in the Department of Commerce and Economic Development.

(b) The committee shall notify recipients of loans under the provisions of this chapter who have been delinquent in their loan repayments for a period in excess of 30 days. Upon notification of delinquency, the borrower may request reevaluation and technical assistance from the committee. If the borrower requests reevaluation, the committee shall consider the terms and conditions of the loan as well as all other pertinent information to determine whether there are feasible

alternative terms and conditions which will protect the interest of the state and prevent the default of the loan.

(c) In performing the duties described in (b) of this section, the committee shall have access to all nonconfidential records, data, information, and statistics of all departments, boards, commissions, agencies, and institutions of the state. The committee shall also have access to any records or other information of the borrower which are pertinent to its investigation. Failure on the part of the borrower to provide the records or information shall be grounds for refusal to reevaluate.

(d) If the committee determines that alternative terms and conditions are available which will protect the interest of the state and prevent default of the loan, it may renegotiate the loan in accordance with those terms.

Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There is established within the Department of Revenue the division of collections. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below the range on which the highest paid deputy commissioner in the department is paid if that range is higher than range 27. In order to qualify for the position of director, a person must be an attorney licensed to practice in this state with at least four years of practice in business law and business practices.

(b) If a borrower who has received notification of delinquency in accordance with sec. 220 of this chapter does not request reevaluation, or if the evaluation committee determines that renegotiation of the existing terms and conditions is not feasible or justified, and the loan is not brought current within 30 days after the notification of delin-

quency is sent, the loan shall be transferred to the loss reserve account and transmitted for collection to the division of collections. A monthly report of the status of the collection effort shall be made to the Legislative Budget and Audit Committee. The total principal and interest due shall be transferred from the loss reserve account to the fund upon assignment of each loan.

Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund for residential housing, commercial purposes, public purposes, and education.

Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may, for the purpose of providing housing for persons who meet the eligibility requirements of sec. 370 of this chapter,

(1) make or participate in the making of construction loans from the fund to sponsors, developers, and builders of land development or residential housing;

(2) make or participate in the making of mortgage loans from the fund to sponsors, developers, builders, and purchasers of residential housing;

(3) purchase or participate in the purchase of mortgage loans made from the fund to sponsors, developers, builders, owners, and purchasers of residential housing;

(4) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the fund has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(5) sell, at public or private sale, to any purchaser, including the Federal National Mortgage Association, all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section;

(6) purchase, in order to meet the requirements of the sale of its mortgages to the Federal National Mortgage Association, stock of the Federal National Mortgage Association;

(7) sell all or any part of a mortgage or other instrument or document securing a construction, land development, mortgage or temporary loan of any type permitted by this section to the teachers' retirement system (AS 14.25) if the borrower is a teacher subject to the provisions of AS 14.25 or to the public employees' retirement system (AS 39.35) if the borrower is a public employee included in the system; however, the security instrument shall be fully guaranteed as to payment of principal and interest by the fund.

Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to

(1) individual farmers, homesteaders, and partnerships or corporations composed of farmers and homesteaders, for development of farms, storage and processing of farm produce, livestock, machinery and equipment, and farm irrigation;

(2) individual commercial fishermen who have had a commercial fishing license for at least one of the previous five years, for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels; loans made under this paragraph are subject to the provisions of secs. 295 and 297 of this chapter;

(3) local development companies to assist the new financing of industrial and manufacturing plant construction, conversion or expansion, including the acquisition of land, to the extent necessary to secure a loan for a portion of the cost by the Small Business Administration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress entitled "Small Business Investment Company Act of 1958" as amended);

(4) develop, rehabilitate, and expand business activities in the state;

(5) child care facilities in the state to comply with the appropriate licensing standards for child care facilities or to comply with the requirements for certification by the Department of Education subject to the following conditions:

(A) the applicant shall submit to the fund a plan for the use of the loan funds which is approved by the commissioner of commerce and economic development;

(B) the applicant shall demonstrate that the proposed loan will enable the child care facility to obtain a license from the Department of Health and Social Services or a certificate from the Department of Education;

(C) the applicant shall apply to the Department of Community and Regional Affairs for and receive a certificate of need;

(6) small businesses to acquire, finance or refinance or equip businesses;

(7) loggers and forest products manufacturers and processors for logging operations and equipment, forest products manufacturing or processing plants, and for working capital for logging operations and forest products manufacturing or processing;

(8) other businesses for equipment and operations related to

harvesting, manufacturing and processing other renewable or nonrenewable resources in the state.

(b) Notwithstanding the provisions of secs. 410 and 420 of this chapter, a loan under (a)(2) of this section may not run longer than 15 years or exceed 90 per cent of the appraised value of the collateral used to secure the loan.

Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES. (a) The Department of Community and Regional Affairs shall determine whether to award a certificate of need to child care facilities applying for a loan under sec. 270(7) of this chapter on the basis of the following criteria:

(1) the number of existing slots in licensed child care facilities in the geographic area of the applicant;

(2) the number of children in the geographic area who need child care;

(3) the proposed capacity of the applicant facility;

(4) other factors which are determined to be relevant by the department and are set out in regulations adopted by the Department of Community and Regional Affairs.

(b) The Department of Community and Regional Affairs shall submit its decision and the reasons for it to the applicant within 60 days of receipt of the application.

Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under sec. 270(2) of this chapter shall be secured by a first lien and appropriate security agreements, except that a lien in favor of the state is not required for loans guaranteed fully by the federal government under the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86 Stat. 909), as amended. In the case of a security agreement given to secure a loan made under sec. 270(2) of this chapter and covering a

vessel documented under the laws of the United States and so long as the Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39 Stat. 728), as amended, remain ambiguous with respect to whether or not a state or state agency qualifies as a citizen of the United States for purposes of those Acts, the first lien requirement of this section may be satisfied by the recordation and endorsement of a first preferred ship mortgage under the Ship Mortgage Act of 1920, and by perfection of a security interest under the Uniform Commercial Code - Secured Transactions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the department of the interest in a vessel documented under the laws of the United States. In the case of a security agreement given to secure a loan made under sec. 270(2) of this chapter and covering a vessel documented under the laws of the United States, the first lien requirement of this section may also be satisfied by use of a trust deed and bond issue under it, if the trustee is a citizen of the United States and obtains a first preferred ship mortgage on the vessel under the Ship Mortgage Act of 1920, and the approval of the Secretary of Commerce is obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the department if the trustee is not a trustee approved by the Secretary of Commerce under 46 U.S.C. secs. 808, 835 and 961.

Sec. 45.96.297. LOANS FOR PURCHASE OF ALASKA LIMITED ENTRY PERMITS. (a) Loans under sec. 270(2) of this chapter for the purchase of a limited entry permit may be made only upon certification by the Alaska Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the director of the division of Alaska loan

programs, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

(1) the certificate for the pledged permit lists the director as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the division in administering the loan.

(c) The director of the division of Alaska loan programs is not liable for any act or omission resulting from permit ownership nor will that act or omission affect his title to the permit or his rights under it.

(d) Upon satisfaction of the note by the debtor, the director of the division of Alaska loan programs shall certify to the Alaska Commercial Fisheries Entry Commission that the note has been satisfied.

(e) Upon certification as provided in (d) of this section, the Alaska Commercial Fisheries Entry Commission shall amend the permit certificate to list the debtor as the legal owner.

Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the division of Alaska loan programs shall lend money to municipalities with populations of less than 5,000 according to the most recent survey conducted by the United States Census Bureau and to those corporations eligible under (d) of this section. Loans to municipalities shall be

made through the purchase by the fund of municipal bonds. Loans to nonprofit corporations shall be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the municipality in which the project to be financed by the loan is constructed. If the loan to a nonprofit corporation is for construction outside a municipality, the revenue bonds to be purchased by the fund shall be issued by the state bond committee on behalf of the nonprofit corporation. The cost of a loan made under this section shall be the same as the cost of borrowing to the fund. Loans made under this subsection are subject to the following conditions:

(1) When the amount of the issuance is $5,000,000 or less, the loan shall be made through the purchase by the fund of general obligation or revenue bonds.

(2) The borough or city attorney shall certify that all legal requirements relating to required bond elections, if necessary, and bond issuance have been met, or if the bonds are issued outside a municipality, certification shall be made by the Department of Law.

(3) The bonds shall be prepared by the municipality's attorney, approved by the attorney general and need not be in definitive form.

(4) The bonds shall be for a term commensurate with purpose, but in no event for more than 30 years average life.

(b) The director of the division of Alaska loan programs shall submit a bid for all general obligation bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class incorporated under the laws of the state if the borough or city provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the

Daily Bond Buyer 20 bond average as follows:

(1) For general obligation bonds with a rating of "A" or higher, the bid shall be

(A) 100 points under the average for the first five years maturity;

(B) 75 Points under the average for the next five years maturity;

(C) 50 points under the average for the next five years maturity;

(D) 25 points under the average for the next five years maturity;

(E) 0 points under the average for the next five years maturity;

(F) 25 points above the average for the next five years maturity.

(2) For general obligation bonds with a rating of "Baa" or lower or which are unrated, the bid shall be

(A) 50 points under the average for the first five years maturity;

(B) 25 points under the average for the next five years maturity;

(C) 0 points under the average for the next five years maturity;

(D) 25 points above the average for the next five years maturity;

(E) 50 points above the average for the next five years maturity;

(F) 75 points above the average for the next five years maturity.

(c) The director of the division of Alaska loan programs shall submit a bid for all revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city of any class or on behalf of a nonprofit corporation performing any of the functions described in AS 29.48 for which revenue sharing is received directly or indirectly by the corporation or on behalf of those nonprofit corporations described in (d) of this section if the borough, city, or nonprofit corporation provides its bid form to the director at least 10 days before the opening of the bid. The request for bids and the bid proposal shall provide for issuing all or a portion of the bonds based upon the best combination of bids. The bid shall be determined on the basis of the Daily Bond Buyer 20 bond average as follows:

(1) 50 points under the average for the first five years maturity;

(2) 25 points under the average for the next five years maturity;

(3) 0 points under the average for the next five years maturity;

(4) 25 points above the average for the next five years maturity;

(5) 50 points above the average for the next five years maturity;

(6) 75 points above the average for the next five years maturity;

(d) A nonprofit corporation is eligible for a loan under this section if

(1) it is designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954;

(2) it is a public corporation or other municipal

instrumentality under AS 29.59.010; or

(3) it is created by statute and performs a state function.

(e) The major part of the proceeds of any bond issue purchased by the fund under this section shall be used for purposes which are tax exempt under federal law and regulation in effect at the time the bonds are issued.

(f) The limitations in secs. 400 - 430 of this chapter do not apply to loans or purchases made under this section.

Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding any provision of law, to the extent that a department or agency of the state is the custodian of money payable to a municipality, at any time after written notice to the department or agency head from the commissioner of revenue that the municipality is in default on the payment of principal or interest on municipal bonds held or owned by the fund, the department or agency shall withhold the payment of that money from that municipality and pay over the money to the fund for the purpose of paying principal of and interest on bonds of the fund.

(b) If money is not available to make any payment of principal and interest when due on a bond issue, the chief executive officer of the municipality which issued the bonds shall notify the commissioner of revenue at least 20 days in advance of the pending default that a default is pending. Failure to give the notice of pending default is grounds for removal of the chief executive officer from office and, if default occurs, the office is forfeited and is filled as provided by law for filling vacancies.

Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the purpose of securing each tax exempt bond issue of municipalities of the state and those bonds on behalf of nonprofit corporations guaranteed or issued under this chapter there is established a special account called

the municipal bond capital reserve account. The commissioner of revenue shall pay into that account from the unallocated reserve account upon establishment an amount equal to five per cent of the obligations issued and sold after July 1, 1979 and upon subsequent sales, if any, of obligations of the issue secured an additional amount equal to five per cent of the obligations sold. At the end of each fiscal year the commissioner of revenue shall withdraw from the municipal bond capital reserve account and pay to the unallocated reserve account any amount in the account in excess of five per cent of the obligations secured or, if the amount in the account is less than five per cent of the obligations secured, pay into the account from the unallocated reserve account the amount necessary to bring the reserve to five per cent. All money held in a municipal bond capital reserve account shall be used as required, when money is not available from the principal and interest account, solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any income or interest earned by the account shall be paid to the unallocated reserve account. Any amount remaining in a municipal bond capital reserve account when the issue the account secures is fully retired shall be paid to the unallocated reserve account.

Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director of the division of Alaska loan programs may lend money from the fund to businesses conducting exempt activities under sec. 103(b)(4) and (5) of the Internal Revenue Code of 1954 for those activities either directly or through purchase by the fund of industrial development bonds issued on behalf of the business by the state bond committee.

(b) A loan may be made under this section only if upon payment of

the loan the project financed by the loan will be the property of

(1) the municipality in which the activity is conducted, unless the municipality has provided otherwise by a resolution adopted before approval of the loan; or

(2) the state if the activity is not conducted within a municipality.

(c) Any corporation, partnership, or firm doing business in the state is eligible for a loan under this section if

(1) the governing body of the municipality in which the activity is performed has been given notice of the project and the application for loan or purchase and has approved the project and application, or has not within 60 days of receipt of notice notified the director in writing that it disapproves the loan; or

(2) when the activity to be financed by the loan is not performed within a municipality, the commissioner of community and regional affairs approves the project.

(d) A corporation, partnership, or firm which requests a loan of greater than $5,000,000 for a project under this section may request a special series of bonds for its project. The director of the division of Alaska loan programs may request the state bond committee to issue the special series of bonds on behalf of the corporation, partnership, or firm in place of making a direct loan. A corporation, partnership, or firm is eligible for a special bond series for its project if it has a credit rating of "A" or better.

Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition to costs directly related to a project, the sum total of all costs of financing and carrying out a project are eligible for bonding under secs. 300 - 330 of this chapter. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications,

architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with a project; an allocable portion of the administrative and operating expenses of the issuer; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

Sec. 45.96.350. EDUCATION. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make scholarship loans from the fund to students selected under (b) - (g) of this section.

(b) Proceeds from scholarship loans may only be used for transportation, books, tuition and required fees, and for room and board. The loans may only be used to attend a career education program approved by the Alaska Commission on Postsecondary Education or a college or university accredited by the accreditation association for the region in which the college or university is located.

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing in a work study program approved by the Department of Education, in a career education program, or in a college or university designated under (b) of this section.

(d) Loans are noninterest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (g) of this section if appropriated funds are available for payment to the fund of the interest.

(e) The repayment period for student loans is 10 years. Unless a deferment of payments has been granted under (g) of this section, repayment shall commence when the student terminates his studies. In case of hardship, the Alaska Loan Programs Evaluation Committee may extend repayment of a loan for an additional period of up to five years.

(f) If, upon completion of the course of study for which the loan was granted, the borrower repays 60 per cent of the principal amount of the loan with interest with no delinquency, the remaining 40 per cent owing shall be forgiven if appropriated funds are available for payment to the fund of the amount forgiven.

(g) The Alaska Loan Programs Evaluation Committee shall defer repayment of a loan during any of the following:

(1) the first year after a student terminates his studies;

(2) return by the student to student status as provided in (c) of this section;

(3) performance by the student of military or required alternative service; or

(4) 50 per cent or greater disability of the student, as certified by competent medical authority.

Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In addition to other powers granted in this chapter, the director of the division of Alaska loan programs may make loans from the fund to a business directly involved in the tourist industry.

(b) Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, loans may be made from the fund to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of a structure which is

(1) within the boundaries of an historical district established under AS 29.48.110;

(2) identified as important in state or national history as provided for in AS 29.48.110(b); or

(3) another building or structure within an historical district, and suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as an historical district.

(c) Loans may be made from the fund for the nonfederal share of costs of projects to acquire, develop, or extend outdoor recreation sites and facilities.

Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan under this chapter, other than a loan made under sec. 350 of this chapter, a person must have been a resident of the state for at least five years on the date of application for the loan and must be 18 years of age or older. Except for loans made under sec. 330 of this chapter, a corporation is eligible for a loan if more than 60 per cent of its shareholders have been residents of the state for at least five years on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least five years on the date of application for the loan, and the chief executive officer and members of the governing board assume full individual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility requirements. An individual is ineligible for a loan under this chapter if an earlier loan to the individual from the state or an agency of the state has been discharged in bankruptcy unless the defaulted loan has been repaid in full and 10 years have elapsed from the date of repayment.

Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the authority of sec. 260 of this chapter for the purchase or construction of residential housing may not exceed: (1) $90,000 for a single family dwelling; (2) $130,000 for a duplex; (3) $170,000 for a triplex; (4) $210,000 for a fourplex. A loan made for the purchase or construction of residential facilities in excess of four units shall be treated as a commercial building loan subject to the limitations placed on such loans in (b)(1) of this section.

(b) Commercial loans made under the authority of sec. 270 of this chapter may not exceed:

(1) $500,000 per individual for business activities; farm development; agricultural irrigation systems; purchase, construction, renovation, or repair of commercial buildings; fish manufacturing and processing; fishing vessels and gear; logging operations and equipment; timber manufacturing and processing; nonrenewable resource extraction; or any other activity not otherwise specifically provided for in this section;

(2) $350,000 per individual for farm chattel other than for irrigation systems.

(c) Loans for a single project under (b)(1) of this section may exceed $500,000 but may not exceed $3,000,000 if

(1) the loan is made to more than one but not more than 10 individuals participating in the project and the loan to each individual does not exceed the maximum limit under (b)(1) of this section; or

(2) the loan is made to a corporation and no more than 10 individuals owning stock in that corporation assume personal liability for the loan in an amount which as to each individual does not exceed the maximum limit under (b)(1) of this section.

(d) Educational loans made under the authority of sec. 350 of this

chapter may not exceed:

(1) $4,000 per individual per year for undergraduate studies;

(2) $8,000 per individual per year for graduate studies;

(3) $4,000 per individual per year for vocational studies;

(4) $4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan

amounts established in sec. 380(a) and (b) of this chapter shall be increased by the area cost differential (ACD) determined by the formula ACD = LCC/BCC x LCOL/ BCOL where

(1) LCC is the cost of construction in the area in which the facility to be financed by the loan is located;

(2) BCC is the cost of construction in the city or borough having the lowest cost of construction in the state;

(3) LCOL is the cost of living in the area in which the facility to be financed by the loan is located;

(4) BCOL is the cost of living in the city or borough having the lowest cost of living in the state.

(b) For purposes of this section the Department of Transportation and Public Facilities shall annually determine the cost of construction and the cost of living in each area of the state under regulations promulgated by the department establishing standards for the determination.

Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan amounts established in secs. 380(b) and 390 of this chapter shall be further limited, based upon the actual technical and managerial experience of the borrower relating to the project or activity for which the loan is made, as follows:

(1) if the borrower's experience is less than two years, he may receive up to 50 per cent of the maximum amount;

(2) if the borrower's experience is two to three years, he may receive up to 70 per cent of the maximum amount;

(3) if the borrower's experience is three to four years, he may receive up to 80 per cent of the maximum amount;

(4) if the borrower's experience is four to five years, he may receive up to 90 per cent of the maximum amount;

(5) if the borrower's experience is five years or more, he may receive 100 per cent of the maximum amount.

Sec. 45.96.410. VALUE LIMITATION. The provisions of secs. 380 - 400 of this chapter notwithstanding, no loan made under this chapter, unless it is a loan made under the provisions of sec. 330 of this chapter, may exceed

(1) 90 per cent of the appraised value of real property pledged as security for the loan;

(2) 95 per cent of the appraised value of real property pledged as security for the loan if the loan is for residential housing in an area where Federal Housing Administration mortgage insurance is not available; or

(3) 80 per cent of tangible personal property pledged as security for the loan.

Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made under this chapter may not exceed the useful life of the property pledged as security for the loan nor

(1) 30 years on a loan secured by real property;

(2) 15 years or the life of the equipment on a loan secured by equipment used for production of income;

(3) seven years on a loan secured by tangible personal property.

Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest charged to borrowers under this chapter shall be the amount determined by the commissioner of revenue to be sufficient to cover anticipated cost of money to the fund and, for borrowers other than municipalities, one per cent over the anticipated cost for the loss reserve account plus the amount required for any necessary insurance, but the rate of interest charged may be lower if necessary to prevent bonds issued under

this Act from being arbitrage bonds under the provisions of and regulations under section 103(c) of the Internal Revenue Code of 1954, as amended. The determination of the anticipated cost by the commissioner is conclusive. Rates of interest less than that, except as provided in (b) of this section, may be charged if the renewable resource development fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or if appropriation for the purpose of paying the difference has been made.

(b) The rate of interest determined in accordance with (a) of this section shall be reduced by one per cent if the loan is made to a veteran or is made for agricultural purposes. If the loan is made to a veteran, the World War II veterans' revolving fund, created in AS 26.-15.090, shall pay the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made for agricultural purposes, the agricultural revolving loan fund, created in AS 03.10.040, shall pay the the difference between the rate determined in (a) of this section and the rate charged to the borrower. If the loan is made to a veteran and for agricultural purposes, the rate of interest shall be reduced by two per cent and each fund shall pay one-half the difference.

(c) When the World War II veterans' revolving fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made to veterans apply only if appropriation is made for the purpose of paying the difference. When the agricultural revolving loan fund's assets become depleted so that it can no longer pay the difference, the provisions of (b) of this section relating to loans made for agricultural purposes apply only if appropriation is made for the purpose of paying the difference.

Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The

following persons are eligible for special interest rates for veterans established in sec. 430(b) of this chapter:

(1) any person who served in the armed forces of the United States for 90 days or more, or whose service was for less than 90 days because of injury or disability incurred in the line of duty, between April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to six months after termination of hostilities involving United States forces in Indo-China, or in a combat zone during any period of armed conflict, who was separated from the armed forces with a discharge other than dishonorable, and

(A) who at the time of induction into the service was a resident of the territory or state, who had been a resident for not less than one year immediately before his induction, and who returned to the territory or state after discharge as a resident with the intention of remaining in the territory or state; or

(B) who, not being a bona fide resident of the territory or state before his entry into the service, has been a resident of the territory or state for five or more years;

(2) any person who was dependent on a member of the armed forces or a veteran of World War II at the time of the member's or veteran's death if

(A) the member or veteran was a resident of the territory for one year before induction into the service;

(B) he served in the armed forces for at least 90 days between September 16, 1940, and July 25, 1947, but no benefits for loans accrue to dependents of an enlistee or reenlistee for time served after November 1, 1945, regardless of whether the enlistment or reenlistment was before or after November 1, 1945;

(C) he died before the official date of the termination

of that war; and

(D) his discharge was not dishonorable;

(3) any person who has served in the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia for not less than six years and who has not received a discharge other than honorable.

(b) The provisions of sec. 430(b) of this chapter are extended to persons who served other than dishonorably on active duty between June 25, 1950, and January 31, 1955, who served other than dishonorably on active duty between August 4, 1964, and six months after termination of hostilities involving forces of the United States, and to dependents of those persons, subject to the following provisions and eligibility qualifications:

(1) a discharge other than dishonorable from the armed forces of the United States or release to a reserve component;

(2) at the time of entry into the service residency in the territory or state for not less than one year before entry into the service, and return to the territory or state within a reasonable length of time after discharge or separation with the intention of remaining in the territory or state; or lacking residency before entry into the service, residency in the territory or state for at least five years following release from active military service; and

(3) service in the armed forces of the United States for 90 days or more, or service for a lesser period because of injury or disability incurred in line of duty, between June 25, 1950, and January 31, 1955, or service in the armed forces of the United States for 90 days or more or service for a lesser period because of injury or disability incurred in line of duty, between August 4, 1964, and July 1, 1977.

(c) A person who is eligible under more than one of the qualification provisions of (a) and (b) of this section shall have the rate of interest on his loan reduced by one and one-half per cent.

Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of a loan under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the loan was made, 95 per cent residents shall be employed if they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed if they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10.

Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the

authority of this chapter may be made in participation with financial institutions. The participating financial institution may act as agent for the division of Alaska loan programs in the initial processing of applications for loans. Fees for such services shall be mutually agreed upon.

(b) If a financial institution participates in a loan, the fund and the participating institution shall share the same ratable interest in the collateral securing the loan. Loan payments made by the borrower shall be distributed between the financial institution and the fund on a pro rata basis.

(c) The participating financial institution shall fix the rate of interest charged by it but may not exceed the legal contract rate of interest prescribed by law.

(d) The maximum service fee for administering a loan which may be charged by a participating financial institution shall be set by the director of the division of Alaska loan programs.

Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from the fund the loan agreement shall include an assurance by the borrower that no person who provides services to the borrower in preliminary phases of a project for which the loan is made, including all studies made in connection with the project,

(1) may participate in the implementation stages of that project; or

(2) may represent more than one interest in connection with the project.

(b) A list of all persons performing preliminary services for a loan applicant shall be furnished to the division of Alaska loan programs as part of the loan application, and a list of all persons with whom the borrower has contractual relations in respect to the project

after the application for loan shall be submitted to the division at intervals set by the division of Alaska loan programs.

Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the fund" and "the loan programs fund" mean the Alaska loans program fund created in AS 45.96.020.

* Sec. 10. AS 03.10.050 is repealed and re-enacted to read:

Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall administer the loan fund.

* Sec. 11. AS 14.40.751(a) is amended to read:

(a) There is created a scholarship revolving loan fund. [THE FUND SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUND AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FROM THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

* Sec. 12. AS 14.40.755(b) is amended to read:

(b) A person whose [LOAN OR] grant application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application.

* Sec. 13. AS 18.100.050 is amended to read:

Sec. 18.100.050. ELIGIBILITY FOR <u>GRANTS</u> [LOANS]. Only public or nonprofit private corporations are eligible for <u>grants</u> [LOANS] under this chapter. The nonprofit corporations must be designated as tax exempt under sec. <u>501(c)(3) and (4)</u> [501(e)(3) AND (4)] of the Internal Revenue Code of 1954.

* Sec. 14. AS 18.100.070(a) is amended to read:

(a) There is created within the Department of Community and Regional Affairs a senior citizens housing development fund. Subject to direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the department shall make grants [OR LOANS] to municipalities or to corporations designated as tax exempt under sec. 501(c)(3) and (4) of the Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER SEC. 50 OF THIS CHAPTER] for the purpose of developing senior citizen housing. [A GRANT FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

* Sec. 15. AS 18.100.070(b) is amended to read:

(b) Application for a grant [OR LOAN] under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan which shall demonstrate the ability of the eligible recipient to sustain the proposed project.

* Sec. 16. AS 29.13.100 is amended by adding a new paragraph to read:

(39) AS 29.58.290 (industrial development bonds)

* Sec. 17. AS 29.58 is amended by adding a new section to read:

Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality, home rule or otherwise, may issue a revenue bond which is an industrial development bond under the provisions of the Internal Revenue Code of 1954 (26 U.S.C. 103).

* Sec. 18. AS 37.10.050 is amended to read:

Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO <u>DIVISION OF TREASURY</u> [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a) Each office, board, commission, or bureau authorized to collect or receive fees, licenses, taxes or other money belonging to the state shall account for and pay the fees, licenses, taxes or other money, less fees to which he is entitled by law to the <u>division of treasury of the</u>

Department of Revenue at least once each month.

(b) Money collected for the state shall be deposited by the collector in the nearest bank to the account of the division of treasury [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF REVENUE] directs this to be done.

(c) The division of treasury [DEPARTMENT OF REVENUE] in June and December of each year shall publish in at least one newspaper of general circulation in each of the four judicial districts a detailed report in display advertising form of the amount of state money deposited in each named bank or other financial institution. A copy of the semiannual report on bank deposits shall also be sent to the Legislative Affairs Agency for distribution of copies to the members of the legislature. The terms of the deposit may be obtained upon a written request.

* Sec. 19. AS 37.10.070(a) is amended to read:

(a) When the commissioner of revenue determines that there is in the state treasury a surplus above an amount sufficient to meet current cash expenditure needs, he shall direct the director of the division of treasury to invest the surplus. The director may invest the surplus [THE SURPLUS SHALL BE INVESTED] in any of the following:

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) notes issued by Farmer's Home Administration;

(4) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;

(5) corporate obligations of prime or equivalent quality, as

rated by a nationally recognized rating organization;

(6) other securities, including corporate securities;

(7) Federal Housing Administration mortgages;

(8) Federal Veterans Administration mortgages;

(9) loans made under the provisions of the Alaska loan programs fund (AS 45.96) [AS 03.10 AND AS 26.15];

(10) conventional residential mortgages if the offering financial institution retains at least 25 per cent of the mortgage;

(11) other secured loans, if the offering financial institution retains at least 33 1/3 per cent of the mortgage;

(12) mortgages of the Alaska Rural Rehabilitation Corporation which secure agricultural loans, agricultural business loans and agricultural processing loans;

(13) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least $200,000,000;

(14) repurchase agreements, reverse repurchase agreements, or any trading practice or instrumentalities that may evolve ininvestment management.

* Sec. 20. AS 37.10.070(f) is repealed and re-enacted to read:

(f) Investment policy shall be formulated by the director of the division of treasury of the Department of Revenue subject to the approval of the commissioner of revenue. In formulating investment policy the director of the division of treasury shall consider maximum income and safety as governed by the prudent-man rule. The investment policy shall be proposed to the legislature during the first 10 days of any regular session. Investment policy only becomes effective 60 days after presentation to the legislature or at the end of that session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

* Sec. 21. AS 37.10.070(g) is amended to read:

(g) The director of the division of treasury [COMMISSIONER OF REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts for services providing investment advice, custody of securities, and execution of transactions, in or out of Alaska.

* Sec. 22. AS 37.10.070(i) is amended to read:

(i) The director of the division of treasury [COMMISSIONER] shall purchase notes and mortgages under (a) of this section at a rate conducive to develop and benefit Alaska and Alaska residents and this rate may be less than the market rate.

* Sec. 23. AS 37.10.070 is amended by adding a new subsection to read:

(k) In making investments under (a) of this section, the director of the division of treasury may pool the surplus assets of the state funds but shall maintain separate accounts for each fund.

* Sec. 24. AS 37.10.075(a) is amended to read:

(a) When the commissioner of revenue determines that there are funds in the state treasury which are not being used for the purposes provided for in sec. 70 of this chapter, he may direct the director of the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in financial institutions in the state which offer the highest bid for the state funds. Collateral may be required by the commissioner to secure state deposits provided for under this section.

* Sec. 25. AS 39.25.120(2) is amended to read:

(2) the directors, division of personnel, division of public health, division of medical assistance, and those other directors of the major divisions of the principal departments of the executive branch as are specifically designated by the governor, except the directors of the division of Alaska loan programs, division of treasury and division of collections are in the classified service and may not be designated as

partially exempt;

* Sec. 26. AS 41.22.020(a) is amended to read:

(a) In addition to uses of fund money authorized in sec. 10 of this chapter, money of the fund shall be utilized to make grants to municipalities, of up to one-half the nonfederal share of costs of projects described in sec. 10 of this chapter which are initiated by a municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

* Sec. 27. AS 41.35.180(5) is repealed and re-enacted to read:

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 - 29.48.110 and recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.-110(b).

* Sec. 28. AS 44.21.020 is amended by adding new paragraphs to read:

(13) provide accounting services for the permanent fund (AS 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable resources development fund (AS 37.11), and all other state funds;

(14) provide detailed accounting of state loans outstanding and securities held by the state.

* Sec. 29. AS 44.25 is amended by adding a new section to read:

Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established within the Department of Revenue the division of treasury. The director of the division is in the classified service under AS 39.25 and shall receive an annual salary within range 27 of the salary schedule established in AS 39.27.011 or within one range below that on which the highest paid deputy commissioner in the Department of Revenue is paid if that range is higher than range 27.

(b) In order to qualify for the position of director of the division, a person must

(1) be graduated from an accredited college with major course work in business administration, accounting, finance, banking, economics, or another closely related field;

(2) have 10 years of experience in banking or investment management involving review, analysis, purchase and sell recommendations, and responsibility for performance with at least four of the years in a managerial capacity.

(c) The director of the division of treasury shall collect, account for, have custody of, invest, and manage all state funds and all revenues of the state except revenues incidental to a program of licensing and regulation carried on by another state department, except that the division shall issue fish and game licenses, collect fish and game license revenues, and do all other acts incidental to the performance of these functions.

* Sec. 30. AS 44.33.020 is amended by adding a new paragraph to read:

(22) administer the Alaska loan programs fund (AS 45.96).

* Sec. 31. AS 18.56.110(a) is amended to read:

(a) The corporation, by resolution, may issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purposes <u>only if the state bond committee finds that the issuance is consistent with the bond program of the Alaska loan programs fund</u>.

* Sec. 32. All state agencies, departments, commissions, corporations, divisions or other instrumentalities administering or having authority over or control of a loan program or loan fund affected by secs. 10 - 15, 26 - 27, and 33 of this Act shall cease accepting applications for loans no later than January 1, 1980. The division of Alaska loan programs shall begin to accept applications for loans from the Alaska loan programs fund no later than

January 1, 1980.

* Sec. 33. The following laws are repealed: AS 03.10.010; 03.10.020(1), (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771; AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4), 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

* Sec. 34. AS 37.10.065(c), 37.10.075(b) - (d), 37.10.079; and AS 44.25.-020(2) are repealed.

* Sec. 35. AS 37.10.065(a) and (b) are repealed.

* Sec. 36. Section 35 of this Act takes effect upon transfer of the funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in sec. 8 of this Act.

* Sec. 37. Sections 1 - 9, 16 - 25, 28 - 32, and 34 of this Act take effect June 30, 1979. The unobligated general fund surplus as of June 30, 1979 shall lapse into the unallocated reserve account created in AS 45.96.125 on June 30, 1979.

* Sec. 38. Sections 10 - 15, 26, 27 and 33 of this Act take effect June 30, 1980.

SCOMM

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PLEASE NOTE

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The Anchorage Times, Sun. 11/21/76 Section B

The Washington Post, Sun. Dec. 19, 1976 p. B2

Anchorage Daily News 9/13/76

The Anchorage Times, 11/7/76 Section B

The Anchorage Times, 10/13/76 p. 38

TIMES
9/18/76

Gas Line Task Force Meets With Northwest Route Chiefs

By SUSAN ANDREWS
Times Staff Writer

Northwest Pipeline Corp. officials will meet Friday in Juneau with the state's cabinet-level Gas Pipeline Task Force as the task force gives Northwest's Alaska Highway pipeline proposal the same scrutiny it earlier gave two other North Slope pipeline proposals.

The task force on Sept. 27 will hear from State Pipeline Coordinator Chuck Champion, whose office is making a detailed study of the economic benefits to the state from each of the three pipeline projects.

Commissioner of Natural Resources Guy Martin said the task force has sent Northwest a specific list of questions it wants answered, "similar to questions asked of El Paso and Arctic Gas."

El Paso Alaska proposes an all-Alaska pipeline, with tankers to carry liquefied natural gas from southern Alaska to southern California.

Arctic Gas, like Northwest, proposes a pipeline through Canada. Arctic's would enter Canada along the Arctic Coast, joining with a link to the MacKenzie Delta.

The task force last year studied the two proposals and then endorsed the trans-Alaska route as offering the most benefits to the state of Alaska.

When Northwest entered the pipeline battle this summer, Gov. Jay Hammond ordered the task force to undertake a similar study of Northwest's project.

Former Gov. Walter Hickel, who is also a former Interior Department secretary, told a gas pipeline seminar in Anchorage last week that the governor could decide the pipeline route by taking the state's one-eighth royalty share of Prudhoe Bay gas and say where it is to be transported and what is to be done with it. A trans-Alaska pipeline route could be assured by that action, Hickel said.

Martin said, "Mr. Hickel's mistaken. No single factor is going to decide the (pipeline) issue."

Champion's preliminary report of net economic benefits to Alaska is to be followed by a final report by the end of the year.

Champion said, "We're looking at the costs of each project as estimated by the companies themselves.

"We are modifying their overall cost estimates to what we think each project will cost," including such factors as cost overruns which were experienced by the trans-Alaska oil pipeline project, he said.

Champion's office will come up with an estimated cost of service, based on the estimate of gas throughput volumes for each project.

Champion said his office is obtaining the throughput estimated from the state division of oil and gas.

In addition, Champion said, he is looking at the positive and negative environmental aspects of the three proposals.

His office's study also includes the logistics of construction. He pointed out that both El Paso and Northwest will have highway access to their projects, and can do to year-round construction, while Arctic will have no access and must build in winter, when the productivity of the workers will be much lower.

"We have made soils analyses of the three routes," he added. "And we are looking at tanker traffic (as proposed by El Paso) and reviewing the costs of the Gravina Point liquefaction facilities, as proposed by El Paso."

Times
10/17/76

U.S. Oil Imports To Increase

WASHINGTON -- (LENS) — The White House hopes the voters will not notice (at least not before November 2) but President Nixon's "Project Independence" for energy has become President Ford's project dependence.

Under the 1974 Nixon plan the country was supposed to become self - sufficient in energy by 1980. The administration now reckons the United States will still import 5 million barrels of oil a day in 1985. Shell and Exxon guess the figure will be at least twice that much, i.e.; well above today's figure.

Nixon was especially keen to cut the country reliance on those countries that placed an embargo on oil exports to it in 1973. Just the opposite has happened. Supplies from old friends, notably Canada and Venezuela, have fallen. The Arab countries' share of American oil imports went up from 7 per cent in 1973 to 34 per cent last year.

So during the first six months of this year the United States spent nearly $16 billion to buy oil from abroad: 27.3 per cent of its total import bill. It is still the world's third largest crude oil producer (with 8.2 million barrels a day) after Russia (10.1 million barrels a day) and Saudi Arabia (8.5 million barrels a day), but it is also the world's biggest oil importer.

In 1970 it imported 23 per cent of its oil — this year it will import about 45 per cent.

The administration offers two main excuses for this dependence. The first is that it virtuously concluded the costs of Project Independence were too high to fit the national interest.

The second is the unvirtuous way Congress has refused to wear such White House proposals as laxer clean - air standards, the abolition of price controls on fuel, and Ford's 1975 bill to help private industry, through treasury bond issues and government loan guarantees, to raise $100 billion for approved energy projects over 10 years.

Also, it is said, Congress has scared the oil industry off investment, and kept the public's mind off more important energy issues, by making "big oil" a villain. The now postponed effort by Congress to force the vertical disintegration of up to 22 oil companies is cited in support of this view.

Price controls remain. Under a two - tier system newly found crude oil in the United States is held at about $11.55 a barrel, crude oil from pre-embargo wells at about $5.13 a barrel. These controls are supposed to be phased out by the spring of 1979. That may not happen.

The Federal Energy Administration, a "temporary" agency created during the oil crisis that now boasts 3,400 employees, has published many exceptions to the price rules. Others think those who have benefited now form a strong lobby for continued controls.

The American voters are a still more powerful force for continued price controls. According to public opinion polls, they are more distrustful than ever of big business, and most especially of "big oil." The oil companies are suspected of running the price cartel for OPEC and of making an old - fashioned killing out of higher prices.

The industry's critics find it hard to explain why then the oil companies are in such a hurry to diversify. Atlantic Richfield has invested in Anaconda, a copper miner; Mobile in Marcor, the owner of a department store chain; Standard Oil of California in Amax, a metals producer. Exxon, Continental Oil and Occidental Petroleum are exuberant diggers for coal.

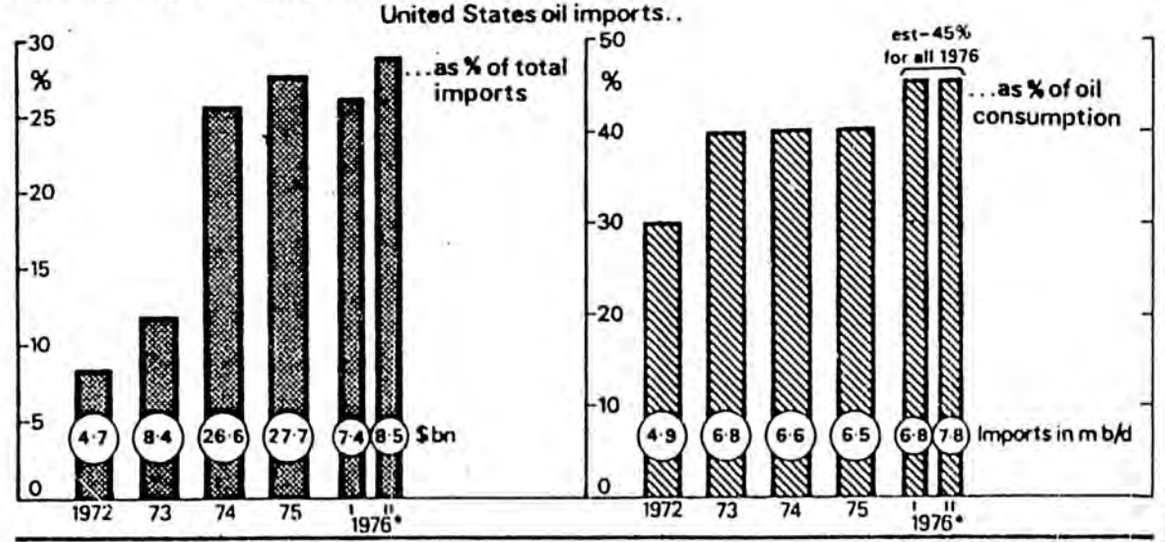
Unsurprisingly, allies of the United States, particularly its partners in the International Energy Agency, are restive. The noises they are making have become more rude since Henry Kissinger, the secretary of state, abandoned an effort to push the Congress to agree to that famous $25 billion "safety net," the petro - dollar, recycling scheme.

The United States, as they see it, has acted in an unneighborly way in rejecting the two alternatives it had to cut oil demand quickly: rationing by price or rationing by allocation. True, the American treasury flirted briefly with the idea of raising the federal government tax on gasoline, now 4 cents a gallon, as high as 30 cents a gallon. It blushes when it is reminded of this.

Gasoline is still pumped into American cars at about 60 cents a gallon. The French pay more than three times that price — the British, Germans, Japanese and Swiss more than double.

Other countries, of course, continue to warn of the risk of petrodollar recycling hardships unless the United States does its big bit to restrain demand so that OPEC thinks twice before it puts up prices.

And ever more dependent



*seasonally adjusted

Source US Dept of Commerce

Times 9/18/76

Senate Hearing Set To Study Oil Surplus

Times Washington Bureau

WASHINGTON — The Senate Interior and Commerce Committees have scheduled a joint hearing Tuesday to review the possibility of a crude oil surplus on the West Coast next year, once the Alaska pipeline becomes operational.

Interior Secretary Thomas Kleppe, Commerce Secretary Elliot Richardson and Federal Energy Administrator Frank Zarb are scheduled to testify at the hearing, one in a series of congressional probes in to the possible West Coast surplus.

Sen. Henry M. Jackson, D-Wash., chairman of the Interior Committee, said, "Information currently available would appear to indicate that there has been a serious breakdown in both planning and undertaking the necessary actions to accommodate Alaska crude oil and to insure its proper distribution throughout the country."

The committee have also sent questionnaires to other federal agencies, the State of Alaska and major producers on the North Slope to determine the extent of any West Coast surplus and the plans to deal with it.

Federal Agency Projects West Coast Oil Surplus

By The Associated Press

The Federal Energy Administration has projected a 500,000 barrel surplus of crude oil on the West Coast after start-up of the trans-Alaska oil pipeline.

Deputy regional administrator for San Francisco Robert Bolt, project manager for the five-month study, said the report will be issued to West Coast states next week.

"Our conclusion is that there will be a surplus, beginning in 1978, of 500,000 barrels per day," Bolt said in a telephone interview from San Francisco Thursday.

The report will not be released publicly until the four coastal states and the president's Energy Resources Council comment on its findings, he said.

Bolt described the report as "an analysis of all the possible alternatives (to market the oil in the United States) from four viewpoints the environment, economy, permitting and timing."

He said the report compiled with the states of Alaska, California, Washington, Oregon and his agency's regional offices in Seattle and San Francisco analyzed methods for shipping the oil from the Pacific Northwest to the midwest through Canada; by pipeline across Panama or Guatemale; by tanker through the Panama Canal or around Cape Horn, and by exchanging oil with Canada or another foreign nation.

Bolt said while the study concludes there may be some additional capacity for North Slope crude at West Coast refineries, "there would have to be a major expansion if all crude were to be processed on the West Coast."

Bolt said the Standard Oil of Ohio proposal to bring oil by tanker into Long Beach, Calif., for pipeline transportation to Midland, Tex., was the only port mentioned in the report.

"From the timing standpoint, the Panama Canal is already there," he said, but some tankers scheduled for Alaska trade are too large for the waterway.

"Our general conclusion is that one or more alternatives are going to have to be implemented" to market the oil in the United States, he said.

News 10/11/76

Legislature hires oil tax consultants

By The Associated Press

The author of a controversial report on the tax potential of Prudhoe Bay oil fields has been hired as an advisor to the state legislature.

Michael Tanzer is among five consultants hired or under consideration for research contracts by the state's Interim Committee on Oil and Gas Leasing and Taxing Policies.

HIS CONTRACT calls for a probe of "the impact on exploration and development resulting from increased oil taxation by Norway, Great Britain, West Germany, the Canadian province of Alberta and other governments." Tanzer also is to compare industry profits per barrel under the tax and royalty policies of major oil producing countries.

Tanzer's $15,000 contract was outlined in a memo sent last month to committee vice chairman Rep. Hugh Malone, D-Kenai, from James Rhode, an administrative assistant to the House Finance Committee.

The interim committee headed by state Sen. Chancy Croft, D-Anchorage, also has signed a contract with former British Columbia Institute of Economics affiliate Mason Gaffney. He is to work with Commissioner of Natural Resources Guy Martin in a review of the state's oil and gas leasing policy.

DIRECTOR GREGG ERICKSON of the division of research services for the legislative council said three other contracts are pending for economic and tax research.

Rhode's memo indicates the studies are to determine "what is a fair rate of return to the oil companies and still make sure that Alaskans get our fair share of the value of our oil."

He said cost structures for industry operations in the North Sea are "very similar to cost data for Prudhoe Bay. . . if costs are similar, why is our tax rate under theirs?"

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News 10/27/76

Sohio exec seeks balance on oil taxes

With revenues from the trans-Alaska oil pipeline to begin flowing into the state treasury next year, the state can afford some time to "strike the right balance" for an oil industry taxation package, a Standard Oil Co. of Ohio executive told the Greater Anchorage Chamber of Commerce.

Richard M. Donaldson, vice president for government and public affairs of Sohio, said there are two important state studies now in progress concerning oil and gas taxation, one study by the state administration and one by the legislature.

"Our industry is watching these studies very closely," Donaldson said Monday. His company, the largest single shareholder for the trans-Alaska oil pipeline and Prudhoe Bay oil, is preparing a series of papers to respond to both studies.

The studies can be "a firm first step to long range stability . . . or they can be more marching in place," Donaldson said. He noted that Alaska already has the highest tax among all the states on oil and gas revenues.

Donaldson said among the factors that should be considered for continued energy development in Alaska are the tax and regulatory climate in the state, the availability of skilled labor and support industries, the higher cost per barrel for Arctic oil construction and the shortage of capital facing the industry.

The state should also consider that while about 17 per cent of all potential U.S. reserves are in Alaska, "It's not the only area that's attractive in the country."

Controversial oil tax adviser hired by state

News 10/9/76

ANCHORAGE, Alaska (AP) — The author of a controversial report on the tax potential of Prudhoe Bay oil fields has been hired as an advisor to the state legislature.

Michael Tanzer is among five consultants hired or under consideration for research contracts by the state's Interim Committee on Oil and Gas Leasing and Taxing Policies.

His contract calls for a probe of "the impact on exploration and development resulting from increased oil taxation by Norway, Great Britain, West Germany, the Canadian province of Alberta and other governments." Tanzer also is to compare industry profits per barrel under the tax and royalty policies of major oil producing countries.

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Rhode's memo indicates the studies are to determine "what is a fair rate of return to the oil companies and still make sure that Alaskans get our fair share of the value of our oil."

He said cost structures for industry operations in the North Sea are "very similar to cost data for Prudhoe Bay...if costs are similar, why is our tax rate under theirs?"

Oil company spokesmen have said such reasoning does not consider taxes the industry pays to the U.S. government in addition to its state taxes.

In the study submitted to the legislature last year, Tanzer suggested the state could tax Prudhoe Bay profits at 50 per cent and perhaps up to 80 per cent without discouraging owner oil companies.

Standard Oil of Ohio vice president Dick Donaldson told the recent Alaska AFL-CIO convention in Anchorage the 31 largest U.S. oil companies combined paid 74.1 per cent of their incomes in state and federal taxes. After employes' salaries and investors' dividends, he said the companies' share is 7.8 per cent.

Donaldson said projections for Prudhoe Bay profits and development costs both have risen 400 per cent and owner oil companies anticipate a 15 per cent rate of return on their investments.

"The principal beneficiary of any 'windfall' will be the state," Donaldson told the labor convention.

TIMES 10/31/74

Oil Chief Gives Advice On Taxes

FAIRBANKS (AP) — Standard Oil of Ohio vice president Richard M. Donaldson says Alaska legislators must strike a moderate balance when they tax corporations developing the state's oil and gas reserves.

Otherwise, he told the Fairbanks Industrial Development Corp., the companies will be discouraged from or unable to invest their money in future energy development here. Donaldson heads Sohio's government and public affairs division.

Exxon base at Seward

News 11/3/76

Gulf drilling speeds up

The three big winners in Alaska's first Outer Continental Shelf oil and gas lease sale — Exxon Corp., USA, Atlantic Richfield Co. and Shell Oil Co. — are moving in on the northeastern Gulf of Alaska, with two wells in progress and a third planned.

All three companies are setting up onshore operations at both Seward and Yakutat.

SHELL AND ATLANTIC-Richfield (ARCO), which bid in partnership on a number of tracts in last April's OCS sale, each have a rig in gulf waters, and are drilling two wells with joint ownerships.

Exxon has just announced that it is setting up shore base operations at Seward with the expectation of beginning drilling operations early next year.

ARCO moved the drilling rig Ocean Ranger into the Gulf of Alaska in mid-October to spud its first well on a $41.1 million tract on the fringe of the Icy Bay structure, considered by geologists to be the most promising area in the Gulf.

THE TRACT IS owned half by ARCO and half by Shell. It drew the third highest successful bid in the half-billion dollar lease sale.

The Ocean Ranger is the world's largest semi-submersible drilling rig, and it is under contract from ODECO of New Orleans.

Shell moved the rig Sedco 706 about two months ago to a tract that cost Shell and its partners $61.9 million, the second-highest winning bid in the April sale. The tract is some 40 miles west of the Icy Bay structure.

The Sedco 706 cost $46 million and was built specially for the Gulf of Alaska. Shell is operator for a four-company combine, including ARCO, on the tract.

EXXON ALSO has a designed-for-Alaska drilling vessel in the wings. The Alaskan Star, a $50 million rig, is being built in Japan and is due to arrive in Alaska in January.

Exxon has leased 30 acres near the Alaska Railroad dock at Seward to use as a storage and staging area.

Since most of its offshore leases are 200 miles or more away, from Seward, drilling crews and other personnel will be transported from a helicopter base at Yakutat, said Monte Taylor of Anchorage, manager of Exxon's Alaska production operations.



Shell and ARCO's Ocean Ranger

News 10/14/76

Poll shows Alaskans split on oil tax policy

By The Associated Press

An independent survey indicated voters in Alaska's three largest cities are divided on oil tax proposals introduced during the last legislative session.

"The public was only slightly aware of any campaign waged for or against the tax package," the report stated.

The survey was conducted by the Alaska Industrial Survey Research Service, a joint venture by H. A. Boucher and Associates of Anchorage and Rowan Group, Inc., of Mill Valley, Calif.

It was based on interviews with at least 325 registered voters in Anchorage, Fairbanks and Juneau, and will be sold to corporate clients for between $15,000 and $18,000. The service reports its sample reflects total urban voter opinion to within 3 per cent accuracy.

The legislation in question would increase state taxes on Prudhoe Bay oil field operators. Some 20 per cent of those polled said the taxes would reduce impact of the trans-Alaska pipeline in the state, and indicated they believed the oil industry could afford the increase. About 23 per cent of the participants opposed the measure, contending oil taxes already are excessive and an increase could force the industry to leave Alaska.

On other issues, those polled listed Alaska's major problems in order of importance as population growth, inflation and crime. They identified major national issues as inflation, unemployment, crime, failures of leadership, foreign policy, energy and corrupt government.

The capital move was favored by 48 per cent of those polled and opposed by 44 per cent. However, figures varied widely. More than 60 per cent of Anchorage and Fairbanks participants approved the move, while Juneau residents opposed it overwhelmingly.

Those polled indicated dissatisfaction with their incumbent legislators in the poll conducted last July. Gov. Jay S. Hammond was supported by 31 per cent of those polled and opposed by 27 per cent. The remaining 42 per cent said they did not know how they would vote, or indicated they could not make a decision without knowing Hammond's opponent.

Support was given the El Paso plan for a natural gas pipeline from Prudhoe Bay. The firm is competing with Arctic Gas and Northwest Pipeline Corp. before the Federal Power Commission for permission to build the line. El Paso's appeal was based on the fact that it "would be built entirely within Alaska," said the 73 per cent who favored the line. Juneau residents polled gave the El Paso proposal 88 per cent approval.

Report predicts oil surplus

News 9/17/76

By SALLY W. JONES
Daily News Staff Writer

The Federal Energy Administration (FEA), in a report to be issued to West Coast states next week, has projected a 500,000-barrel-per-day West Coast surplus of crude oil following start-up of the Alaska pipeline.

That finding is contained in a 500-page report of marketing and distribution problems the West Coast will face when the Alaska pipeline begins producing at the rate of 1.2 million barrels of oil daily in late 1977.

ROBERT BOLT, FEA duputy regional administrator in San Francisco and project manager for the five-month study, said Thursday the report will not be released publicly until after the four states and the President's Energy Resources Council comment on the report's findings.

He said another draft report will be completed by the end of the month, evaluating marine terminals on the coast.

The FEA announced its probe of the surplus question in February, two months after The Daily News completed an investigation into the question of where Alaska's oil will be marketed. The study was compiled with the states of Alaska, California, Washington and Oregon, the FEA's regional office in Seattle and its regional office in San Francisco.

ALTHOUGH THE REPORT will not be released publicly by the FEA, Bolt discussed its conclusions Thursday. The conclusions are the same as reached in The Daily News probe, which estimated a surplus would range from 300,000 to 600,000 barrels per day, because oil companies on the landlocked West Coast lacked time to move oil inland by the time Alaska pipeline oil was delivered at the 1.2-million-barrel rate.

"Our conclusion is that there will be a surplus, beginning in 1978, of 500,000 barrels per day," said Bolt Thursday. He said the report makes no recommendations on how to handle the oil, reserving that decision for the administration and Congress.

The report, he said, "is an analysis of all the possible alternatives (to market the oil in the U.S.) from four viewpoints, the environment, economy, permitting, and timing."

HE SAID THE multi-agency report analysed methods to move the oil from the Pacific Northwest through Canada to the Midwest; by pipelines across Panama or Guatemala; by tanker through the Panama Canal or around Cape Horn; and by exchanging oil with Canada or another foreign nation.

Bolt said the study concludes that refineries on the West Coast "have some additional capacity for North Slope crude; but there would have to be a major expansion if all crude were to be processed on the West Coast."

He said the report also analysed a Standard Oil of Ohio (Sohio) proposal to bring tankers into Long Beach and build a pipeline to Midland, Texas.

THE LONG BEACH port was the only one discussed in the report, said Bolt.

"From the timing standpoint, the Panama Canal is already there," said Bolt. But the canal is limited in the size of tankers it can accommodate, and some tankers scheduled for the Alaska trade are too large for the canal.

For the other proposals considered, said Bolt, "it would be dependent on the proponents to get the regulatory permits they need. The Kitinat (pipeline proposal) in British Columbia needs one permit; Sohio's will need about 100 permits," he said.

"WE HAVE NOT WRITTEN an executive summary of the report; but our general conclusion is that one or more alternatives are going to have to be implemented" to market the oil in the U.S. where it is needed, Bolt said.

Although the Seattle FEA official said in March that The Daily News articles were the basis for the study, it was an ad hoc group of governor's representatives from Alaska, California, Washington and Oregon that first brought the surplus problem to light last fall.

TPWD
8/18/76

$1.13 billion bid in Atlantic lease sale

NEW YORK (AP) — The oil industry bid a total of $1.13 billion for undersea drilling rights Tuesday, after a U.S. Supreme Court justice gave last-minute approval to the first-ever sale of Atlantic Ocean oil leases.

The figure was well below the record batch of high bids that totaled $2.09 billion in a 1974 Gulf of Mexico oil lease sale.

The highest single Atlantic bid Tuesday was $107.7 million offered by a group of companies headed by Mobil Oil Corp. for Tract No. 29 — a tract consisting of about 5,750 acres.

The opening of the sealed bids by a U.S. Departmnt of Interior official was delayed for eight hours while lawyers for New York State and environmental groups asked Supreme Court Justice Thurgood Marshall to block the sale.

He declined to do so. But whether actual drilling in the Atlantic occurs depends on the Circuit Court of Appeals in Manhattan. That court will hold a hearing next month on the overall environmental effects of offshore oil production.

The court proceedings left timing of actual drilling uncertain. But it usually takes four to six months from the sale of leases before the first rigs move out to sea.

The environmentalists sought a detailed study of the effects of the drilling off the mid-Atlantic coast from Long Island, N.Y., to Virginia.

As the arguments went on, hundreds of oil company executives milled about a hotel ballroom in New York, waiting for the sale to begin.

In his ruling, Justice Marshall said only that the 2nd U.S. Circuit Court of Appeals had acted properly Monday in deciding to lift a lower court's ban on the sale. He said he would issue a written opinion later.

Last week, U.S. District Judge Jack Weinstein barred the sale, saying environmental interests should have been consulted more fully. The appeals court then overturned his decision.

The Supreme Court is in recess, but Marshall has jurisdiction over the 2nd Circuit Court District.

Interior Department officials said the case was the first on offshore oil lease sales to reach the high court. Previous efforts to block lease sales off Louisiana, California and in the Gulf of Alaska all failed.

Alaska Natural Resources Commissioner Guy Martin, who has coordinated Alaska's opposition to the current Outer Continental Shelf (OCS) program, said late Tuesday the Supreme Court decision was not surprising.

"What it means is that under (OCS) law, it appears that the states have virtually no power in the courts" to halt a sale, said Martin.

The Interior Department estimates the area holds a potential 400 million to 1.4 billion barrels of oil.

State to appeal dismissal of suit

JUNEAU (AP) — Atty. Gen. Avrum Gross said Tuesday that his office will appeal a U.S. district court decision to dismiss a state suit to cancel offshore oil and gas leases in the Gulf of Alaska.

Asst. Atty. Gen. Sandy Sagalkin said the notice of appeal will be filed in "a couple of days."

"Basically we will appeal on the same grounds we raised in the district court case but framed in terms of what we believe were erroneous findings by the judge," Sagalkin said.

U.S. District Judge Joseph Waddy of Washington, D.C. ruled in the case last Friday, rejecting the state's claim that the U.S. Interior Department failed to conduct a proper environmental impact survey before going ahead with the lease sale last April.

The judge concluded that the department's environmental impact statement was "an objective, good faith document."

Gross said he was not "shocked by the loss in the lower court."

"When the judge denied our motion for a preliminary injunction on April 8, he indicated that was the way it would turn out in his court," Gross said.

In his ruling, Waddy also rejected the state's claim that the leases should have contained a termination clause to allow a suspension of drilling if environmental hazards developed. He said such clauses are specificaly banned by federal laws governing offshore leasing.

The lease sale was conducted on April 13 after the state lost its motion for an injunction. Of the 189 tracts offered, bids for 76 were accepted. A total of 32 oil companies paid $560 million for the rights to drill on the 410,000 gulf acres.

News 9/24/76

Sohio denies charges of export intentions

By ROSEMARY SHINOHARA
Daily News Staff Writer

Standard Oil of Ohio, a major owner of Prudhoe Bay oil, Friday denied the allegations of a California official who says Sohio is gambling that Congress and the President will let the company sell the oil to Japan.

Ken Showalter, Sohio's representative in Alaska, said the company has no plans to sell oil to Japan, and he challenged most of the other conclusions drawn by a top California environmental advisor as well.

TOM QUINN, chairman of California's Air Resources Board and a chief advisor on environmental issues to California's governor, said in Anchorage Thursday that a Sohio plan to expand the port of Long Beach and build a pipeline system from there to Midland, Texas will never be appoved.

The Midland pipeline, or another alternative, will be needed to relieve a surplus of oil that will occur on the West Coast when North Slope production reaches 1.2 million barrels per day. The Alaska pipeline is scheduled to produce at that rate in late 1977.

A proposed Sohio plant at Long Beach would be too great a pollution source to meet state and federal clean air standards, Quinn said. He said Sohio has declined to consider other sites, terming them too costly. And he said Sohio has not yet applied for key permits that will be needed to carry through its project, which will take two years to complete.

SOHIO EXECUTIVES DISAGREE with a California consultant's report on the pollution level from their proposed plant. "We think there needs to be more work done on that," Showalter said.

Sohio didn't reject any alternative sites that were recommended because of cost, Showalter said. "They were passed over because of environmental and permitting considerations." In some cases, more massive construction would have been required, and in other cases there would be more damage to the environment in other ways than air pollution, he said.

It's true that Sohio hasn't applied for key permits, Showalter said. "The environmental impact report is not yet completed. The agencies are not to the best of our knowledge allowed to consider applications for permits until the environmental report is compiete," Showalter said.

IN SPITE OF Sohio's denials the possibility that Prudhoe Bay oil will be sold to Japan continually comes up, Showalter said.

Last week, Sohio's chairman Charles E. Spahr responded to articles in British and Japanese newspaper speculating on the subject.

Spahr said even after Sohio uses the available American tanker fleet to carry Alaska oil through the Panama Canal, it appears that there will still be a surplus on the West Coast for six months or so beginning in late 1977.

THE CHAIRMAN SAID alternatives to deal with the remaining surplus include the use of large foreign flag ships to move crude from Valdez around Cape Horn, or an arrangement with Canada under which Alaska crude could be moved to eastern Canada refining centers in exchange for deliveries of Canadian crude to the western U.S.

A third possibility would be an exchange in which foreign oil would be delivered to U.S. ports in exchange for deliveries of Alaska crude in to foreign markets, Spahr said.

He noted that the trans-Alaska pipeline legislation says all oil from the pipeline is to serve U.S. markets either by direct shipment or through an exchange with an adjacent foreign state — Canada or Mexico.

SHOWALTER SAID SOHIO executives are "puzzled" by Quinn's rejection of the whole project before the environmental report is completed, and before Sohio has even filed for a permit.

Quinn said California officials and the Air Resources board met with Sohio more than 18 months ago and told Sohio the Long Beach port plan would not be approved in California.

Showalter said, "I can't find anyone in Sohio who is associated with it that remembers the state saying we won't get approval."

News 8/18/76

Alaska oil won't go to Japan—Young

An oil surplus on the West Coast will not cause Alaska oil to be shipped to Japan but will cause new east-west distribution systems to be developed, Rep. Don Young, R-Alaska, said Tuesday.

Commenting on a statement by Sen. Adlai Stevenson, D-Ill., here Monday that the Senate would hold hearings into the anticipated oil surplus, Young said "the Senate is about 10 days behind time."

YOUNG SAID the House Interior Committee's public lands subcommittee, of which he is a member, completed a week's hearing and "established we have a surplus on the West Coast."

But Young said he did not view the surplus as a problem that might force curtailed production of Alaska oil or the oil to be shipped to Japan, but as "a chance and opportunity to develop oil transmission systems east and west."

He said he agreed with the statement of Sen. John Durkin, D-N.H., that Congress would object to efforts to ship Alaska oil to Japan. He said he was responsible for getting the provision in the pipeline authorization act prohibiting it.

"WE'RE NOT going to let any of this oil go to Japan as long as we're shipping 48 per cent of our oil from the Mid East. The senators are right. No way will Congress stand for oil to be shipped to Japan," he said.

Young said present and proposed oil distribution lines could carry 1.2 million barrels a day east from the West Coast—far more than the anticipated surplus of 500,000 barrels a day when Prudhoe Bay oil goes on line. These transportation systems would never be developed if there was not a surplus, he said.

Young said most oil lines went north and south, with one line bringing oil to California. That line could be reversed with modifications to the line, and a small spur would hook up an east-west line in British Columbia, he said. He said an east-west distribution system would allow flexibility in shipments of oil and protect the East Coast if there was another Arab oil embargo.



Daily News photo by Michael McDermott

Rep. Don Young, R-Alaska, opened his Anchorage campaign headquarters at 519 West Eighth Ave. Monday. Jim Slaybaugh, left and Pat Loken, enjoy a laugh with the candidate.

Energy experts rap U.S. use of foreign supplies

News 9/11/76

SPOKANE, Wash. (AP) — The United States is becoming increasingly dependent on foreign energy supplies instead of making progress toward self sufficiency, two energy experts said here this week.

George M. Keller, vice chairman of the board of Standard Oil Co. of California, told delegates to the Pacific Coast Gas Association convention here that the United States soon may be importing half of the oil it consumes.

"We now are importing from foreign sources more than 40 per cent of the oil we use and that figure may soon rise to 50 per cent or more if a greater effort toward conservation of oil is not made and if adequate incentives for exploration and production of reserves are not provided," Keller said.

Dr. John R. McKetta of the Department of Chemical Engineering at the University of Texas, said that "At the current rate of energy demand growth, the U. S. will have a severe depression brought about by a lack of energy in 1985."

McKetta criticized Congress for failing to deal with the nation's energy problem. He said Congress has an "anti-U.S. voting record" on energy matters which has put "the future of the nation and the world in jeopardy."

The energy industry has been hurt, McKetta said, by "senseless, inflexible government regulations and the extreme demands of environmentalists."

He said, "The government is going to have very strict rationing by 1980. The situation is going to get so bad that Congress is going to pass helter-skelter laws."

McKetta called for an end to unnecessary government regulation, encouragement of private enterprise to find new energy, increased coal production and use, construction of 1,000 nuclear power plants and increased energy conservation.

Delegates also heard arguments from a pipeline company executive on the merits of projects to bring Alaska's North Slope natural gas to the lower 48 states.

William Brackett, vice chairman of Alaskan Arctic Gas Pipeline Co., said the Arctic Gas Prooject could be completed sooner than either Northwest Pipeline Corp.'s proposed Alcan Pipeline or El Paso Natural Gas Co.'s proposed pipeline - ocean tanker system.

The environmental staff of the Federal Power Commission "has determined and testified that the Arctic Gas Project route is environmentally preferrable to a pipeline which carried Alaskan gas along the Alcan Highway route and Canadian gas down the Mackenzie River Valley," Brackett said.

The Arctic Gas Project pipeline would run from Prudhoe Bay in Alaska and the Mackenzie Delta in Canada down the northern coast of Alaska and Canada, then through Canada along the Mackenzie River.

years ago, said that ...

TIMES 11/18/76

Oil Chiefs Warn U.S.

AUSTIN, Tex. (AP) — The Texas Railroad Commission cut the statewide oil allowable from 100 to 99 per cent today, saying it wanted to put Washington on notice and alert the people that the nation is running out of oil.

Texas' wells, with some exceptions, have been running wide-open for 56 months.

Commissioner Jim Langdon said the change in the allowable will have the effect of reducing estimated production by 7,500 barrels of crude oil a day, which is "insignificant."

This "will get the attention of the people in Washington," Langdon told a statewide hearing. "Whether the reaction is good, bad or indifferent," Langdon said, "it is time" people recognize that oil supplies are dwindling.

Commissioner Mack Wallace said, "We are telling the rest of the country we are saving 7,500 barrels a day of Texas oil to use in emergencies."

text that Paarlberg was concerned about some of the pledges the President-elect had made, including those related to helping farmers through higher government price supports.

Paarlberg said that he thought that it was "unlikely that we would deliberately return to the policies from which we have now escaped."

TIMES 10/22/76

Jackson Recommends Canadian Oil Trades

PORT ANGELES, Wash. (AP) — Sen. Henry M. Jackson has proposed oil trades with Canada as a method of obtaining the equivalent of Alaskan oil without the hazards of new pipelines or supertanker traffic.

Jackson, campaigning for re-election here on Wednesday, said three of the state's four oil refineries can't process the high-sulphur Alaskan crude anyway.

He said that Alaskan oil can be traded to Canada, with shipments going to Kittimat, B.C., and sent from there to Canadian refineries equipped to handle it.

In exchange, he said, Canada would continue to supply Washington refineries with oil from Albertan wells.

Among plans now being considered for dealing with Alaskan oil is one to build a supertanker terminal at Port Angeles. A 1,500-mile pipeline would run from the terminal to the Midwest in a project costing $2 billion.

Various governmental entities have opposed that plan, but the state has supported it because it would mean that tankers would not have to ply Puget Sound.

Jackson said he plans to meet with Canadian officials, probably by December, to discuss steps towards a threaty that would assure complete cooperation in an oil exchange.

He said another step necessary to make his plan work is to assure bonding companies that their money invested in Alaskan pipelines is safe from losses that might result from international conflicts.

Bill Malseed, manager of the Shell Oil Co. refinery at Anacortes, said any agreement would have to provide Canadian oil at competitive prices.

The Fish and Wildlife Service says that blackbirds destroy no more than a tenth of the nation's annual corn crop.

Official Defines Oil Stand

TIMES 9/24/76

SACRAMENTO, Calif. (AP) — California's air pollution chief said Thursday he would not oppose an Alaskan oil facility everywhere in the state — only at Long Beach.

Tom Quinn, Gov. Edmund Brown Jr.'s cabinet-level environmental adviser and Air Resources Board chairman, was responding to what he called misleading comments in Washington by a federal official.

Quinn, in a letter to Frank Zarb, chief of the Federal Energy Administration, disputed comments made earlier this week by Zarb's deputy, John Hill, to Senate committees.

He said Hill was wrong in saying California opposes a facility for receiving and transporting Alaskan oil anywhere in the state.

Quinn also described as "unacceptable and preposterous" Hill's statement that it was okay to build in Long Beach because the air already was heavily polluted.

Quinn had earlier written Zarb saying California would oppose a Long Beach facility because it would result in more air pollution in the Los Angeles basin.

"It is quite true that we have objected to the site selected by the oil companies, the Port of Long Beach, but we are quite willing to allow construction of the terminal at other locations," Quinn said.

News 8/19/76

Slope oil owners to operate as unit

By ROSEMARY SHINOHARA
Daily News Staff Writer

Owners of the oil and gas reserves at Prudhoe Bay have generally agreed to an arrangment for operating the field as a unit. But they are still arguing about how to split up the pie, oil company representatives indicated during a public meeting in Anchorage Wednesday.

The Prudhoe Bay leaseholders presented the state with a preliminary draft of a unitization agreement Wednesday, and said they hoped to be able to make a formal application by late this year or early in 1977.

THE AGREEMENT will set out an operations plan and a determination of how much oil and gas each company owns at Prudhoe. It will make provisions for handling the state's royalty share—12½ per cent of the field.

It also includes provisions to enlarge or contract the size of the unit in case further discoveries are made, leases expire, or other changes occur.

All oil company representatives present said they support the concept of unitization, but spokesmen for companies with a minority interest in the field made clear that they are unhappy with the plan presented by the four major owners to settle the issue of how much oil and gas each leaseholder owns.

STANDARD OIL CO. of California (Socal) and Mobil Oil Co. particularly stressed their disagreement with an "equity participation" plan proposed by the major owners Aug. 11.

Dudley Cramer of Socal said the percentages of ownership proposed by the major owners "do not adequately reflect the interests of Standard and the other minority owners."

Mobil Oil Co.'s representative said much the same thing, but added that though the issue is serious, "I think we'll achieve agreement well before production."

FOUR MAJOR companies, Standard Oil Co. of Ohio, British Petroleum, Exxon, and Atlantic-Richfield Co., have combined interest of more than 90 per cent in the field.

The leaseholders began working on the unit plan in 1969, but negotiations were suspended between 1971 and late 1974.

Statements made Wednesday indicated that the companies are aiming to have a final plan ready by early next year, but will definitely have one ready before the scheduled start-up of the pipeline in July, 1977.

GUY MARTIN, state commissioner of natural resources, warned the leaseholders that they had best settle their own differences quickly because the state is going to take the time needed to review the plan, and will also submit it to the public to be reviewed and analyzed.

"I'm committed to it happening. I refuse to trunkate the time for the state and public reviews because of disagreement among the operators," Martin said.

The state has responsibility for approving the unit plan to prevent waste of oil and gas and to ensure that Prudhoe Bay operations are in the public interest.

BILL LEAKE of Dallas, Atlantic-Richfield's Alaska co-ordination manager, presented the owners' plans for management of the field. Leake said the owners believe that the field will have sustained production of 1.5 to 1.6 million barrels of oil per day for about eight years.

The pipeline is to carry 1.2 million barrels per day shortly after start-up next year. Leake said the field facilities are to be expanded in 1978 and 1979 to produce 1.5 to 1.6 million barrels daily.

The field can produce 2 billion cubic feet of natural gas per day as soon as a gas pipeline is available, and that rate could be sustained for more than 20 years, Leake said.

FOR MAXIMUM recovery of the oil, water that is produced with the oil and gas is to be selectively reinjected into the field. The water will provide pressure to force the oil out.

As the liquids are extracted from the field, water from another source may have to be injected to maintain pressure, Leake said.

Costs Slow Drilling In Gulf Of Mexico

Special To The Times

TULSA — High operating costs and technological hurdles are causing oil companies to slow down large-scale drilling for new oil and gas reserves in deep waters of the Gulf of Mexico.

The Oil and Gas Journal reports that the companies which pioneered offshore exploration in the gulf 20 years ago now are turning their attention to East and west Coast waters rather than venture into the deeper gulf waters.

While much oil and gas activity continues in the gulf, most of the undeveloped sites off Texas and Louisiana are in 600 or more feet of water, the weekly business magazine says.

While advanced deepwater technology is developed, most companies prefer to drill elsewhere rather than get into deeper waters of the gulf. One of the prime prospects will be the Baltimore Canyon off New Jersey and Delaware. Water depth there averages about 350 feet over potential oil and gas reservoirs.

Companies spent about $1.1 billion to lease casnyon tracts during an Aug. 27 department of Interior sale.

The Journal says industry interest in similar Gulf of Mexico sales has declined during the past two years. Another indication of an activity slowdown in the gulf is the limited number of drilling plans announced by industry for the rest of 1976 and 1977, according to the Journal.

Operators now active in gulf waters over 600 feet deep say they have about all the acreage they can handle in terms of cost and technology.

"We can drill in waters more than 3,000 feet deep," one operator told the Journal. "But what good will it do if you can't afford to bring production on stream?"

Industry's attempts to advance deepwater drilling and production technology are progressing but new equipment such as remote control maintenance and submerged production devices are expensive.

The Journal sais a new prototype platform design for deepwater drilling also has been tested but has not gone into full production. Another consideration is the increasing cost of equipment built on standard designs.

The magazine cites the example of an offshore platform contracted for at a cost of $30 million in 1974. Price for the same platform has increased five times.

In addition to technology advances, there are other signs activity will be revived and perhaps even sustain the gulf as the nation's most active offshore arena, according to the Journal.

Representatives from more than 40 oil companies will meet early in 1977 to plan a joint stratigraphic - test program which will help locate suspected oil and gas bearing structures in deep Gulf of Mexico waters.

The program, one of the organizing companies said, also could speed development of technology by determining that there are deepwater gulf prospects worth going after for which there is no existing technology.

The Anchorage Times

11/3/76

Business-Financial

Foreign Oil To Fill Lines, Says Report

TULSA — Proposed West Coast to east-of-Rockies oil pipelines are likely to move mostly foreign crude, The Oil and Gas Journal reports.

The pipelines are proposed to ease a short-term Alaskan-oil surplus on the West Coast or a crude shortage at refineries in the upper Midwest states of Montana, North Dakota, Minnesota, Wisconsin and Michigan.

Canada is phasing out its crude exports to the United States and those refiners are scrambling for another supply.

Historically, they've processed mostly Canadian low-sulfur crudes. With that supply shrinking and ending altogether in 1982 and with inadequate pipeline connections to U.S. oil sources, they're worried about a potential energy crisis in their states.

North Slope oil will be coming on production next summer but the oil industry hasn't a trans-Rockies crude pipeline to bring the oil nto the upper Midwest.

And if one is built, the Journal says in its Nov. 1 issue, the refiners will want not only the medium-sulfur content Alaskan oil, but large volumes of sweet foreign crudes. Their plants generally aren't designed to process sour oil, and many of them can use only a limited amount by blending it with sweet oil.

Standard Oil Co. of Ohio plans one of three proposed pipelines. It would market most of Sohio's Alaskan production in other sections of the nation besides the upper Midwest.

The other two pipelines are Kitimat and Northern Tier, both of which would dispense Alaskan crude to the northern refiners.

In the time period to 1985, California refiners are expected to take a growing percentage of the Alaskan production. So any West Coast - Midwest pipeline likely will have to move increasing amounts of foreign oil to pay out, according to the Journal.

But the pipelines are long-term solutions and will do nothing to relieve the short-term problems. The Sohio line could be finished by 1978. Kitimat could be finished in 1979 and Northern Tier in 1980. It is doubtful both Kitimat and Northern Tier will be built.

Other solutions are being considered by the refiners until one or more of the pipelines is finished, according to the magazine. One of those favored is large-scale crude swaps with Canada.

Several short-term solutions are being considered by the refiners, too, according to the Journal. The magazine says the best of those solutions is large-scale crude swaps with Canada.

The Federal Energy Administration held discussions last month with Canadian officials about such a possibility. Following the meetings, a spokesman for the Canadian Embassy in Washington said exchanges are "altogether possible."

The magazine calls the disparate economics of the surplus, the shortage, and the pipelines "a headache to all involved."

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The Anchorage Times

10/21/76

Business-Financial

Oil Firm Executive Cites Federal Delay

Special To The Times

ST. LOUIS, Mo. — Federal regulation to promote more oil company competition in the Gulf of Alaska closed the area to all exploration for more than a decade, a Standard Oil Co. (Indiana) executive vice president says.

Frank C. Osment said the government's 11-year delay in scheduling competitive bidding for leases in the gulf is an example of how regulation of the oil industry has produced results opposite to those intended by the regulators.

Osment said in 1965 he requested that the government conduct competitive bidding for offshore leases in the Gulf of Alaska after turning over to the Department of the Interior the results of "several million dollars" worth of Standard's proprietary studies indicating the possible presence of petroleum deposits.

"The Interior Department agreed with our interpretations of the studies, but they said they didn't have enough companies interested to promote real competitive bidding," Osment said. "So we looked around for places that wanted our expertise and our resources. One of the places we found was England which was trying to develop the North Sea play as fast as possible."

He said that between 1965 and 1976, "when the government finally held a sale of a small part of the (Gulf of Alaska) acreage," the North Sea has seen extensive drilling. About 13.5 billion barrels of crude oil reserves and 75 trillion cubic feet of gas were discovered, making England "virtually energy independent," he said.

Osment pointed out that during this same period U.S. oil imports have risen from 2½ million barrels a day to more than six million barrels, with the nation now importing about 42 per cent of total oil consumption.

In remarks delivered here to a seminar on free enterprise, Osment said another regulatory backlash has resulted from a maze of Federal Energy Administration rules. In certain cases, he noted, those complex regulations make it more attractive for a U.S. refiner to refine $14 per barrel crude oil imported from halfway around the world than $7 domestic crude.

Osment warned that if certain provisions of thehouse and Senate bills affecting the Gulf of Mexico become law, millions of dollars will be added to the ultimate cost the consumer must pay for his gas and oil, and prolong by several years the time the U.S. will be vulnerable to more oil boycotts.

He said despite the industry's brilliant 20-year safety record in the Gulf of Mexico — only four significant oil spills out of 19,000 wells drilled — legislators are seeking to increase the present 100 safety check points to 136 before drilling can begin.

Another provision in the same House and Senate bills, to reduce companies' control over information they acquire through their own efforts, would produce a "chain of unexpected results," Osment declared.

By giving some companies information for which they had contributed nothing, the reward for discovery of new oil - finding techniques would evaporate, resulting in less competition and less exploration, Osment said.

He noted that some people believed the oil industry would make a killing off the oil in the Gulf of Mexico, which currently supplies 17 per cent of total domestic oil and gas production.

"In reality," he said, "the companies paid $18 billion since 1950 for just the rights to look for oil, and they've been paid $19 billion for the oil they produced.

"If you throw in the $10 billion spent for rigs, materials, and labor, the industry is still $9 billion short of breaking even after 20 years in the area."

Interior Moves On Atlantic Oil

TIMES 11/22/76

WASHINGTON (AP) — The Interior Department has begun the process of selling oil and gas exploration and drilling rights leases in an expanded area off the coasts of five Middle Atlantic states.

The department yesterday invited proposals for exploration of an area of some 14.8 million acres lying 15 to 110 miles off New York, New Jersey, Maryland, Delaware and Virginia.

The invitation, a "call for nominations and comments," is the first legal step toward an eventual sale of leases in 1978. The announcement said no decision would be made until public comment has been collected and reviewed and an environmental impact study is made. The process may take some 19 months.

The department, after weathering public debate and attempted lawsuits, auctioned off the first federal leases off the Atlantic coast last Aug. 17, accepting more than $1.1 billion for the right to drill for oil and gas on 529,466 acres off New Jersey and Delaware.

The area involved in yesterday's invitation overlaps the 6.5 million acres originally proposed for the August lease sales. The department said the expanded call now includes areas farther north and south and more seaward.

Fuel Report Predicts Petroleum Shortages

TIMS 10/28/76

SEATTLE (AP) — A federal report says Eastern Washington may come up short about 10,000 barrels of petroleum products a day by 1980 while the West Coast reaps a surplus of Alaskan oil.

The Federal Energy Administration report also forecasts a shortage of about 17,000 barrels a day for Montana.

The report addresses the problem of supplying crude or refined products to areas affected by the cutoff of Canadian crude to Northern Tier states' refineries.

Actually, the report assumes about a 27,000 barrel-a-day shortfall from Montana refineries, since Eastern Washington gets about 15 per cent of its petroleum products from Montana by way of the Yellowstone and Chevron pipelines.

Keith Sherman, Washington state energy office director, and Seattle area oil shippers believe the immediate problem — delivery of petroleum products to Eastern Washington — will be solved by tank barges up the Columbia River.

Sherman said the Olympic Pipeline, which carries petroleum from the four Washington refineries to Oregon, has the capacity to supply barge runs up the Columbia. The cost of another method of transport — train shuttles between Columbia River west of Portland, Ore., and Billings, Mont., — would be too expensive, he believes.

The federal report discusses six, 90-car unit trains a day shuttling between the Columbia River west of Portland and Billings.

Although the FEA report has not been made public, testimony before the Senate Interior Committee and California state agencies indicates the study shows there will be an oil surplus of 500,000 barrels a day or more on the West Coast when the Alaska pipeline reached near-capacity.

TIMES
9/23/76

Vessels Crosscross Prosperous Fishery In Search For Oil

NEW BEDFORD, Mass. (AP) — American oil companies are finishing a summer of crisscrossing one of the world's greatest fishing grounds in small ships looking for the best spots to drill for oil.

At least one of the companies, Shell Oil, says its detailed search with computers and sonic shock waves has disclosed several promising areas to drill for petroleum.

The oil men have been looking on Georges Bank, home of the Northeast's fishing fleet and one of the world's most productive fishing places.

"There's no question that there are going to be some interesting tracts out there, ones that look favorable and promising," said Gordon Phillipson, a staff geophysicist aboard Shell's seismic vessel Phaedra.

"From an economic standpoint, they are not small," he said. "But there has to be a lot of soul-searching computer work to make sure that what looks promising now will stay that way."

Last month, the federal government sold oil leases on the Baltimore Canyon, the seabed off the coast between New York and Virginia.

Next spring, if all goes as the oil companies hope, the government will sell leases on Georges Bank off New England. Before then, however, hearings must be held on an environmental impact study that is scheduled to be released within about a month.

Besides Shell, complex measurements of the ocean floor have been conducted this sumimer by Mobil, Texaco and Digicon, a Houston-based firm performs studies for several other oil companies.

All of them are using instrument-laden ships that produce X-ray-like pictures of the rock formations below the sea. The companies will use this information to decide which areas have the best chance of producing oil.

Then, if the leases go on sale next May or June, the companies will know which underwater tracts they should seek drilling rights for. In all, it is expected that about 200 tracts, each of them three miles square, will be available for bid.

Though Shell has not decided which tracts to seek, Phillipson said, "There is only a very remote possibility that we wouldn't bid."

Phillipson spoke while Shell's 172-foot Phaedra was docked in New Bedford taking on supplies for its final month of research.

Since April, the Phaedra has covered 5,000 miles, taking measurements in most of the 200 tracts that are expected to be leased. The ship flashes sound waves toward the ocean bottom. Their ecnoes are then picked up by sensitive listening devices embedded in a 12,000-foot-long cable that trails behind the ship.

Earlier this year, 31 oil companies sponsored a floating drilling rig that bored a hole into the ocean floor on Georges Bank. The drill did not strike oil, but it did bring up rock samples that the companies will use when they analyze the information from the seismic ships.

Return
CHAPMAN

TIMES
10/30/76

Agency Proposes Offshore Plan

Times Washington Bureau

WASHINGTON — The governor of Alaska and his counterparts in other coastal states could count on receiving copies of development plans for any oil and gas fields that may be discovered off their shores under a proposed order published by the U.S. Geological Survey.

The plan, published in the Federal Register, would require lessees and operators involved in offshore operations to provide the information well in advance so that the states could prepare for any onshore impact from the outer continental shelf activities.

The governors would have 60 days in which to review and comment on the discovery prior to action by the Geological Survey.

The lessee or operator, at least 30 days before submitting a development plan to the geological survey, would be required to supply the state with the following coastal zone information:

—The location and size of any offshore and land-based facilities to be built, leased or otherwise acquired.

—The amount of acreage required within the state for facilities and storage, right of way and easements.

—The means to be used to transport oil and gas to shore, the routes to be followed and, where possible, the estimated quantity of oil and gas moving along such routes.

—Requirements for land, labor, materials and energy, as well as the number of persons engaged in onshore support activities.

—An estimate of any significant quantity of natural resources including water and other major supplies to be procured within the state.

—Estimates of the timing of the development operations.

Offshore Oil Work Will Give East Jobs

TIMES 10/20/76

NEW YORK (AP) — Gov. Hugh Carey's decision to withdraw the state's suit against planned offshore oil drilling in the Atlantic Ocean could help create thousands of new jobs in New York and New Jersey.

Carey asked State Atty. Gen. Louis Lefkowitz on Tuesday to drop the suit. The governor's action followed a ruling by the U.S. Court of Appeals last week that lifted an injunction against the sale of $1.1 billion worth of Interior Department leases to private oil companies.

A study made for the oil companies showed that some 28,000 jobs related to oil and gas exploration and production will be created over the next 15 to 20 years. Many of the jobs would come to New York and New Jersey which have excellent support facilities for offshore drilling operations.

In a related development, Exxon USA Corp., which bid more than $340 million in August for exploration rights, announced it will locate support activities at Quonset, R.I. Their initial explorations are scheduled to begin next August.

John S. Dyson, State Commerce Commissioner, hailed Carey's decision, saying the governor had "tried to balance the need for energy and concern for the environment."

Lefkowitz had planned to appeal the Court of Appeals ruling in U.S. Supreme Court. But a Carey spokesman said the governor was convinced by top aides that the environmental protection the state was seeking through the courts is possible without legal action.

Environmentalists were backing the state in its attempt to prevent drilling in 876,750 acres along the East Coast in what is known as the Baltimore Canyon which stretches from just south of New York City to the northeastern waters of Maryland, Virginia and Delaware.

Long Island's two counties, Nassau and Suffolk, said they would reassess their positions in light of Carey's move. They did not rule out pressing on with the suit. It could not be learned immediately what the New Jersey counties would do.

Senate Election Results May Worry Oil Companies

By MAX B. SKELTON

HOUSTON (AP) — Oilmen who fear congressional proposals to break up major oil companies found little encouragement from the U.S. Senate results of the general election.

Ten senators who voted against vertical divestiture will not return to Congress next year. Only four senators who voted for divestuture will not return.

Oilmen were shocked late last year when three divestiture proposals suddenly surfaced on the Senate floor. All three amendments were rejected but oilmen were shocked by the strength mustered by proponents of the measures that were submitted without benefit of committee hearings.

Vertical divestiture was rejected, 40-49. The proposal would have required the 15 largest producing companies to get rid of other operations such as refining and marketing within five years.

The Senate votes prompted the American Petroleum Institute, oil's largest trade group, to form a special task force last November to fight divestiture.

Another proposal aimed at the 18 largest integrated oil companies was approved by an 8-7 vote in June by the Senate Judiciary Committee but it never reached the Senate floor.

In the past year, scores of oilmen have made hundreds of speeches charging that divestiture amounts to an attack on free enterprise. They have also said repeatedly that other industries such as steel and automobiles will certainly follow should the major oil companies be broken up.

Of the 40 senators who voted for vertical divestiture, 27 were not up for reelection, 12 faced opposition, and one, Senator John O. Pastore, D-R-R.I., did not seek reelection. Three of the 12 — Senators John V. Tunney, D-Calif., Vance Hartke, D-Ind., and Frank E. Moss, D-Utah, were defeated.

Senator Walter F. Mondale, D-Minn., now vice president-elect, was among the 27 who were not up for reelection.

Of the 49 who voted against divestiture, 35 were not up for reelection; five of the nine who had opposition were defeated and five chose not to seek reelection.

Those defeated were Senators J. Glenn Beall Jr., R-Md., Joseph M. Montoya, D-N.M., James L. Buckley, R-C-N.Y., Robert Taft Jr., R-Ohio, and Bill Brock, R-Tenn.

Those not seeking reelection were Senators Paul J. Fannin, R-Ariz., Hiram L. Fong, R-Hawaii, Stuart Symington, D-Mo., Roman L Hruska, R-Neb., and Hugh Scott, R-Pa.

The Anchorage Times

10/25/76

Business-Financial

State's Progress Pleases Showalter

Kenneth Showalter, Standard Oil of Ohio's first fulltime representative in Alaska, says he is pleased with progress being made in streamlining state government.

Showalter was a volunteer team leader for the Governor's Management and Efficiency Review team which spent several months last winter studying the operations of state government. The team came up with recommendations for cutting state spending by $70 million to $80 million a year.

"I was quite pleased with the progress report Thursday," Whowalter said. "I think the Governor and Leonard Lane are moving along quite well. If they keep moving at that speed, they will be instituting the changes faster than we had anticipated."

Lane is the coordinator for the implementation, which was expected to take 18 months.

Showalter, whose office is in the BP Building on C Street, went to Juneau a year ago this month to get started on the efficiency review. His company was one of 55 which provided manpower and funding for the study, a total $500,000 donation.

He worked on the review into early February. "After working 14 weeks on something like that, I want to see it go."

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He'll be back in Juneau for the next legislative session, with the amount of time he spends there "in direct ratio to the kinds of proposals that are forthcoming," he said.



KENNETH SHOWALTER
Standard Oil Rep

Exxon President Cites Value Of Alaskan Oil

Special To The Times

HOUSTON — "North Slope oil development, together with the trans-Alaskan pipeline, will contribute more to reduce U.S. dependence on foreign oil than any other action taken in this decade," Exxon USA President Randall Meyer said yesterday.

"The 1.2 million barrels per day expected to be produced from the North Slope by 1978 will represent an increase in U.S. crude oil production of approximately 15 per cent," he said.

"When Alaska North Slope oil begins to flow to market next year, imports of foreign oil will be correspondingly reduced even if some Alaskan oil cannot be refined on the West Coast and part of it is transported to refineries elsewhere in the U.S.," Meyer added.

"The fact that West Coast crude oil production is likely to exceed West Coast demand in no way detracts from the importance and usefulness of the Alaskan oil development. Oil reserves are seldom found exactly where they are needed and petroleum companies routinely and efficiently move oil from where it is found to where consumers want it. Added U.S. oil reserves and production are badly required no matter in what region of the country they may be located.

"A number of recent events have made it almost certain that soon after North Slope production starts, crude oil production in the states west of the Rocky Mountains will exceed the ability of refineries in that part of the country to process it. Foremost among these developments is the fact that many West Coast refineries have not been modified so that they can operate at capacity while processing only available Alaskan or California grade crude oils.

"Federal price controls discourage investments to modify refineries in this way. Consequently, many West Coast refiners will continue to import foreign crude oil despite the fact that ample domestic crude oil will be available to them.

"An added factor affecting the balance of crude supplies and demand on the West Coast is that substantial volumes of oil from the U.S. Naval Reserve in California are now being produced and marketed. This reduces the available West Coast market for other domestic crude oils. Also, current estimates of West Coast petroleum consumption are now lower than previous estimates due to lower industrial demand and to energy conservation."

Meyer said that "despite these developments, North Slope oil can be moved to other U.S. refiners needing it, and, in so doing, imports of foreign oil will be directly reduced. In the near term, the only practical way of moving West Coast crude oil to refiners in the U.S. Gulf and East Coast is by ship.

"The much discussed alternative of exchanging some North crude oil in return for foreign crude oil would, under federal law, be feasible if the federal government determines that such exchanges are in the national interest. If the government makes such a determination, exchanges might be practicable as an interim measure prior to the commissioning of pipeline systems to move oil across the U.S.

"Specific actions toward achieving long term optimum use of Alaskan oil are timely. It is clear that West Coast refineries should be modified to permit them to operate at capacity while processing available U.S. crude oil. Federal controls inhibiting these investments should be removed.

"In addition, a pipeline transportation system to move West Coast crude oil to other parts of the country should be built. Much of the potential for future oil and gas discovery in the United States is in the far western states, including the waters off the coasts of California and Alaska. Consequently, a permanent means of moving large volumes of crude oil from the West Coast to other parts of the country is likely to continue to be needed.

"From a national security standpoint, a pipeline system or systems would provide a secure, high-capacity means of moving domestic oil between the West Coast and other parts of the country," he declared. "This would be particularly valuable in the event of foreign supply curtailments or a national emergency."

Meyer said "Exxon is currently in discussion with The Standard Oil Co. of Ohio concerning the proposed project to move oil from the Los Angeles area to Midland, Texas for subsequent distribution to the Midwest and other parts of the country.

"This pipeline project appears to be attractive for several reasons. It could serve several major U.S. refinery centers. Its origin terminal would also serve the largest West Coast market. It makes optimum use of existing facilities and could serve as an important link in filling the proposed national strategic oil reserve."

Meyer further noted, "Exxon's refinery at Benicia, Calif., can operate totally on U.S. crude oil and is expected to process a significant portion of Exxon's share of North Slope production. Exxon expects to be able to place the rest of its Alaskan production with other West Coast refiners or to transport it to refineries elsewhere in the U.S.

"The growing national need for energy and our current trend toward greater dependence on foreign energy supplies makes it essential that we get on with the job of finding and developing all available domestic energy sources. Oil is where we find it, not where we might like it to be. The country needs a lot more of it no matter in what region it may be found," Meyer added.

"Production of the North Slope oil will be very important to the U.S. in achieving our national energy goals. By the time North Slope oil flows through the Alaskan pipeline, it will have taken almost 10 years from discovery to actual production.

EDITORIAL PAGE

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

'Business At Its Best'

IN ALASKA'S DEBATES over all aspects of oil leases, exploration, production and the problems that follow in the wake of economic development, Thorton F. Bradshaw has been one of the most interested spectators, listeners and sometimes participant. As president of Atlantic Richfield Co., he represents one of the biggest investors in Alaska resources.

Although he has been inseparably tied to the oil interests, which some individuals consider bad, he has proven to be one of the nation's industrial leaders who is sensitive to social responsibilities as well as corporate duties.

ATLANTIC RICHFIELD is putting a major part of its total financial resources on the line to finance its share of the $11 billion Prudhoe Bay oil reserves along with the trans-Alaska pipeline and the costly gathering facilities, flow stations and other devices required to get the oil to market.

Mr. Bradshaw, by allowing his firm to become so deeply involved in an Alaska venture, is betting his all on success in getting the Alaska oil to the markets of the nation on a profitable basis.

He told the Conference of Young Presidents that the North Slope development is "American big business at it's best." He cited the enterprise, innovation and courage that has gone into the project.

IT IS UPLIFTING when a man of Bradshaw's status speaks up clearly and boldly in behalf of American enterprise. One of the curious customs of today is to criticize success and denigrate the institutions that have made America great.

In the legislative halls of Alaska one sometimes gets the impression that the lawmakers hate the economic ventures that are making this state a stable and inseparable part of the economy of the nation. Indeed, they point a finger of guilt at companies that are, in the Alaskan economy, the goose that lays the golden eggs.

DEFENDING BIG OIL was only part of Bradshaw's remarks to the Young Presidents. He also urged them to seek social change and to participate in writing the rules for business - community relationships. He said many rules for the use and preservation of the environment are yet to be written and business must help "if they are to be based on realism and experience rather than the visions of sugarplums that tend to dance in our social critics' heads."

It wasn't appropriate for him to mention it, but there is a need for legislators, conservationists and social critics to express the same concern for balance because the tasks that face society demand full collaboration by all sectors.

The Anchorage Times

Business-Financial 10/25/76

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KENNETH SHOWALTER
Standard Oil Rep

11/8/76

The Anchorage Times

Business-Financial

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By MAX B. SKELTON

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In the past year, scores of oilmen have made hundreds of speeches charging that divestiture amounts to an attack on free enterprise. They have also said repeatedly that other industries such as steel and automobiles will certainly follow should the major oil companies be broken up.

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Senator Walter F. Mondale, D-Minn., vice president-elect, Senator [illegible], who were not up for reelection.

Of the 49 who voted against divestiture [illegible] for reelection. Five of the nine who had opposition were defeated and five chose not to seek reelection.

Those defeated were Senators J. Glenn Beall Jr., R-Md., Joseph M. Montoya, D-N.M., James L. Buckley, R-C-N.Y., Robert Taft Jr., R-Ohio, and Bill Brock, R-Tenn.

Those not seeking reelection were Senators Paul J. Fannin, R-Ariz., Hiram L. Fong, R-Hawaii, Stuart Symington, D-Mo., Roman L. Hruska, R-Neb., and Hugh Scott, R-Pa.

Atlantic Richfield Plans Gulf Drilling

Atlantic Richfield Co. plans to drill an exploratory well in the northeast Gulf of Alaska with the drilling rig expected to be moved onto location this weekend.

The well, designated as Salome 72-1; will be drilled using the semi-submersible drilling vessel Ocean Ranger on acreage leased jointly from the Department of Interior by Atlantic Richfield and Shell Oil Co. The vessel recently completed a stratigraphic test well in the Bering Sea north of Dutch Harbor.

Howard A. Slack, vice president and resident manager of Atlantic Richfield's Alaska region, said the exploratory well will be drilled in 250 feet of water about eight miles south of Cape Yakataga, 97 miles west of Yakutat and 125 miles east of Cordova.

Salome is a code designation assigned to the target structure by the companies prior to last April's federal lease sale. Atlantic Richfield and Shell paid $41.1 million for the lease block on which the well is to be drilled. The government permit for the well calls for an authorized total depth of 15,000 feet.

The Ocean Ranger, the world's largest semi-submersible drilling vessel, is the second drilling rig to be assigned to operations in the Gulf of Alaska. The Sedco 706 drilling vessel is presently being operated by Shell Oil Co. on another lease 32 miles west of the Salome location and is drilling a well for Shell, Atlantic Richfield and others. Both vessels are especially designed for operations in areas of severe weather conditions. Slack said the Ocean Ranger performed extremely well in the Bering Sea operation.

Support for the Salome operation will be coordinated with the support of the Sedco rig. Five supply boats will provide standby safety service and carry fuel, water and other supplies for both drilling vessels. The fuel and most water will be carried from Seward to the drilling location. It is anticipated that other supplies will be routed through the supply terminal operated at Yakutat by Atlantic Richfield for itself, Shell and Mobil Oil Corp.

Air support will be provided by two Sikorsky S61N helicopters owned by Evergreen Helicopters of Alaska Inc. The helicopters will operate out of Yakutat.

Gold

By The Associated Press

Selected world gold prices Friday.

London: Morning fixing $115.00, up $0.15; afternoon fixing $115.70, up $0.85.

Paris: Afternoon market quotation $117.66, up $0.03.

Frankfurt: fixing $115.54, up $0.30.

Zurich: $115.50 bid up $1.00, $116.25 asked.

Handy & Harman base price, New York: $116.05, up $0.85.

Engelhard selling prices, New York: $116.20, up $0.85.

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TIMES
10/15/76

Atlantic Oil Plans Win Court Appeal

NEW YORK (AP) — The U.S. Court of Appeals has given the federal government the go-ahead on plans to drill for what is estimated tobe billion of dollars worth of offshore oil and gas along the mid-Atlantic coasts.

In granting permission to drill, the court overturned a lower court injunction and said the plaintiffs who had sued on environmental grounds had failed to show they would suffer "irreparable injury."

The court also rejected the argument that states involved may seroiusly restrict the drilling project with local environmental statutes. U.S. District Judge Jack B. Weinstein had halted the project pending a study of the rights of the states involved.

Weinstein held the officials had failed to consider that the states, not the oil companies or the federal government can decide how the land inside the three-mile limit is used.

The terse, two-page decision, handed down Thursday, removes the last bar to drilling and enables the government to keep its offshore exploration timetable in 876,750 acres of the Baltimore Canyon area of the Atlantic Ocean. The area extends from southern Long Island, New York, down along the New Jersey coast to the northeast waters of Delaware and Maryland.

Officials believe the area contains as much as 1.4 billion barrels of oil and perhaps 9.4 trillion cubic feet of natural gas.

The government on Aug. 17 auctioned $1.13 billion worth of oil-and gas-drilling permits to private oil companies.

Officials said intitial exploratory drilling would begin within a year, but full-scale production would take hree to five years. The oil comanies plans must now be approved y the geological section of the Interior Department.

The appeals judges said one of the reasons they could not sustain the injunction sought by New York State, by Long Island's two counties, Suffolk and Nassau, and by the three New Jersey counties of Cape May, Atlantic and Ocean, was that they doubted they could win if the environmental issues came to trial.

"An evaluation of these statements measured by the 'practical rule of reason' creates some doubt as to the probabilities of plaintiffs' success on the merits," the court wrote.

The Department of the Interior had denied assertions that the Continental Shelf permits posed a menace to waters and beaches because of possible oil spills.

Mexican Gulf Drilling Slows

TULSA (AP) — Large-scale drilling for new oil and natural gas in the deep waters of the Gulf of Mexico has slowed down because of high operating costs and technological hurdles, the Oil and Gas Journal reports.

The Oct. 25 issue of the weekly business magazine published here reports that the companies which pioneered offshore exploration in the Gulf 20 years ago now are turning their attention to the waters of the East and West Coast rather than venture into deeper Gulf waters.

The magazine said there still is much oil and gas activity in the Gulf but most of the undeveloped sites off Texas and Louisiana are in 600 or more feet of water.

Most companies prefer to drill elsewhere rather than get into the deeper Gulf waters, and one of prime prospects will be the Baltimore Canyon off New Jersey and Delaware, the magazine reported.

Water depth in the canyon averages about 350 feet over potential oil and gas reservoirs.

Industry interest in Gulf of Mexico sales has declined during the past two years. Another indication of an activity slow-down in the Gulf is the limited number of drilling plans announced by the industry for the rest of 1976 and 1977, according to the Journal.

"We can drill in waters more than 3,000 feet deep," one operator told the Journal. "But what good will it do if you can't affored to bring production on stream?"

The magazine cited the example of an offshore platform contracted for at a cost of $30 million in 1974. The price for the same platform has increased five times.

Industry's attempts to advance deepwater drilling and production technology are progressing but new equipment is expensive.

In addition to such advances, there are other signs that activity will be revived and perhaps even sustain the Gulf as the nation's most active offshore arena, the Journal says.

Representatives from more than 40 oil companies will meeet early in 1977 to plan a joint test program which will help locate suspected oil and gas bearing structures in deep Gulf waters.

The program, one of the organizing compaines said, also could speed development of technology by determining that there are deepwater Gulf prospects worth going after for which there is no existing technology.

TIMES 11/7/76

Oil To Japan Might Be Wise

Shipping Prudhoe Bay crude oil to Japan in exchange for imports of middle-Eastern oil may well be an interim solution to the problem of a West Coast oil surplus when the trans-Alaska pipeline goes into production, according to the state's petroleum consultant Milton Lipton.

At a meeting here yesterday of an interim legislative committee, Lipton said the preferred destination for Prudhoe Bay crude oil is the Midwest, but pipelines to the Midwest are several years away.

He estimated that oil carried by tanker to British Columbia and then by pipeline to the Midwest would result in a wellhead price only 60 cents less than to Los Angeles. Prudhoe Bay oil shipped by pipeline from Los Angeles to Texas would bring a wellhead price about $1.28 less than Los Angeles, and by tanker to the U.S. Gulf Coast, $1.43 less.

Lipton said that Frank Zarb, head of the Federal Energy Administration, has declared that under no circumstances can he foresee the federal government allowing an exchange with Japan. That is understandable, Lipton said, because if the export were allowed, oil companies would lose the incentive to build pipelines from west to east in the U.S.or to make changes in West Coast refineries to handle the higher sulphur Prudhoe Bay oil.

The trans-Alaska pipeline authorization bill forbids the export of oil to Japan without the President's consent. Lipton thinks that approval might be forthcoming if the exchange were for specified volumes of oil over a limited period of time, and if the Alaska oil were carried on U.S. flag tankers.

A third requirement, he said, might be that for barrels of oil exported, a specified number of barrels of oil must go into the nation's strategic oil reserve. If this were a quid pro quo for shipping oil to Japan, it would mean the oil "doesn't really leave the U.S.," he said.

Japanese refiners have a tremendous range of refinery capacities, Lipton said, with a lot of de-sulphurization equipment because they handle a lot of "cruddy crude"from the neutral zone of the Middle East.

Lipton said the anticipated West Coast surplus is the result of a lag in demand over the past 2½ years, an increase in oil prices and the recession. Plus, he said, the U.S. has abandoned restrictions on oil imports, and imports will continue after Alaska crude is available because the California refineries and markets are better suited to imported oil.

Alaska's Only Morning Newspaper
Founded in 1946 by Norman C. Brown

Our views:

Costly glut?

One oil company engaged in the trans-Alaska pipeline project finally has admitted there will be an oil glut on the West Coast and is taking steps to avert it.

Standard Oil of Ohio (Sohio) announced this week that it's contracting for smaller oil tankers to move Prudhoe Bay crude through the Panama Canal once the pipeline is completed.

The Sohio plan to funnel oil south is necessary because industry won't have facilities in place in time to handle all the Alaska oil once it begins to flow next year. Sohio estimates as much as a half-million barrels of surplus a day would accumulate!

The Daily News said as much last year in a special series of articles by staff writer Sally W. Jones. Since then, industry and government have begun waking up to the hard, cold figures of an oil surplus.

State governments along the West Coast have been meeting on the problem for some time, identifying economic and environmental problems. Meanwhile, early this year, Long Beach, Calif., began planning port facilities to receive the extra crude. And in February, the Federal Energy Administration finally began actively studying the possibility of a surplus and what might be done about it.

It's hard to imagine that with all the money, time and effort that went into planning the pipeline and making it environmentally and politically acceptable, the consequence of pumping 1.2 million barrels of oil a day from the Slope wasn't seriously considered.

There's no question that the surplus oil will get to market, whether it's through the Panama Canal or sold to Japan (which industry and federal government leaders still deny).

The question now, however, is what these new schemes to get oil to pipelines and refineries beyond the West Coast ultimately will cost the American consumer. We suggest that be fully addressed, and now.

Exxon To Rent Rhode Island Site

TIMES 10/28/76

Special To The Times

HOUSTON—Exxon USA plans to support its initial exploratory drilling operations in the mid-Atlantic outer continental shelf area from onshore facilities at the Naval air station at Quonset Point, R. I.

The company is entering into a rental agreement with the Rhode Island Department of Economic Development for approximately six acres of open storage area, and two acres of pier space. It is anticipated that approximately 1,600 square feet of office space and 4,000 to 6,000 square feet of covered storage also will be rented at the shore base facility.

Exxon was successful bidder on 30 Mid-Atlantic OCS tracts leased by the federal government last August and expects to begin drilling in early 1977.

In the Gulf of Alaska lease sale in April, Exxon won 24 tracts. The company also plans to begin drilling operations in the gulf early next year.

The company has provided a summary of its planned Atlantic support activities to the governors of several Mic-Atlantic states. The summary covers Exxon's anticipated needs for office, storage and pier space; boat, helicopter and fixed wing aircraft transportation; and local housing.

Most of the 180 people engaged in the initial exploration program will maintain their present permanent residences in other states and commute and live on the drilling unit. It is anticipated that local housing will be needed in Kent and Washington counties of Rhode Island for up to 12 families of Exxon personnel and contract drilling and service company employes.

Exxon facilities at Quonset Point will support only the company's exploration phase of oil and gas development in the Mid-Atlantic. The company said if oil or gas is found in commercial quantities, it is likely that the onshore support base for production operations would be located at another site, but a selection has not been made.

Suit Seeks To Ban Atlantic Exploration

NEW YORK (AP) — Suffolk County Executive John Klein says his office will press on with a suit to prevent Atlantic oil exploration along the East Coast despite Gov. Hugh Carey's withdrawal of the state's legal action.

State Atty. Gen. Louis Lefkowitz confirmed that the governor "requested me to terminate this litigation."

"Accordingly, my office will stipulate to discontinue the action on behalf of the state of New York," Lefkowitz said.

Klein, a Republican said, "I just can't believe the governor has thrown the towel so easily."

ALASKA RESOURCES



Another Calm Before The Storm

By Thomas E. Kelly

APPROXIMATELY one year ago an article appeared in this column entitled "The Calm Before The Storm." It dealt with then proposed new taxes primarily aimed at oil companies doing business in the state.

Alaska's chief nemesis of business and industry, Sen. Chancy Croft, D—Anchorage, and several of his loyal followers including Sen. John Huber,D-Fairbanks, and Rep. Steve Cowper,D—Fairbanks, worked tirelessly throughout the last session in an attempt to enact a new package of confiscatory taxes, not on the basis of the needs of state government but on the basis of a so-called "fair share" concept not unlike that of the Opec nations.

For the first time reason prevailed in the legislature and the proposed tax package was not adopted. That was last year. In fairness to the "get you good" advocates of higher taxes they have been exceedingly successful over the years with the notable exception of last year.

Taxes were increased in 1968, 1970, 1972, 1974 and 1975, particularly with respect to the oil industry in the form of increased severance taxes, a re-enacted oil and gas conservation tax, new ad valorum 20-mill property tax and finally a reserves tax which keeps the state out of bankruptcy with its ever-spiraling budget.

The reserves tax is presently bringing an excess of $230 million per year into the state treasury which might be viewed as a proper thing except that it is essentially a forced lending statute and a classic bill of attainder.

NOW WE ARE in another calm before the storm as the same advocates of higher taxes plot to overcome the opposition they faced last year, which for the first time was more effective principally because of a new element of free enterprise arguing against higher taxes — the native regional corporations.

Gearing up this year is not much different than in the past for the proponents of increased taxes. The approach is to hire an out-of-state economics consultant who generally has a bias against business in general and the oil industry in particular — the latter being the most visible target and favorite whipping boy of reform-minded legislators.

Last year the Interim Committee on Oil and Gas Leasing and Taxation Policy hired former Harvard economics professor and one-time (he was fired) Esso Eastern employe, Michael Tanzer. Mr. Tanzer set everyone on their haunches as he recommended a state-owned oil company, taxation of private companies to 90 per cent of their income and a variety of other incredible tax proposals.

Tanzer has been rehired by Croft, et al, this year, but at a reduced consulting fee which would tend to indicate his influence may not be as profound as in the past.

In the coming session of the legislature the oil industry will face a new adversary. But it is not just this single industry that is likely to eventually feel the knife of Croft's committee if it succeeds in its preconveived objectives — state ownership and control of resource development.

THE NEW WIZARD is Dr. Mason Gaffney — a man with no mean credentials. Considered by some to be the world's foremost natural resource economist, he is certainly a well read and prolific writer, principally on taxation and public policy. The flavor is not dissimilar to a famous 19th century political economist, Karl Marx.

cont

p. 2

cont from p. 1

Dr, Gaffney recently served as a "think tank" consultant to the former NDP administration of Premier Dave Barrett in British Columbia. Gaffney was, in effect, fired from his position on a three-man property tax advisory commission following dissolution of the Institute of Economic Policy Analysis which the majority of voters in B. C. found unpalatabe when they rang Mr. Barrett's gong.

Now due to the generosity of Sen. Croft to the tune of $35,000 of Alaskan taxpayers' money, we are going to be treated to a scenario that our neighbors in B. C. have previously experienced — and rejected.

It is interesting, if not terrifying, to look at Dr. Gaffney's philosophy as expressed in his many writings. While he is hired by the legislative committee to zing the oil industry in Alaska, the adoption of his policies would no doubt ultimately affect all Alaskans regardless of political belief.

A good preview of the philosophy we can expect appeared in a paper presented by Dr. Gaffney before the Conference on Property Tax Reform in Washington, D. C. in 1970. It reads:

"Property is owned by people of property — the rich.... as to concentration of property, about half of the people own none, they are te nants...Naturally property owners resent sharing with the propertyless. But the struggle of the poor in America has been fought before, and won...

" There is a permanent revolution, built right into the system we already have.... The method is taxation, which is tempered looting according to rules that can be quite constructive and provide permanent support for welfare, education and many other things."

THE CONCEPT of free enterprise in America is founded on the right to own real property. Alaskans, of all people, know this most profoundly.

From the colonists in the Matanuska Valley to the Kenai homes teader to the Kodiak cattle rancher — everyone came to Alaska seeking the opportunity to own property that they could not afford to obtain elsewhere in the country. Now we have hired a man to advise on public policy whose viewpoint holds that the real property ownership is decadent, immoral and must be forced to pay the bulk of the cost of government.

As Dr. Gaffney concludes in one treatise, "If we want to make real property a taxpayer instead of a tax shelter, we must reform land assessment."

Hopefully he will have the time to visit the many types of property owners in Alaska including the farmers and recreation-site owners in the Matanuska Valley and on the Kenai. They have seen some rather substantial increases in tax assessment of their property in the past year.

IT IS MY prediction that Dr. Gaffney will be a very prominent and influential figure in the upcoming legislative session. I perceive that he has one principal weakness, if it can be called such, and that is that his writings and pronouncements are expressed in economic hieroglyphics and are very difficult to comprehend.

His fundamental belief, however, is clearly discernible. If you happen to own a home, a homestead or a piece of vacant property, or if you are the beneficiary of 44 million acres of lands to be conveyed to Alaska native villages and corporations -- let alone the owner of producing oil and gas leasehold property — beware. Your ownership will be short-lived if Dr. Gaffney's doctrine comes to be a way of life in Alaska.

Oh, joy for some of those elected representatives who are looking out for us! It would not surprise me if they next announced that they are planning a study and fact finding trip to the Ukraine.

Tom Kelly, former commissioner of natural resources, is a consultant specializing in Alaska resources. He is a past president of the Anchorage School Board and is president-elect of the Chamber of Commerce.

News
9/22/76

Oil trade with Japan?

By MARK PANITCH
Our Washington Correspondent

WASHINGTON — A projected oil surplus on the West Coast will be only a "transitional" problem, a Ford administration spokesman told the Senate Interior Committee Tuesday. But he said he would not rule out exchange of Alaska oil with Japan.

Oil companies and government agencies, responding to a committee questionnaire, pegged the anticipated surplus following the flow of Alaska's North Slope oil at 600,000 barrels a day in 1978 and up to 1.1 million barrels a day the following year.

JOHN HILL, DEPUTY director of the Federal Energy Administration, compared the expected surplus to the period when Texas began producing more oil than it could use.

"This is a transitional period," Hill told the committee. "There were solutions then, and there are solutions now." He said exchanges with Japan "may be possible and wise."

Sen Ted Stevens, R-Alaska, a member of the committee, called a pipeline from the West Coast to the East Coast the long range solution to the problem. But he urged his colleagues "not to rule out the possibility of an exchange agreement with Japan. . . ." He was careful to draw a distinction between an exchange and a sale.

AND IN A HEATED statement, Stevens called on Congress to prevent California from barring the unloading of Alaska oil there. That state's director of air resources was



Ted Stevens

quoted as saying that vapors from tankers bringing Alaska oil might be equal to hydrocarbon vapors from millions of automobiles.

"No state should have the right to place burdens to the point where it stops interstate commerce," Stevens said.

Sens. Dale Bumpers, D-Ark., and Adlai Stevenson, D-Ill., questioned the wisdom of any export of U.S. oil. They were joined by Interior Committee Chairman Henry Jackson, D-Wash., who asked "how could we explain that?"

STEVENSON NOTED that part of the problem lay in the recent Congressional authorization to produce about 300,000 barrels of oil per day from the national petroleum reserve at Elk Hills. "It was a

(Continued on page 2)

(OVER)

1 million acres in Cook Inlet

Oil lease sale hearings set

News 8/23/

By SALLY W. JONES
Daily News Staff Writer

More than 50 persons have registered to testify this week on a Department of Interior proposal to sell oil and gas leases on nearly one million acres of submerged land in Lower Cook Inlet.

Interior's Alaska Outer Continental Shelf Office has scheduled three days of hearings — two in Anchorage and one in Homer — beginning Tuesday on a draft environmental impact statement released last month.

THE 1,200-PAGE document describes the climatic, seismic, natural and social-economic characteristics of the sale area, which lies generally between Anchor Point and the Barren Islands in the inlet.

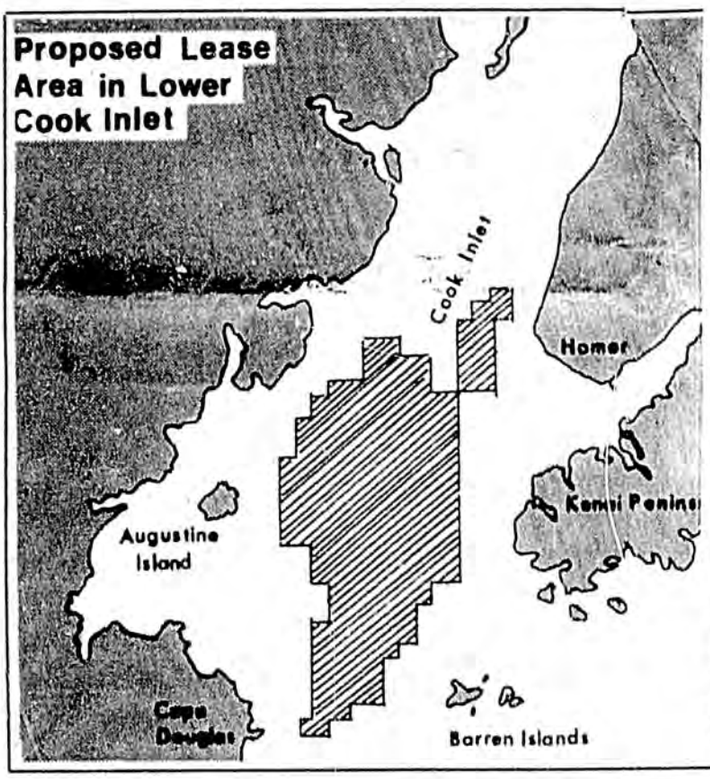
The Lower Cook sale, scheduled for late this year or early next year, is among nine Interior has scheduled for the Outer Continental Shelf (OSC) in Alaska.

The first sale was held in April in the eastern Gulf of Alaska near Yakutat.

THE IMPACT STATEMENT said more detailed studies of the environment of the Lower Cook Inlet area began this summer and are scheduled to continue for several years. The document that will be the subject of hearings next week was compiled from available information on the sale area.

It estimates that the sale area has recoverable oil reserves totaling .09 to 2.6 billion barrels and recoverable reserves totaling .6 to 3.3 trillion feet of natural gas.

Interior estimates the total market value of the sale area's crude oil at $990 million to $28.6 billion. The impact statement, however, cited a number of variables that make economic projections "highly speculative."



IT SAID investment and production costs to develop the field could range from $3.7 billion to $7 billion, which includes the cost of an estimated needed 84 exploratory wells, 520 oil platform wells, 21 oil platforms, 300 miles of pipeline, two treatment facilities onshore, two marine terminals, one liquid natural gas plant and two liquid natural gas tankers at peak production levels.

The impact statement also anticipates that production in the inlet could start as early as 1981, with peak production of 340 million barrels per year occurring in 1984 and declining thereafter for the 25 to 30-year life of the field.

Maps of the area identify Seldovia, Homer, Anchor Point and Kenai as the probable localities that would receive various support activity, such as terminal sites for tankers, and other support services.

THE DOCUMENT also identifies the Lower Cook Inlet area as having five volcanoes, earthquake areas that have experienced temblors ranging from 6 to 7 on the Richter Scale, swift tidal currents and a wealth of marine mammal and fish species.

The statement said, however, that further studies will need to be done on ranges and species of birds in the area, and that oil spills in a number of critical habitat areas could have lethal effects on marine species.

The fish species cited as the most important to the lower inlet were five commercially valuable species of salmon and halibut. Also identified as important resources were crabs, shrimp, and clams. The impact statement said the salmon catch during the inlet's 1974 commercial season was valued at $7 million.

The hearings in Anchorage will begin in the Captain Cook Hotel Endeavor Room Tuesday and Wednesday at 9 a.m. In Homer, where signs are posted throughout the town urging attendance at the hearing, the session will be held at 9 a.m. Thursday in the East Homer Elementary School.

News 10/16/76

Officials see no doom at end of oil line boom

By ROSEMARY SHINOHARA
Daily News Staff Writer

For Barbara and James Thurmond, the economic boom that made 1975 a record building year in Anchorage and saw housing prices rise 15 to 17 per cent per year ended rather abruptly.

The Thurmonds, planning to move to Oregon, began advertising to sell their house in early June.

FALL CAME, AND the three - bedroom East Anchorage house was still on the market — even though it had been advertised at $6,000 below the appraised value.

"When school started, we gave up some of our big ideas," said Barbara Thurmond. "We're just waiting for a better time to sell."

Daily News Special Report

Their story is repeated with variations by other house owners whose plans were thwarted, and by the statistics: During one week this month, there were 2,412 housing units on the market, or one and one-half times as many as were up for sale on the same date last year, according to the Multiple Listing Service.

"THERE'S AN OVER-ABUNDANCE of houses on the market," said one housing official. "Sales are still very good, but there are a lot to choose from."

The buyer's market in housing is an early indicator of how Anchorage will weather reverberations the pipeline boom leaves in its wake.

But though the softening real estate industry represents a crisis for many householders who want out, the rest of the consumer population will probably feel only slightly the changes in post - pipeline boom Anchorage over the next few months.

THE INGREDIENTS for major changes in the lives of Anchorage residents — drastic population changes, or severe changes in the unemployment rates — don't exist at this point, planners indicate.

The work force on the pipeline project is expected to decline from about 19,000 at the beginning of this month to less than 5,000 by December.

Preliminary unemployment rates in Anchorage for August were seven per cent this year, compared to five per cent last year, according to state Labor Department statistics. The figures for September will probably show the highest employment rate for the year.

"WHAT THIS REALLY means is that the impact hasn't shown up yet," a Labor Department official said. Thousands of people are being laid off pipeline jobs, but the same thing happened last year and the year before. "The real impact will be next spring, when they don't go back to work."

Anchorage doesn't need the largest - ever privately financed construction project as a plum to draw more people to Southcentral Alaska. The people are still coming, even as the pipeline builders prepare to dump the last shovel of dirt to bury the line.

The population may not be growing as wildly as it has since 1974, but it is still increasing by several thousand a year.

THE UNIVERSITY OF ALASKA'S Urban Observatory estimates the Anchorage area population at 182,000 to 185,000 currently, compared to 177,400 in July, 1975, and 162,500 in July, 1974.

(Continued on Page 2) (over)

U.S. jet damaged after chasing Rus

ANCHORAGE (AP) — An Air Force F-4 jet was damaged while

Kleppe supports speedy OCS sale

8/11/76

By SALLY W. JONES
Daily News Staff Writer

PRUDHOE BAY — The producers of the Prudhoe Bay oil field Friday urged Interior Secretary Thomas S. Kleppe to hold an offshore oil and gas lease sale as soon as possible.

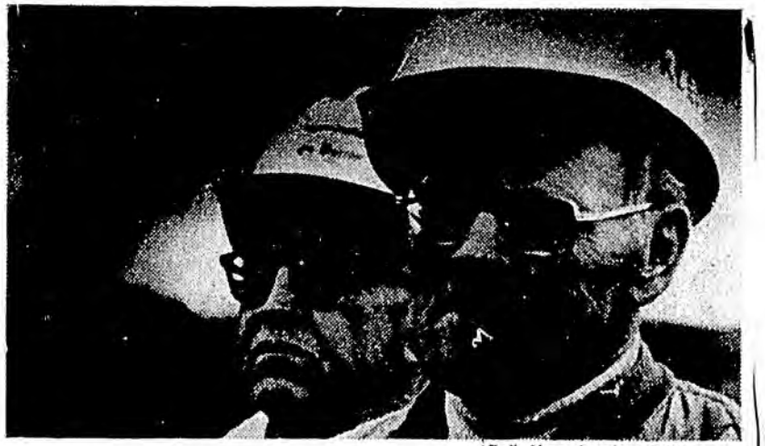
Officials of the Atlantic Richfield Co. (ARCO), British Petroleum (BP), and Exxon Co. found a willing listener in the secretary, who for two days has toured the Alaska Pipeline project and the Prudhoe Bay field with enthusiasm.

"I'M WITH YOU all the way," Kleppe responded. "We're figuring out now how to move as fast as we can with an outer continental shelf lease sale in the Beaufort Sea."

Kleppe was briefed by ARCO and BP Friday before setting out in near - freezing temperatures to see the hardware, plants, drill sites, pipelines and natural gas reinjection system that will enable the eight pipeline owner companies to begin carrying oil 800 miles south to the port of Valdez next year.

During the briefing, Howard Slack, ARCO vice-president, and Kenneth Keep, BP vice president, told Kleppe they are confident more produceable oil can be found in the Alaskan Arctic. They responded to numerous questions from the secretary, who quizzed the oil officials on current exploratory drilling activity, where the companies expect to find more oil and when the additional oil reserves might be able to be produced.

"I'm very interested in this because the nation needs oil," Kleppe said.



Daily News photo by Sally W. Jones

Hard-hatted Alyeska Pipeline Service Co. Chairman Ed Patton and Interior Secretary Thomas Kleppe, during an inspection tour of the pipeline north of Fairbanks.

SLACK, KEEP, and representatives from their companies were anxious to explain to the secretary how exploration is undertaken, but they said the high competition of the oil business prevented them from discussing specifics at great length.

"There's one thing I'd like to impress upon you, though, Mr. Secretary," said Keep. "The lease timing sets the timing for (additional) exploration. We need to know (about a lease sale) as soon as possible" for planning, he said.

"The oil industry is a very competitive business," added Slack. "We are only allowed (by government) to keep our exploration well data confidential for a certain length of time."

INTERIOR CURRENTLY has a tentative schedule for a Beaufort Sea sale in late 1977, although Gov. Jay S. Hammond has proposed that Interior delay that schedule for the outer sea area.

North Sea oil spurs Norwegian economy

By PETER T. KILBORN
(C) 1976, New York Times News Service

OSLO—Norway is poised to come the world's richest country, passing all except the few Arab kdoms that float on oil.

t is oil in Norway, too, North Sea , that is pushing the country past itzerland and neighboring eden, currently the world leaders wealth per capita. But unlike wait or Saudi Arabia, Norway ay would be relatively well off n without oil.

THE COUNTRY'S prosperity has wned a new model of the welfare te, a prosperous model that is still unfulfilled goal of the Com- nist nations and a more generous humane experiment, people e say, than the well-known one of eden.

"I have the distinct impression the rwegians are satisfied with their es," said Bjorn Balstad, head of Norwegian Gallup Institute. uite a few people are saying they too affluent and could do with s."

ndeed, one Gallup study found t 76 per cent of Norway's four llion people felt they were too well in relation to the rest of the rld, and that an additional 22 per t felt their living standard was isfactory. Ninety per cent think y eat too much.

NORWAY'S growing oil wealth has meant that the government can disregard the harsh methods other countries sometimes have to use to protect their economies.

Last year, when the worldwide recession forced nearly all other Western developed countries to accept high unemployment and economic decline, Norway enjoyed almost full employment and real economic growth. Norway did it by running up uprecedented debts in foreign loans, which will all be repaid, with little apparent pain, from the coming surge in oil revenues.

Such policies are propelling Norway ahead of the rest of the world. Just three years ago, before the first oil had come ashore, Norway ranked ninth among the 25 developed countries that make up the Organization for Economic Cooperation and Development.

BY LAST YEAR, Norway was third; its per capita gross national product then was $7,100. This was $50 more than that of the United States and about $1,300 behind Switzerland and Sweden.

This year, and well into the 1980s Norwegians expect their economy to grow at annual rates of 6 per cent and more. Switzerland's economy, by contrast, will grow only 1 per cent this year, the OECD predicts, and that of Sweden only 1.5 per cent.

Norway's prosperity is not the sort experienced by countries that blossomed earlier in the Industrial Revolution. It is not the limousine wealth of the relatively few that is apparent here.

THERE ARE FEW real equivalents of swank shops or plush homes, no private schools to speak of, no well-heeled teen-agers in sports cars. The only Rolls-Royce in Oslo is believed to be the British Ambassador's, and of the thousands of boats in Oslo Fjord, the only true big yacht belongs to the country's jovial King Olav.

Norway's wealth, instead, is that of a sprawling middle class with paper-thin minorities at the extremities. Factory workers live nearly as well as their bosses. Every elementary school has a doctor, a dentist and a nurse. Up to half the population owns or has ready access to a second home, usually a modest, wood-frame cabin in the mountains or along the coasts.

Taxes are among the world's highest. They are a common source of complaint, and evading them is a national sport. But it is the tax system, primarily, that has equalized incomes and preserved much of the traditional society. Taxes are used to subsidize farmers and fishermen.

THE COUNTRY'S widely distributed prosperity has been hard on frugality. "Small boys," said Mrs. Tove Pihl, a school headmistress, "refuse to wear white underpants. They have to be colorful. And you should see the standard of their bicycles, their skis and their ski boots."

Despite their affluence, Norwegians have their worries, and their society has its flaws. There are still a few big businessmen—landowners and secretive shipowners—who have been able to beat the system. One shipowner paid no taxes at all last year because of business reversals, but at his home he built a tennis court, an indoor swimming pool and a garden.

At the other end of the social scale are the dropouts and the rejects, many of them dark-skinned immigrant workers from Pakistan whom the homogenous Nordic race has been reluctant to try to absorb.

"IN GENERAL," said Odd-Steffen Dalgard, one of the country's few psychiatrists, "Norwegians are happy to be Norwegians. But we are not a welfare state in that all our problems are solved."

The urbanization of Norway, he said, seemed to be creating even more strains here than in other countries because until now Norway had been an unusually immobile, rural society.

"It seems to be," he said, "that people are less concerned with each other. There's a trend that problems should be met by some form of expert help. In rural areas, people are able to use their resources to help one another."

Flaws have crept into the economy, too. Inflation last year exceeded 10 per cent, and it is still above that level now. A higher level of inflation than most other countries are experiencing means that eventually the prices of the goods Norway exports will exceed those of competing countries.

Oil is now coming ashore at an annual rate of 16 million tons, twice the amount the country uses for its own purposes. By 1980, the rate will be 70 million tons. It will continue to flow well into the next century. Revenues from the sale of oil then should be about $3.6 billion, or $900 per capita.

But even in the 1980s, oil will still represent only a quarter of Norway's exports. The other exports—lumber, pulp, furniture, machinery, sardines — will have to sell at competitive prices to assure the country's prosperity.

Not everyone lost money in Florida land deals in the middle 1920s. The lot purchased by the Ft. Lauderdale Methodist Church in 1915 for $1000 sold during the Florida land boom 10 years later for $80,000.

MONEY

Market struggles over oil price outlook

NEW YORK (AP) – The stock market was mixed in a busy session Friday, struggling against some new doubts about the oil price outlook.

The Dow Jones average of 30 industrial stocks gave up 1.33 to 948.80, trimming its gain for the week to 21.11 points.

Advances outnumbered declines by a 5-3 margin on the New York Stock Exchange.

Big Board volume reached 24.55 million shares, up from an even 24 million Thursday and the heaviest total since a 32.97-million-share day Sept. 22.

A primary force behind the market's strength earlier in the week had been rising hopes that the Organization of Petroleum Exporting Countries might delay a scheduled mid-December decision on whether and how much to raise oil prices.

But Friday morning investors were cautioned by U.S. officials that they had no hard evidence that such a delay was in the offing.

With that subject on their minds, traders paid little heed to some generally bright news on the domestic economy.

The government reported a 0.3 per cent rise in its consumer price index last month – the smallest increase in seven months – and an upturn on orders for durable goods.

New York's Morgan Guaranty Trust, the sixth largest bank in the country, lowered its prime lending rate from 6½ to 6¼ per cent.

At the NYSE close, the Federal Reserve announced a quarter-point reduction in its discount rate, to 5¼ per cent.

That lowering of the rate the Fed charges on loans to its member commercial banks was seen as underscoring the central bank's evident intentions of fostering lower interest rates and stimulating the economy to some degree.

The NYSE's composite index edged up .06 to 54.61.

In other markets, the American Stock Exchange market value index gained .63 to 100.04, and the NASDAQ composite index for the over-the-counter market added .16 to 89.97.

California urges gas pipeline

SACRAMENTO, Calif. (AP) The California State Energy Commission says the best way to get Alaska natural gas to California is by pipeline.

But the commission also says that by the early 1980s the state will need at least one ocean terminal for shipment of liquefied natural gas, provided it's far from population centers and fire hazards.

Chairman Richard Maullin said the commission late Wednesday recommended the Federal Power Commission "tentatively approve a liquefied natural gas terminal site but only subject to approval by the State Coastal Commission and review by the State Seismic Safety Commission."

The commission said two proposed sites for an LNG terminal, Oxnard and Los Angeles, aren't far enough away from population centers. It didn't advocate a specific terminal site.

The commission's resolution will be included in the State Public Utilities Commission's report to the FPC on how California feels the Alaska natural gas should be delivered to the nation.

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He says the state also is concerned with reliability, and shouldn't be in a position of getting some 90 per cent of its natural gas from one source.

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TIMES
10/26/76

Oil Executive Resorts To Fable

The tale of the little red hen, modern version, has the hen sowing and reaping the wheat and baking the bread, all without the help of other barnyard dwellers — who are standing ready to charge "Excess profits," and help consume the finished loaves.

Dick Donaldson, vice president of Standard Oil of Ohio, told the Anchorage Chamber of Commerce yesterday that the modern version also includes the government agent, saying, "You must not be greedy. Under our free enterprise system, you're free to produce, but you must divide it with the idle."

Donaldson didn't equate the little red hen directly to the oil industry, but his message was clear.

He went on to point out that Alaska's overall 17 per cent tax rate on oil and gas is ahead of any other state - and that rate would have been raised to 48 per cent during the last session of the state legislature, "under proposals which bore the Tanzer imprint."

Michael Tanzer, a New York economist, was and is a consultant to the legislature. His report a year ago concerned expected profits from Prudhoe Bay, and suggested the state could tax the oil industry 50 to 60 per cent without forcing it to leave the state.

Donaldson said the oil industry is "looking very closely" at state studies now underway by both Gov. Jay Hammond's administration and the Alaska legislature regarding future state oil and gas taxation and leasing policies.

He urged moderation, with the aim of "striking a proper balance between revenue sources and needs and a business environment which will sustain a healthy economy and the jobs that go with it."

Donaldson said that while Alaska has 17 per cent of the nation's potential sources of oil and gas and is a "highly attractive" area of exploration, it is not the only area available.

Oil companies must take into consideration the higher costs of operating in Alaska, he said, and the shortage of capital available for exploration and development. Another prime consideration is the availability of skilled labor and support businesses and a fourth is the state's tax and regulation climate.

Donaldson said Sohio will submit its own study to the state later this week, offering some "new perspectives on the existing tax structure and royalty obligations as related to Prudhoe Bay and the trans-Alaska pipeline."



DICK DONALDSON
Speaking For The Hen

Two-thirds of Sohio's total capital investment is now in those two areas, he said. Sohio owns approximately 50 per cent of Prudhoe Bay oil and, with BP Alaska, nearly 50 per cent of the pipeline.

Alaska can afford time for the "soundest possible" taxing and leasing policy decisions, Donaldson said. "I'm glad the studies are underway. They can be a necessary first step for a permanent tax structure.

Comparisons of the tax burdens of Alaska with other countries, including mid-Eastern countries, are not valid, he said, unless a whole host of questions is answered, including "Is the aim of those governments to eliminate private industry?"

Donaldson said an energy policy for Alaska and the nation would insure access to resources, with proper consideration for the environment; "turning teams loose to develop" those resources; and "facing up to the cost" by providing what tax incentives are needed.

"If there is concern for profits, require them to be ploughed back," Donaldson said.

America is now importing 44 per cent of its energy, he said. "I think we never will be energy independent, but Alaska can help fill the gap."

Federal Energy Administration estimates of Alaska's undiscovered oil wealth are 9 billion to 50 billion barrels of oil, both on and offshore, and 24 trillion to 137 trillion cubic feet of gas.

Prudhoe Bay was a fortunate super-discovery, he said. "But it has to pay for the dry holes. One of ten wells has oil but only one of 49 will be economic to produce."

Donaldson, here from Sohio's headquarters in Cleveland, will speak in Kenai Wednesday, Fairbanks on Thursday and Juneau on Friday.

He said he is making his "48th or 49th visit" to Alaska in the last five years. Now vice president for government and public affairs, he was formerly Sohio's general counsel and worked on the litigation and permits for the trans-Alaska pipeline.

Times 10/11/76

Poll Finds Voters Undecided On Tax

By ED HEIN
Times Staff Writer

Most voters in Alaska's three largest cities haven't decided whether they favor or oppose oil tax proposals introduced by the last legislature, an independent survey says.

The Alaska Industrial Survey Research Service, a joint venture by H. A. Boucher and Associates of Anchorage and Rowan Group, Inc. of Mill Valley, Calif., did the survey.

The report, based on interviews with at least 325 registered voters in Anchorage, Fairbanks and Juneau, is sold to corporate clients for $15,000 to $18,000. The service said its sample reflects total urban voter opinion accurately to within 3 per cent either way.

"The public was only slightly aware of any campaign waged for or against the tax package," the service said.

The 20 per cent who favored the proposals said the taxes would reduce the pipeline's impact on the state and that the oil industry could well afford to pay. The 23 per cent opposed said oil taxes already are too high and increasing them might force the industry to leave the state.

Respondents also expressed their views on other issues:

— Alaska's biggest problems, in order, are population growth, inflation and crime, voters said. Major issues nationally, they said, are inflation, unemployment, crime,

(See Page 2, Col. 1)

Poll Finds Indecision

(Continued From Page 1)

failure of leadership, foreign policy, energy and corrupt government.

— The capital move was favored by 48 per cent and opposed by 44 per cent, but opinions varied drastically in each of the three cities. In Anchorage, 64 per cent of voters favored the move, compared to 25 per cent opposed. Fairbanks voters opposed the move 32 per cent to 61 per cent. Juneau voters, opposed it overwhelmingly.

— If an election had been held last July, Gov. Jay Hammond would have received the approval of 31 per cent of urban voters and the opposition of 27 per cent. The other 42 per cent said they didn't know how they would vote or that it would depend on who Hammond's opponent was.

— Voters in all three cities expressed a lack of support for their legislators. Anchorage incumbents were voted down 30 per cent for to 37 per cent against. In Fairbanks it was 15 per cent for and 31 per cent against; in Juneau, 33 per cent for, 35 per cent against.

"It would be a serious mistake to assume from these findings that incumbent legislators are on their way out in the 1976 elections," the report said. "Voters do not know their incumbents as incumbents; they know them as familiar names and they are voting for them."

— The El Paso plan for a proposed natural gas pipeline route was favored by 73 per cent of respondents. Juneau voters favored it by 88 per cent. The most appealing aspect of the El Paso plan is that the pipeline "would be built entirely within Alaska," those in favor said.

...correcting the areas which will be ...pen to hunting and regulations for ...arvest by a permit system. Also to ...e considered are proposals banning ...he barter of caribou and the use of ...aribou as dog food.

Rausch said the department does ...ot know all factors causing the ...ecline of the caribou herd, but ...dded it is obvious the kills by both ...unters and wolves are excessive.

"The emergency closure and the ...roposed new regulations are efforts ...o reduce mortality and permit the ...erd to regain its former status so it ...an once again be a big factor in the ...ustenance of northwest Alaskans."

"WE HAVE taken emergency ...ction to close all hunting until the ...oard of Game can adopt more ...ringent controls on human ...arvest," he said. "It's obvious that ...e caribou will have to have relief ...om predation also."

...have expressed concern over the welfare of the herd, a major source of food and income for many living in northwestern Alaska.

RAUSCH SAID public hearings in Fairbanks, Barrow and Kotzebue recently showed overwhelming support for curtailment of human harvest and wolf control.

Department biologists estimate wolves may remove 10,000 to 15,000 caribou from the Western Arctic herd each year.

The wolf control program will probably be done by aerial hunters on a closely supervised permit system, Rausch said.

Public comments are being sought on all proposals and may be sent to the Board of Game, Subport Building, Juneau.

Testimony will also be heard when the Board meets here in September.

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•Senate checks oil surplus



Daily News photo by Michael McDermott

Sens. Walter Huddleston of Kentucky and Adlai Stevenson of Illinois listen to a question during a Monday press conference.

(Continued from Page 1)

investigation was to determine, first, the extent of the surplus, and then how to alleviate it. He said one possibility was to ship it east through existing pipelines but that much information was needed about the capacity of the pipelines to absorb the oil.

He said he and others had warned about the possibility of a surplus when the pipeline was being debated but that the oil companies had denied it. He indicated displeasure with the oil companies for not bringing up the possibility sooner.

"TIME AND TIME and time again we were assured by the oil companies that there would not be a surplus. Shortly after the pipeline was started the oil companies said there would be a surplus," he said.

A provision of the pipeline authorization act said no Alaska oil would be exported unless the President deemed it was in the national interest to export it and the plan was not disapproved by Congress.

Durkin said property owners on the East Coast frequently paid more for home energy needs than they did for home mortgages. However, he said the question of an oil surplus from a pipeline to the West Coast probably would not influence the question of routing a pipeline for natural gas. He said questions of national security remained with the Canadian route and that a gasoline proposed from the east Canadian arctic might provide gas to the East Coast.

Sen. Ernest Hollings, D-S.C., who was also at the news conference, said the question of surplus oil could influence decisions to tap the Elk Hills oil reserves in California and other national petroleum reserves, including the former Naval Petroleum Reserve on the North Slope. He said oil from the national reserves should not be used while there was a surplus but that the North Slope reserve should be developed to the point where it could be put on line when needed.

Also accompanying Gravel on the tour of the state was Sen. Walter Huddleston, D-Ky.

ANCHORAGE DAILY NEWS

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York stepped aside as a potential third entry in the presidential contest, saying he will run only for the Senate and will support the ticket chosen by the convention.

(Continued on Page 2)

• The District 8 candidates

Page 6

south of the Brooks Range.

STATE GAME Division Director Robert A. Rausch said the closure, ordered Friday, will remain in effect until the board of Game adopts new regulations on caribou in these

He added if the herd were allowed to continue its present decline, it would have a severe effect on the lives and lifestyles of many western Arctic residents.

In April, the Board of Game

After holding public meetings in Fairbanks, Kotzebue and Barrow, Rausch said, the department is now publishing a series of proposed

(Continued on Page 2)

News 8/17/76

Senate looks into oil surplus reports



Daily News photo by Michael McDermott

Democratic Sens. John Durkin of New Hampshire, Ernest Hollings of South Carolina, and Mike Gravel of Alaska field questions at a Monday press conference in Anchorage.

By ANDY WILLIAMS
Daily News Staff Writer

A U.S. Senate investigation has begun into reports that the trans-Alaska pipeline may produce an oil surplus on the West Coast of at least 500,000 barrels a day, Sen. Adlai Stevenson, D-Ill., said Monday.

Stevenson, here with Sen. Mike Gravel, D-Alaska, and three other senators, told a news conference that studies available to Senate committees but as yet not made public indicated a surplus of at least 500,000 barrels a day at the anticipated pipeline flow rate of 1.2 million barrels a day.

STEVENSON said one proposal was to ship the surplus to Japan and buy it back again in the form of Arab oil shipped to the East Coast. But Sen. John Durkin, D-N.H., said there would be "a major problem" getting congressmen from the East Coast to accept that proposal.

"I can guarantee you a lot of people on the East Coast are not going to sit quietly," he said, "if we continue to be dependent on Mid East oil and surplus oil on the West Coast is to be exported to Japan. It will be well discussed in the Senate before it gets through."

Stevenson, chairman of the oil and gas subcommittee of the Senate Commerce Committee, said he had begun an investigation of the anticipated surplus and that an investigation by the full Commerce Committee and the Senate Interior Committee would follow. Hearings by the joint committees are expected in September.

"WE'RE INTERESTED, of course, in evidence of mismanagement and inefficiencies associated with the Alyeska pipeline, but the critical question is what becomes of the oil," Stevenson said.

He said the purpose of the

(Continued on Page 2)

(over)

TIMES 11/1/74

Oil Report Says Decade May Bring $10 Billion

Alaska's present laws can be expected to generate more than $10 billion in state revenue during the next 10 years if the price of oil is $13 a barrel in California.

That is one of the conclusions drawn in a study prepared by Standard Oil Company of Ohio and submitted to state officials for consideration in connection with taxing policies.

If the oil price should rise to $16 a barrel, which some sources consider likely, total state collections could top $13 billion. On the other hand, if the price should be $10 total collections would be about $8 billion.

Sohio compiled the figures based on hypothetical figures. Ken Showalter, Alaska representative, said the Alaska study had to be an exercise based on hypothetical figures because of Security and Exchange Commission rules regarding forecasts of company revenues and profits.

The company's study was prepared for the use of the state administration and the legislature. It will probably be turned over to the economic consultants hired by Guy Martin, commissioner of natural resources, and Sen. Chancy Croft's legislative committee.

Besides calculating the revenues present laws would provide for the state, the study showed that Alaska would collect just about 75 per cent of all the levies made on the three companies by all the 50 states.

The percentage of the total would remain virtually the same regardless of the possible fluctation in the market price of oil.

Alaska would collect 20 per cent of the three companies' total income taxes paid to the 50 states of the nation. This money would accrue under a formula developed under the Multistate Tax Compact of which Alaska is a member. The compact is an agreement under which the revenues of companies operating nationally and internationally are apportioned among the states where the operations take place.

The Alaska state income tax can also be counted on to yield substantial revenue. The Alaska income tax rate is 9.4 per cent of the taxable income while other states average only 6 per cent.

The study showed the following breakdown of the calculations of which taxes Alaska could expect from Prudhoe Bay in the next 10 years if the oil price is $13 a barrel:

$756 million from the state tax levy on income.
$4.9 billion as royalty
$2.7 billion as severance tax
$2.04 billion as property tax

If the oil price should rise to $16 a barrel, stat revenues would increase principally from royalty an the severance tas collections.

State royalty was shown at $6.8 billion and severanc tax collections at $3.6 billion.

The oil company initiated its own study of taxation i Alaska after the state administration and the Senat committee announced new studies of the same thing.

Sen. Chancy Croft's committee has obligated th state for $150,000 to pay for consultants to make th studies. Included among his contracts is one for $15,00 for Michael Tanzer, the economist who caused a rum pus in the last legislative session when he propose new taxes that were so high that no new legislation wa enacted.

Petroleum Industry Hopes 'To Hold Its Own'

Special to The Times

TULSA, Okla. — The best the petroleum industry can expect from next month's general election is to hold its own, but even that seems an unlikely prospect, according to The Oil and Gas Journal.

Any loss of Capitol Hill supporters could spell further setbacks for the petroleum industry, the Journal says. The industry managed to win a few critical votes during the 94th Congress, but lost ground on some major issues involving tax treatment and price controls. A loss of congressional support could result in future shifts in voting that could mean more troubles for oil and gas.

The Oct. 18 issue of the weekly business magazine says there probably will be a slight decline in industry support in the Senate. House support should remain about the same.

The Journal based its prediction on an analysis of all the general election races. Particular attention was given to 33 Senate contests — the races carrying the petrolum industry's best chance for political gain.

Democrats, with a national platform less favorable to the industry, may add two more Senate seats and are expected to maintain a comfortable majority in the House, the Journal says.

Key opinion polls also show Democratic presidential nominee Jimmy Carter still running ahead of President Gerald Ford, whose energy policies are considered more favorable to industry.

"The industry lost ground on tax treatment and price controls during the 94th Congress," the Journal says. "Its vistories were by narrow margins, sometimes achieved by having barely enough votes to sustain a presidential veto of unfavorable legislation."

The Journal identifies several issues viewed unfavorably by the industry which a new Congress and President probably will consider soon after the election.

Some of the issues were successfully opposed earlier by Senate and House factions which support the industry. Others were not resolved before the election recess. They are:

—Proposed exploration of the Outer Continental Shelf by federal agencies,

—Revised methods for holding lease auctions of Outer Continental Shelf tracts believed to contain oil and gas reserves,

—Unfavorable amendments to the Clean Air Act,

—Renewed interest in divestiture legislation,

—Legislation prohibiting U.S. companies from participating in the Arab trade boycott of Israel,

—Regulation of intrastate gas sales.

The Journal says the industry also will be pressing for some new legislation, including deregulation of prices for new gas discoveries and federal financing or loan guarantees for development of synthetic fuel plants.

Opening of the trans-Alaska pipeline in mid-1977 and proposals to restructure the federal energy agencies also may start debate in the 95th Congress of interest to the industry.

Although industry prospects at this point seem dim, the Journal says "close races abound from top to bottom on the national tickets, making races still too close to call."

The best — and at this point, not inconceivable — prospect is the industry could add three new supporters in the Senate, according to the magazine.

Additional political leverage for the industry also might surface in the regional and philosophical voting patterns of individual senators despite the unfavorable Democratic national platform Journal says.



The Anchorage Times

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WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Page A-4 Sunday, October 31, 1976

More Oil Tax Studies

THE "IN" THING in government today is studies.

It is hard to object when a leader cites the need for expert advice and special know-how in finding answers to today's challenges.

The state has dozens of studies under way. There must be dozens among the executive branches of government. And more dozens by committees of the legislature.

There is reason for concern, however, about the cost of the studies. Many thousands of dollars are going into them. Experts from far away are being employed. Supposedly, we are to get the advantage of their special knowledge on technical subjects.

THIS CONCERN has been stimulated by experiences during the last legislative session. Among other reports that came to light was the Tanzer study of oil taxation. Tanzer made such atrocious recommendations that even some of the sponsors of his $12,000 contract to make the study backed away and tried to look at it distantly.

At least one was heard to say that it was not Tanzer's philosophy we were buying, but his economic knowledge about the oil industry.

The report was so extreme that one senator suggested during floor discussion that the legislature might well find it necessary to put some kind of restrictions on the freedom of committees to hire experts.

MORE TAX STUDIES are under way at present, with Chancy Croft's committee sponsoring five of them under contracts totalling $116,000. Unfortunately, Tanzer is among the five, re-employed for another go-around despite the fact that his work was rejected before.

It is to be hoped that the experts will do more than sit in their ivory towers and hand down decisions on what Alaskans ought to do and what they ought not to do. They would be helpful if they would apply the experiences of other states to the Alaska situation and project the probable results here if the same programs were followed.

THEY SHOULD LOOK at other parts of the world to see what has happened under the policies of the various governments. In Indonesia there may be an important lesson for those legislators who, like Tanzer, would tax oil companies up to 80 per cent of their earnings in Alaska.

In Indonesia, the dictator government raised taxes to take 85 per cent of the oil revenues. That sounds like one of Tanzer's proposals for Alaska.

The dictator also put his government into the oil business by creating a government-owned oil company, Pertamina. That sounds like another Tanzer proposal.

THE DICTATOR has been put away now. He left his country in poverty. The oil companies have quit exploration. Oil production is limited to the properties that existed when the taxes were raised. Only three offshore rigs are drilling. Twenty others are stored in Singapore. Service companies are leaving. Landlords in Jakarta can't find tenants.

It is commonly said, according to Business Week, that everything is moving to the Middle East.

Pertamina, the government-owned oil company, went bankrupt trying to fulfill the dreams of General Sutowo, the president of the company. Then the government shouldered an additional $1 billion burden to rescue the enterprise.

DETAILED DATA on the big bust in Indonesia should be readily available for use in the Alaska studies because so many of the experts employed to make them came from the same institution that guides the Indonesian government — the University of California.

Business Week reports that when the dictator was dumped, control of the oil and gas sector went into the hands of four cabinet ministers who were educated on the Berkeley campus in the early 1960s.

Let's hope our experts will show us the way to avoid the disaster of Indonesia.

Conferees Okay Subsea Oil Bill

By MARK BROWN
Times Washington Bureau

WASHINGTON — House and Senate conferees reached final agreement today on a bill that sets new procedures for the development of oil and natural gas reserves on the outer continental shelf.

The conference report still must be voted on separately by the House and Senate before the final bill can be sent to President Ford for his signature.

A spokesman for the Interior Department said Secretary Thomas Kleppe has not yet recommended whether the President should sign or veto the measure.

A veto at this point would be fatal, since Ford could hold the bill until Congress goes out of session before vetoing it, and there would be no chance to override.

Rep. Don Young, R-Alaska predicted the bill would be vetoed because "it's a monstrosity."

In addition, there are strong indications that administration supporters may filibuster the bill on the Senate floor, trying to spare the President the need to sign or veto the measure.

The legislation is strongly supported by coastal states in frontier drilling areas and by environmentalists, but opposed by the oil industry. Industry says the legislation would delay domestic exploration, development and production would increase foreign petroleum imports, would disrupt American private enterprise development of natural resources and would increase the number of procedural steps (now 70) which must be taken between leasing and production of offshore tracts.

In its final version, the bill would require the secretary of Interior to develop a five-year leasing program, with one-third of all leases to be offered under alternates to the traditional bonus bidding system.

A special exception which should primarily affect Alaska was written into the bill by the conferees. That amendment would allow 10-year leases in areas of "unusually deep water or adverse conditions."

During the debate, Young argued that an oil company which faced a five-year deadline to drill in Alaska or forfeit its lease would either do a rush job that could ruin the environment or simply not go there at all because the conditions do not permit a wise and sound drilling program.

The amendment was approved by voice vote.

Among its other major provisions, the legislation authorizes coastal states to set up regional advisory boards, whose recommendations to the Secretary of Interior must be accepted unless they are ruled outside the national interest.

The bill mandates the oil companies to follow new safety guidelines or face the loss of their leases requires environmental impact statements and sets up a $100 million to $200 million liability fund to clean up oil spills and compensate for their damages.

The OCS represents nearly two years of study by the House select committee on the outer continental shelf. Nearly 200 amendments were considered.

TIMES 9/20/76

Dome Ltd. Strikes Beaufort Sea Gas

ABOARD THE EXPLORER ONE IN THE BEAUFORT SEA (AP) — An Albertan oil company says that one of its offshore drilling rigs has struck natural gas, but a second rig will be abandoned because of a water blowout.

Dome Petroleum Ltd. of Calgary said today that one of its experimental drilling ships has penetrated four feet into a natural gas zone 10,000 feet below the surface of the Beaufort Sea. The well is about 40 miles north of Tuktoyaktuk, N.W.T., on the western Arctic coast. Prudhoe Bay is about 350 miles to the west.

A spokesman for Dome's drilling subsidiary, Canmar Corp., said the extent and value of the find have not been determined.

Canmar said Sunday that a second of three wells, being drilled by the ship Explorer Two about 35 miles northwest of Explorer One, is being abandoned because the water blowout weakened support for oil and gas pollution protection equipment.

Environmentalists have said they fear an oil blowout will occur in the Beaufort Sea drilling that would pollute the Arctic Ocean with oil nearly impossible to clean up because of heavy ice conditions.

The Canmar spokesman said the blowout weakened the well's blowout protector, thus creating the possibility of a more serious incident.

The Canadian federal government decided earlier this year to allow Dome to drill from ships, a first in the Beaufort. Drilling was allowed for a six-week period, which has been extended by 10 days to end Saturday.

Tanzer To Advise Legislature

TIMES 10/8/74

By SUSAN ANDREWS
Times Staff Writer

Michael Tanzer, author of the controversial Tanzer Report on the tax potential of the Prudhoe Bay oil field, has been hired as an advisor to the state legislature.

He is one of five consultants hired or under consideration by the Interim Committee on Oil and Gas Leasing and Taxing Policies, under contracts totaling a maximum of $116,000.

Tanzer's latest contract calls for him to explore "the impact on exploration and development resulting from increased oil taxation by Norway, Great Britain, West Germany, the Canadian province of Alberta and other governments."

And he is to compare company profits per barrel under the tax and royalty policies of major oil producing countries.

Tanzer's latest contract, for $15,000 plus $2,000 in travel expenses, was outlined in a Sept. 24 memo to Rep. Hugh Malone, vice chairman of the interim committee from James Rhode, administrative assistant to the House Finance Committee

Tanzer's assignments also include:

– Computerizing the system for calculating discounted cash flow returns used in the Tanzer Report to allow varying assumptions as to oil prices, investment and operating costs, pipeline tariffs and tax rates. According to Rhode's memo, "This work began in June and is largely complete."

– Calculation of the "simple accounting profit and total dollar profit over total dollar cost" for Prudhoe Bay. Rhode's memo points out that "these will provide additional, easier to understand, measures of returns on the field. Further, the calculations will be a benchmark for assessing the estimates made by financial houses and others.

Tanzer also is to meet with members of the interim committee "to explain and discuss the above reports and the original and updated Tanzer Report on the tax potential of Prudhoe Bay."

Tanzer was paid $15,000 plus $2,500 in travel and expenses for the initial report, completed last year.

The legislative committee on oil and gas leasing and taxing policies, headed by Sen. Chancy Croft, D-Anchorage also has signed a contract for $35,000 with Mason Gaffney, who will work with Commissioner of Natural Resources Guy Martin in a review of the state's oil and gas leasing policy.

Gaffney, an American, was recently with the British Columbia Institute of Economics.

Gregg Erickson, director of the division of research services for the legislative council, said three other contracts are pending.

One is with Jerome Ziefman, a professor at the University of Santa Clara law school, and former counsel to Rep. Peter Rodino's U.S. House Judiciary Committee. The state wants Ziefman to conduct legal and economic studies, totaling not more than $20,000, of the multi-state tax compact.

Erickson said Ziefman wants to conduct the study in cooperation with Kenneth Ainsworth, a professor of economics at Alleghany College in Pennsylvania. Ziefman and Ainsworth are to meet in Juneau Monday with Erickson and Department of Revenue officials to discuss the study.

The fifth consultant under consideration is Paul Hartman, a retired Valderbilt University professor now a visiting professor at Pepperdine Law School in Anahein, Calif. Hartman would conduct a constitutional review of proposed income tax and net proceeds tax legislation, under a maximum $25,000 contract.

Purpose of the studies, according to Rhode, is the determine whether

(See Page 2, Col. 5)

Tanzer To Advise State Legislature

(Continued From Page 1)

the state can "find out what is a fair rate of return to the oil companies and still make sure that Alaskans get our fair share of the value of our oil."

Rhode noted that the cost structure of oil companies operating in the North Sea is "very similar to cost data for Prudhoe Bay, and yet we find that tax rates in the North Sea — or the total government take — is on the order of 60 per cent in the case of the British, Norwegian and West German governments.

"This raises an immediate question: If costs are similar, why is our tax rate under theirs?"

Oil company spokesmen argue that such reasoning does not take into account the taxes the oil industry pays to the U.S. government, in addition to the state of Alaska.

Dick Donaldson, vice president of Standard Oil Co. of Ohio, told the Alaska AFL- CIO convention here recently that at existing tax levels, the 31 largest U.S. oil companies taken together pay 74.1 per cent of their income in state and federal taxes. Employes' salaries take 12.9 per cent; investors' dividends 5.2 per cent and the companies' share is 7.8 per cent.

Tanzer's initial study, which influenced legislation introduced but not adopted at the last legislative session, suggested that profits from Prudhoe Bay were such that the state could tax profits at 50 per cent and later at 80 per cent without discouraging the owner oil companies.

Donaldson said while Prudhoe Bay profit predictions have increased 400 per cent as a result of the quadrupling of oil prices since the oil embargo, development costs also have risen 400 per cent. He said the owner oil companies expect to make a 15 per cent rate of return on their investment.

"The principal beneficiary of any 'windfall' will be the state," Donaldson said. Alaska will have a bank balance of $1 billion to $5 billion within 10 years.

Houston Firm Wins North Slope Project

By Associated Press

Alyeska Pipeline Service C. has awarded a contract to complete installation of a gas fuel line on the North Slope to Houston Contracting Co., Inc. The 148-mile buried line is made up of six-, eight-and ten-inch diameter pipe and will provide natural gas to power turbines at the four northernmost pump stations on the trans-Alaska pipeline from Prudhoe Bay.

Times 10/9/76

Department Reshuffling Is Completed

The reorganization of the Department of Natural Resources, which has been in the works for the last several months, is complete and a new division of minerals and energy management is functioning under the direction of O. K. "Easy" Gilbreth.

Dr. Michael C. T. Smith, former director of the division of lands, has been given the additional title of assistant commissioner to oversee two new divisions: a division of land management, with the job of supervising surface resources, and the new division of minerals and energy management, with responsibility for all subsurface resources.

Gilbreth, former director of the division of oil and gas, has been succeeded by Hoyle Hamilton in that position. The oil and gas division will focus on regulation and conservation measures.

The new division of minerals and energy management will focus on the management of the state's subsurface resources, including oil, gas and hard minerals.

The reorganization was announced here Thursday by Commissioner of Natural Resources Guy Martin.

Gilbreth and his 19-member staff are moving this week into the MacKay Building annex on East Fourth Ave., in space formerly occupied by the division of parks. The parks staff is negotiating now for new space on Northern Lights Boulevard.

Eight new staff members are to be hired for Gilbreth's new division. Approval came Wednesday to start recruiting. Gilbreth said, for a petroleum engineer, petroleum reservoir engineer, petroleum economist, petroleum geophysicist, petroleum seismologist, a clerk and clerk typist. A secretary was hired yesterday.

State Reports Sale Progress

The state is "closer than we have ever been" to a potential agreement to sell the state's royalty share of gas from Prudhoe Bay, Commissioner of Natural Resources Guy Martin said here yesterday.

However, he gave no indication as to how soon he expects that agreement to be reached.

"We are in daily contact with Tenneco, El Paso and Southern Gas," Martin said, "and we are still in contact with United Gas Transmission Co. We are working at both the conceptual policy level and the technical-legal level.

"People underrate the complexity of the agreement," Martin said. "For every general report from El Paso that they want to buy the royalty gas, there is a lawyer differing over terms of that contract."

No decision has been made regarding allocation of the estimated 3.3 trillion cubic feet of natural gas which will be the state's royalty share, Martin said. "It will not all go to Tenneco," he added, "but the consensus is that Tenneco is the best party to bring to our aid in support of a trans-Alaska pipeline."

Martin Cites Alaskan Route Support

The state's study of Northwest Pipeline's proposed Alaska Highway gas pipeline route isn't complete but Commissioner of Natural Resources Guy Martin said yesterday the administration hasn't changed its mind.

"I haven't seen anything that convinces me we aren't in the right position in favor of a trans-Alaska route," he said.

Martin said the governor favors a trans-Alaska route. "I testified 10 to 12 hours before the Federal Power Commission and I've lobbied in Congress in support of that route," which is proposed by El Paso Alaska.

There have been repeated reports that Martin, Attorney Gen. Avrum Gross -and even Gov. Jay Hammond -privately prefer the Alaska Highway route because it would not involve tanker traffic in Prince William Sound, as El Paso's trans-Alaska pipeline system proposes.

But Martin said yesterday he doesn't know where people get such ideas. "As far as I'm concerned, the trans-Alaska route, El Paso's route, is the route the governor prefers and it appears to be in the state's best interest.

"Maybe people don't like the openness of our position," he said. "Maybe some people aren't as confident as I am that the trans-Alaska route is best for Alaska. Maybe they are afraid that close study will expose something about that route that will make it not in the state's best interest."

Martin said Federal Power Commission administrative law judge Nahum Litt made his comments about the state's "sphinx-like" position regarding support for a pipeline route before Martin's recent testimony.

"I went to Washington and testified seven hours last Thursday," Martin said, "and testified on every point he (Litt) raised. He said he understood our problems."

Martin said he understands Litt's frustration. "He expressed it about the Prudhoe Bay producers and El Paso, too," Martin declared. "He's coming to a decision and there is some information missing. One of the things he wants to know is the precise amounts of gas production that will be allowed and we don't know yet."

Martin said he told the Federal Power Commission hearing that Alaska is strongly in favor of a trans-Alaska route and "we would take advantage of every policy alternative we have" to support that route.

ANCHORAGE
DAILY NEWS

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Sohio
(Continued from Page 1)

The company plans to sail the larger, more economical tankers to the Panama coast and offload oil into the smaller tankers for shipment through the canal to the Gulf of Mexico. All the newly-chartered tankers, Sohio spokesmen said, are small enough to navigate the canal, although four 90,000-deadweight-ton ships can be loaded only to about 60,000 deadweight tons. Tankers carry seven barrels of oil per deadweight ton.

Cloudy

Partial clearing early today. Partly cloudy this afternoon and tonight. South and southeast winds increasing to 25 m.p.h. with stronger gusts diminishing slowly. Lows tonight low 40s. High today mid 50s. Outlook for Wednesday, increasing cloudiness.

Sohio chartering tankers to ease oil surplus

By SALLY JONES
Daily News Staff Writer
(C) 1976, The Anchorage Daily News

The Standard Oil Co. of Ohio (Sohio), convinced that no West Coast port will be ready to absorb Prudhoe Bay's oil, has taken steps to charter small oil tankers to send the oil to the inland U.S. markets through the Panama Canal.

But even the U.S. tanker industry will not be able to overcome the West Coast oil surplus anticipated by Sohio, company officials said Monday.

Sohio owns about half of Prudhoe Bay's oil reserves and by late next year is scheduled to ship 600,000 barrels of oil per day from the Alaska pipeline terminal at Valdez.

SOHIO is seeking permission to build a 500,000-barrel port and pipeline system to ship its oil from Long Beach, Calif., to Midland, Texas, where it hopes to market its North Slope oil.

In a telephone interview with The Daily News, two Sohio officials in the company's Cleveland headquarters said they expect the California pipeline cannot be approved and built until at least six months after trans-Alaska pipeline oil begins flowing at the rate of 1.2 million barrels daily in Nov., 1977.

The Sohio port and pipeline is the only project now being formally considered to move Alaska oil inland from the West Coast. In addition, no pipeline is available to move the oil beyond the Rocky Mountains, no West Coast ports can handle the large tankers to be used by Sohio and other companies, refineries on the coast cannot absorb the Alaska supply.

SOHIO IS BUILDING eight to ten new tankers for the Alaska trade: two in the 80,000 deadweight ton class; two in the 120,000 ton class; and four to six of 165,000 tons. The company also will have access to two additional 80,000 ton and another 120,000 ton vessel on charter.

Fred Garibaldi, Sohio manager of corporate planning, confirmed that the company has contracted to charter other, smaller tankers for moving its oil through the Panama Canal. The canal's tanker size limit is about 55,000 deadweight tons.

Garibaldi and another company official said the tankers have been chartered through the Maritime Overseas Corp. because Sohio will not be able to distribute its oil any other way until pipelines inland from the West Coast are in place.

THE COMPANY OFFICIAL said the refinery problem "is what leads us to believe that only 600,000 to 700,000 barrels of Alaska crude a day" will be absorbed on the coast. "That leaves a 500,000 barrel surplus at 1.2 million barrels a day."

Even so, the company has learned that the U.S. flagship fleet can make up only 250,000 barrels per day of that surplus, Garibaldi said. The rest of the fleet will be in use for other charters or laid up. Federal law requires the use of U.S. flagship tankers between domestic ports.

The seven, smaller tankers for Panama Canal use were chartered "for an intermediate period of time we do not wish to discuss," said another Sohio official.

(Continued on page 2)

Line Firm Praises Decision On Gas

(Continued From Page 1)

native land claims, "substantially diminished Arctic's position." The Arctic Gas line includes a spur to the Mackenzie Delta, to carry Canadian gas to Canadian markets.

The Berger report "would seem to have the same negative impact on the Alcan (Alaska Highway) project" which also goes through Canada, the governor said.

The governor said last night that the Alaska Highway route would be the state's second choice, if for some reason the El Paso project were eliminated from consideration and the choice was narrowed to Alcan versus Arctic Gas.

In fact, the royalty gas sales agreements provide that in that event, the state can change its support of a gas pipeline routing and the prospective royalty gas purchasers would have the option of switching their support or withdrawing from the sales contract.

Hammond said the Alaska Highway proposal is a good second choice "because it avoids the major difficulty of the Arctic Gas proposal in that it does make gas available for Alaskan use." The Arctic Gas proposal, with a pipeline along Alaska's northern Arctic coast, would not make this possible.

"Following a thorough review" by a number of state agencies, the governor said he is convinced the highway route "does not have greater benefits for the state than the all-Alaska route we have to date supported. Recent state revenue projections indicate that the El Paso proposal still has the greatest financial benefit for the state and that while the Alcan proposal has certain desirable environmental aspects to it, they are not so significant as to counterbalance the desirability of the all-Alaska line."

The governor wasn't specific as to those environmental aspects but presumably he was referring to the fact that El Paso's all-Alaska route would call for the gas to be liquefied at Gravina Point, near Cordova, with resulting tanker traffic in Prince William Sound. The Alaska Highway route, on the other hand, would be an all-land route through Alaska and Canada into the Lower 48.

The closest the highway route would come to tidewater would be 100 miles from Haines.

TIMES 11/13/76

Paso Praises Decision On Gas

By SUSAN ANDREWS
Times Staff Writer

The state's commitment of its Prudhoe Bay royalty gas to firms which will support an all-Alaska gas pipeline "is one of the most significant actions in the gas pipeline battle in many, many months," El Paso Alaska spokesman Mike Holland said today. His firm has proposed the all-Alaska route.

Yesterday Gov. Jay Hammond announced that the state has initialed agreements with Tenneco, El Paso and Southern Natural Gas for sale of an estimated 2.6 trillion cubic feet of gas over 20 years. Tenneco will get 50 per cent and El Paso and Southern each will receive 25 per cent under the contracts, which are subject to approval by the state's Royalty Oil and Gas Development Advisory Board and the state legislature. The royalty board meets Nov. 22.

The governor also announced that following an analysis of all three gas pipeline routes — El Paso's, Northwest Pipeline's Alaska Highway route and the Arctic Gas route through northern Canada — the state has concluded that the trans-Alaska route would be in the best interest of Alaska and the entire U.S.

The royalty gas was committed to obtain support in Congress for the trans-Alaska gas pipeline route, the governor said, and to insure that the state's royalty gas will be available for use within the state as markets develop.

An amendment to the gas pipeline procedural bill proposed by Hammond and recently passed by Congress gives Alaska an unprecedented right to withdraw its one-eighth royalty share of gas if needed at any point along a pipeline route within the state. However, the governor pointed out that there is a possibility Congress may remove that provision next session. If gas sales contracts are final before that time, they will be binding.

The contracts insure the state's right to recall up to 100 percent of the royalty gas if needs develop within Alaska. Commissioner of Natural Resources Guy Martin, who negotiated the contracts, said this morning from Juneau that the contracts call for a replacement of called-back gas from future discoveries but only if that royalty gas is found to be surplus to the state's needs.

Holland said El Paso is "looking forward to the support Tenneco and Southern can bring. We consider them valuable allies

"From our point of view, the gas will give us a real lever to take to our market area to persuade the Southwest, particularly California, to strongly support a trans-Alaska line. Seventy-five to 80 per cent of our gas goes to California. The 650 million cubic feet of gas a day we will get from Alaska is one of the largest acquisitions we have made in a long time,".

Holland said both Tenneco and Southern have indicated they plan to dedicate "substantial promotional efforts" to the trans-Alaska route.

"Because of this (royalty gas) sale, the trans-Alaska route has a better chance of approval than it has ever had," he said.

The Organization for Management of Alaska's Resources said it considers the royalty gas commitment a "crucial element in the fight to gain congressional approval for a trans-Alaska natural gas pipeline."

President Bob Penney said the action means "we will have the support of the nation's leading gas companies" for a trans-Alaska routing, which the organization supports.

Penney noted that in recent hearings before the Federal Power Commission, officials questioned the sincerity of the state's support for an all-Alaska line. The commitment of gas to companies supporting that line means the state "is showing by actions as well as words that it genuinely wants the gas pipeline to go through Alaska."

Omar Executive Director Paula Easley said the governor is to be "highly commended" for contract provisions that require the gas firms to release back to the state quanities of gas that may be needed for instate residential and commercial use. In urging the royalty gas sale, she said Omar studied the long-range implications of a sale and recognized that without a strategically-placed gas line in the state, the royalty gas would be of little value to Alaska's economic future.

Hammond said at a press conference this morning he is encouraged at the chances of approval of an all-Alaska gas line. The procedural bill calls for a recommendation by the Federal Power Commission by next May 1 and a decision by the President by Sept. 1, with a 60-day review period by Congress.

The governor said he can base his judgment on "nothing more than vibrating attennae" but those tell him that the all-Alaska pipeline's chances are "substantially better than they were six months ago, when Arctic Gas seemed to have a leg up."

He said the Canadian Berger Commission's staff report, recommending a delay of from 10 to 15 years in a Mackenzie Delta gas pipeline after the settlement of Canadian

(See Page 2, Col. 5)

salary commission is missing.

According to the municipal clerk's office, the tape of the Dec. 16 Commission on Salaries and Emoluments meeting at which the panel set pay levels for Mayor George Sullivan and members of the Anchorage Municipal Assembly was discovered missing several months ago.

The mayor receives $4,800 annually in longevity pay, which has been challenged as illegal. And members of the Anchorage Assembly receive a flat monthly salary regardless of how many meetings they attend, which also has been challenged.

Typed minutes of the Dec. 16 meeting indicate the commission did not intend for the mayor to receive the longevity pay.

Janine Spurrier of the clerk's office said yesterday she is "reasonably sure" another meeting was recorded over the salary commission tape and probably sold to someone who had requested a verbatim transcript of the other meeting.

"We've looked for it very diligently and haven't found it," Miss Spurrier said.

The clerk's office routinely provi-

(See Page 2, Col. 1)

TIMES
9/23/76

Interior Completes Pet 4 Rules

By The Associated Press

The Interior department has announced completion of proposed regulations to ensure protection of environmental, historical and scenic values during oil and gas exploration in Naval Petroleum Reserve No. 4 (Pet-4).

Surface management of the 23-million-acre reserve was transferred to the Bureau of Land Management in April. The move was the first step in the transfer of the reserve from the Navy to Interior, to be completed in mid-1977.

State BLM director Curt McVee said Interior's proposed regulations were prepared in Alaska, with input from federal, state and local government agencies, as well as conservation, mining, oil and gas industry and Native groups. Substantive input from those groups and the public were used to revise BLM's preliminary regulations, McVee said.

While review by Interior in Washington resulted in some changes, McVee said the proposed surface management regulations remain largely an Alaskan product.

Two large areas in the reserve--encompassing the Utukok Rover and Teshekpuk Lake--have been designated for special management as required by Congress, he said. The Naval Petroleum Reserves Production Act of 1976 requires that these and other areas with significant subsistence, recreational, fish and wildlife, historical or scenic value be granted maximum protection.

"BLM has designated boundaries for major portions of the Artic caribou herd's calving grounds near the Utukok River, and for migratory waterfowl habitat in the Teshekpuk Lake watershed," McVee said.

Those boundaries were designated after reviewing land use proposals from the Institute of Northern Forestry, the Joint Federal-State Land Use Planning Commission, the National Park Service, the state Department of Fish and Game and the University of Alaska's Tundra Biome Program, McVee said.

The Utukok special area totals more than 4 million acres and the Teshekpuk area totals more than 1.7 million acres, he said.

The BLM plans additional meetings in October to gather public comment on the proposed regulations, McVee said.

TIMES

10/29/76

Royalty Gas Sale Plan Leaves Gravel 'Bothered'

Alaska's Mike Gravel says the state has negotiated an excellent contract for sale of its Prudhoe Bay royalty gas, but he said the present plan — to sell half to Tenneco and one-quarter each to El Paso Natural Gas and Southern Natural Gas — "bothers me."

Gravel's comments yesterday was the first public pronouncement of what voiced reservations of the gas state officials intend to sell to them. State officials have indicated the only reason they are considering a commitment of royalty gas now is to gain support for a trans-Alaska pipeline — and they want Tenneco's support.

Gravel said El Paso wants at least an equal share of the gas and he thinks that would be only fair, considering that El Paso took the gamble to propose a trans-Alaska pipeline.

"I wouldn't be a party to a government action that did not reward John (El Paso) for his loyalty, foresight and participation, but instead said 'We need Charlie (Tenneco)'," Gravel declared.

He indicated he doesn't buy the argument that because Tenneco is a big company, it will have more clout at lobbying in Congress. "Size doesn't impress me," he said.

"Sometimes smaller companies are more effective."

And he questioned the wisdom of giving Tenneco "something for nothing," in the hope of getting something in the future. Human nature deems you'll get nothing in return, he said.

"If you've got to make a tough decision, and don't know how it will turn out, it's best to play it safe and do what's right," and that means giving El Paso an equitable share, he said. "They say this may not sell with Tenneco."

Jack Ferguson, aide to Congressman Don Young, said Young will meet with state officials Friday in Juneau to emphasize the importance of committing the state's royalty gas before Congress reconvenes in mid-February.

He said the natural gas procedural bill which recently passed Congress protects the state's use of its royalty gas even after it enters an interstate pipeline, but he said the state's right must be covered in the language of a contract. That amendment makes it more important to commit the royalty gas, he said.

EDITORIAL PAGE

The Anchorage Times

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Gas Line Decision

GOV. JAY HAMMOND has now made public tentative agreements to sell Alaska's royalty share of natural gas that will be produced from the Prudhoe Bay field on the Arctic coast. In the process he has officially proclaimed, as a matter of state policy, support for a natural gasline route that extends from the North Slope to tidewater in the south.

It is quite proper for the state to take this position as it likewise is quite correct for the state to make advance arrangements for the sale of its share of the gas when it becomes available.

The contracts for the sale are conditional on approval of a trans-Alaska route's eventually being selected over two other proposals—one crossing into northern Canada through the Mackenzie River delta region and across Canada to midwestern United States, and the other south to the Alaska Highway, eastward through Canada and south to the U.S.

THE GOVERNOR coupled his announcement of the sales agreements and the endorsement of the all-Alaska route with a statement that he would exert all possible state efforts to see that the final pipeline decision favors a line such as that proposed by El Paso Natural Gas. The El Paso plan is for a pipeline from Prudhoe Bay to the Gulf of Alaska, at which point the gas would be liquefied and transported to market by specially built refrigerated tankers.

Mr. Hammond's support of this route was not necessarily an endorsement of the El Paso company's application. From the state's standpoint, it matters little who builds the pipeline so long as it takes Alaska's North Slope to Alaska's southern gulf waters.

This may seem to some to be a parochial bit of self interest and as such be the wrong thing for the state to do. This viewpoint is not correct, for several reasons.

THERE IS NOTHING wrong with Alaska's looking out for its own interests. Nobody else does. New York doesn't. Wisconsin won't. There is no reason Arkansas should. And as long as Alaska's protective self interest does not impair the nation's best interest or threaten to harm what is good for the rest of the country, Alaska's efforts to look out after its own economic development concerns are not only proper but are to be expected.

As a matter of fact, there are strong arguments to be made that a trans-Alaska route would not only be to Alaska's benefit, but that it also would be in the national best interest.

Those promoting the two routes that would traverse Canadian soil, and be under Canadian economic control, try to brush under the rug the importance of the United States' having full jurisdiction over the transport of this vital national energy supply. They try to make a case that it is to Alaska's good and the good of the U.S. that the gas be moved through Canada.

It is an argument that fails to convince. And it's good now that at long last the governor of the State of Alaska is publicly committed to fighting the battle for a trans-Alaska gas pipeline.

TIMES 9/17/76

Accord For Gas Nears Completion

By SUSAN ANDREWS
Times Writer

State officials expect to know in one to three weeks whether they will be able to reach an agreement for sale of the state's royalty gas from Prudhoe Bay.

Commissioner of Natural Resources Guy Martin said from Fairbanks that the state's lawyers were talking yesterday with Tenneco and will be talking with El Paso next week. Tenneco and El Paso are the leading contenders for purchasing the gas.

"We have been going back and forth on some legal-technical aspects," Martin said. "We are talking about volumes and the ability of the state to recover its royalty gas" if there is a need for it in the state before the proposed 20-year contracts expire.

Royalty gas is the one-eighth share of Prudhoe Bay natural gas production which, under terms of the leases sold to the industry, belongs to the State of Alaska. The sale will bring at least $1 billion to the state treasury, depending on the price and amount of gas sold.

Martin didn't mention any meetings with the two other prospective gas purchasers, Southern Gas and United Gas Transmission.

All four reportedly were asked to respond by this week to the latest draft sales agreement.

Tenneco earlier had made demands which the state administration said were not in the state's best interest.

Tenneco would agree to the state's right to take back the gas if needed in Alaska, but only if the state promises to replace double that amount from future discoveries.

Martin would not comment on how much of the royalty gas Tenneco is demanding.

Tenneco's position since negotiations began a year ago is that it wants all of the royalty gas.

El Paso has said it wants at least an equal share with any other company.

Martin said talks with Tenneco are "going pretty constructively. We still have a chance to reach agreement, I think. We are going to attempt to reach a point with Tenneco where we can decide once and for all whether we'll be able to reach an agreement."

A major unknown is how much of the 3.3 trillion cubic feet of natural gas the state is willing to sell. State law requires that only gas surplus to the state's needs can be sold.

Members of the state's Royalty Oil and Gas Development Adivsory Board, which must approve sales of oil and gas, have said they would not favor committing more than 90 per cent.

Mike Holland, assistant to the vice president of El Paso, Alaska, said El Paso got a phone call from the state Sept. 9, the first communication in a month regarding the royalty sales negotiations.

The draft sales agreement, which is essentially unchanged since April, provides for 20-year contracts. And it provides for a schedule of recall of the royalty bas, if the state wants the bas back. A certain percentage – probably 25 per cent – would be available after the first five years, up to 50 per cent between six and ten years; 75 per cent at 15 years, and all the gas in 20 years, if markets in the state require it.

The blanks are still to be filled in. So are the percentages of gas to be awarded the purchasers.

El Paso agrees with the state's position that a sale of some of the royalty gas to other companies would guarantee support for a trans-Alaska gas pipeline – the project El Paso Alaska proposes. That's the only reason state officials are considering a royalty gas sale at this time.

TIMES 10/12/76

Proposed Gas Prices May Prompt Drilling

By MAX B. SKELTON

HOUSTON (AP) — Drilling contractors believe the new proposed prices for natural gas sold in interstate markets could breathe new life into the search for new gas reserves.

But they fear court challenges could delay the new prices for months, if not years.

In July, the Federal Power Commission, by a 3-1 decision, ordered a two-tier price system of $1.01 and $1.42 per thousand cubic feet for gas committed to interstate markets after Jan. 1, 1973. The proposed prices would replace the existing rate of 52 cents per thousand.

Consumer advocates quickly challenged the order and the U.S. Circuit Court of Appeals in Washington retained jurisdiction after directing that the FPC include provisions for refunds if the new rates eventually are found to be excessive.

After additional mid-September hearings, the FPC now is restudying its July order. Speculation centers on reapproval of the $1.01 and $1.42 rates but with new court challenges certain to follow.

The $1.01 price would apply to gas committed between Jan. 1, 1973, and Dec. 31, 1974. Gas committed to interstate pipelines after Jan. 1, 1975, would carry the $1.42 price tag.

Ed McGhee, executive vice president of the International Association of Drilling Contractors, says no one can be sure whether the prices will survive the courts, the Congress, and the FPC's own rehearings.

But what would a $1.42 price mean to the drilling industry?

"On that question, a consensus is growing that drilling rig demand will rise sharply," McGhee said. "Some even foresee an actual shortage of rigs."

McGhee said industry has been slow to place any trust that the increase will endure but that, with the passage of time since July, drillers have done considerable stock-taking.

"Most express surprise at what they find," he said. "The backlog of drillable prospects l o o k s larger than they thought."

Uneconomic at the old prices, McGhee said, a sizeable number of the prospects warrant drilling for $1.42 gas.

Where are these prospects?

"Apparently, they'll spread all over the oil country, including even some in the Gulf of Mexico," he said.

"Matters shape up differently in states like Texas which have an intrastate gas network. Intrastate gas has fetched as much as $2 a thousand cubic feet. Elsewhere, FPC's $1.42 for interstate gas could breathe new life into the gas search."

McGhee said industry observers agree, regardless of whether the proposed increases stand, that higher gas prices offer the best hope of smoothing out the annual ups and downs in rig utilization.

"Historically, the first quarter of each year has seen a disastrous drop in rig activity, mostly resulting from the structure of the nation's tax laws," he said.

"Gas drilling, motivated by hopes of a profit instead of accommodation to tax laws, could take up the first quarter slack. More wells could be drilled each year with the same number of rigs."

TIMES 10/25/76

Against Permanent Fund

Dear Editor:

The State of Texas has no state income tax, they have never had a state income tax and they do not see any state income tax in their future. That state is run entirely on revenue derived from its oil production. Now Alaska has more oil and fewer people than Texas, so why can't we do the same thing and give us poor taxpaying turkeys a break and eliminate our state income tax.

The oil revenue in Alaska belongs to all of the people in Alaska and it should benefit them by redistributing it to all of them, where they can feel it the most, right in their pocketbooks, by the elimination of the state income tax.

Who needs a permanent fund? It is destined only to become a gigantic bureaucratic pork-barrel and it will, sooner or later, by hook or by crook, vanish into thin air just as our first oil windfall did. If it happened once it will for certain happen again.

I urge you to vote against the permanent fund and demand a tax break instead.

Ann Lewis
5006 Seton Circle

TIMES 8/30/76

Economist Sees Growth

By The Associated Press

One Alaska economist predicts a solid growth pattern for the frontier state long after pipeline builders go home.

Robert Richards, a vice president of Anchorage's Alaska Pacific Bank, said the economy will have a dip in 1977 but will pick up again in 1978.

He said construction of a natural gas pipeline, oil production at Prudhoe Bay, investments of native claims money and government employment will keep the state economy stable when pipeline construction ends.

Richards said pipeline workers haven't had as great an economic impact as might have been expected because much of their earnings have gone to families in the Lower 48.

TIMES 10/26/76

Backers Say Fund Won't Affect Move

Creation of a state permanent fund won't affect moving the state capital, in the view of two of the fund's most ardent supporters, Commissioner of Revenue Sterling Gallalher and State Rep. Cark Gruening, D-Anchorage.

"If moving the capital is the will of the people, the money will be found," Gruening declared.

Gallagher said that at the same time some Anchorage area voters are questioning whether a permanent fund would make it impossible for the legislature to raise enough capital to finance the capital move, voters in Southeastern Alaska see the fund as a move to provide funds for a capital move.

Both Gallagher and Gruening point out that if voters approve the concept of a permanent fund, and if 25 per cent of oil and gas royalties and bonuses go into that fund, "that still leaves 75 per cent to go into the general fund." And 100 per cent of tax income.

Gruening says "The important thing to remember is that $1.8 billion or $2 billion is going to come in and be spent anyway. The permanent fund is not creating that income."

Gallagher said he doesn't want to think about what will happen ig the permanent fund is not approved. "I see a propensity on the part of the legislature to spend," he said.

What Others Say

From The Seattle Times

ALASKA GOV. JAY Hammond has taken an imaginative and unorthodox step in his battle to win federal approval for routing the Alaska natural gas pipeline through Alaska rather than largely through Canada.

Hammond has signed tentative contracts to sell Alaska's huge royalty shares of Prudhoe Bay gas to three major companies, with the sale being contingent on the all-Alaska route being chosen over two competitive routes.

The three companies have pledged to throw their influence behind the Alaska government's choice in the multi-billion-dollar-pipeline-route battle now shaping up in Washington, D. C.

WE HAVE no idea how useful Hammond's bold tactic will prove to be, nor of the legal complexities involved.

But we do commend the governor for doing more than paying lip-service to the all-Alaska pipeline concept.

Such fossil-fuel-rich states as California, Texas and Louisiana have never been backward about asserting the rights of individual states to reap maximum benefit from their undergound wealth.

There's no reason why Alaska should not do the same in battling the efforts of a powerful group of Midwestern senators and congressmen to win approval of the trans-Canada gas pipeline route.

11 states call for Alaska gas

SAN FRANCISCO (AP) — The Public Service Commissions of 11 western states urged President Ford Friday to sign a bill requiring the Federal Power Commission to recommend a pipeline route, including a western leg, for carrying natural gas from Alaska.

"We believe that it is imperative for the future economic viability of the western states that we be assured direct delivery of and equal access to the natural gas produced in Alaska and transported to the lower continental United States," said a wire to the President. California PUC Commissioner William Symons Jr., president of the Western Conference, sent the message on behalf of agencies in Washington, Oregon, California, Nevada, Idaho, Utah, Wyoming, Colorado, New Mexico, Montana and Arizona.

He noted western states face severe natural gas shortages and future supplies would be curtailed further if new sources of gas are not brought down from Alaska.

"Our supplies today in California alone, for example, are 23 per cent below what they were in 1970," said Symons. "Without any major supplies from new sources by the end of the decade, we face a level of supply that will be 46 per cent below that of 1970."

Economist Sees Slowdown

(Continued From Page 1)

the average.

"Some industries will be hit harder," at the completion of the pipeline, he said. "Some will experience no slowdown at all."

Richards told the state's Investment Advisory Committee this week that the slowdown will last two to three years, then Alaska will see another three to four years of accelerated activity.

Richards is a consultant to the state committee.

Richards said the slowdown will result not only from a decrease in pipeline activity but also from "more modest state spending" and a hold back in the private sector.

The private sector, in anticipating a slowdown, actually contributes to that slowdown, he said.

He predicted that over the next ten years petroleum, construction and tourism will surpass fishing as sources of jobs.

Fishing will grow only moderately, he said, and hard rock mining and forestry "are impossible to predict."

Richards said the growth of state and local government, as much as the pipeline, has created the state's current economic boom. In Anchorage, he said, growth has been caused primarily by government and governmental jobs statewide have increased by 15,000 from 1964 to 1974.

His own estimate is that 40 per cent of the pipeline paychecks are sent Outside and therefore do not affect the state. Fairbanks banker Frank Murkowski has estimated 60 per cent.

Richards said the policy implications for the advisory committee, in considering how the state's proposed permanent fund should be used, seem to be that "you don't have to do something drastic" to counteract the state's boom and bust cycle "because that's not a true picture."

"The investment fund should be geared to less cyclical industries," he said, "or the state could utilize the investment fund as a counter-cyclical device. If a second oil pipeline is built by private industry, for example, then the state could time a dam to follow that construction."

Timing and geographical location of development projects would be ways to counter the fluctuations, he suggested.

The Anchorage Times

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ANCHORAGE
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Our views:

It's permanent

Practically everyone has agreed for the past several years that Alaskans need a permanent investment fund to set aside a portion of the wealth that will come from oil and gas taxes. The legislature approved the fund last year but the governor, although he supported the idea, vetoed it because of a constitutional question.

Ballot Proposition 2 provides the constitutional amendment to make the permanent fund a reality. It's worth the vote of Alaskans in next Tuesday's election.

Specifically, Ballot Proposition 2 dedicates at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state into the permanent fund. This principal then would be used for income - producing investments.

The permanent fund is both a guarantee and a safeguard, a practical idea that retains Alaska's oil development windfall.

It's a guarantee in the sense that Alaskans will be able to prudently establish a lasting savings account from some of the oil revenues. That will ensure the money won't be automatically dumped into an operating budget and spent away by legislators.

It's a safeguard in the sense that once non - renewable mineral resources have been exhausted, something permanent will remain for future Alaskans.

And in practical terms, the permanent fund would divert operating funds into an investment fund that grows each year that oil flows, and collects interest. A percentage of the fund would go for direct use by Alaskans — for loans to businessmen, fishermen and builders. And when oil revenues no longer are flowing into the state treasury, the fund would continue as an important option in stabilizing the state's economy.

The permanent fund holds a lasting promise for tomorrow, a heritage for the state. It's an imaginative and workable idea which would make certain that when the boom - and - bust days of energy development are gone, something permanent remains.

Next Tuesday, Alaskans should vote "for" Ballot Proposition 2 and adopt the permanent fund.

FPC report finds Prudhoe gas adequate

From Our Washington Correspondent

WASHINGTON — The Federal Power Commission's legal staff has released a brief indicating it feels that there is sufficient natural gas available at Prudhoe Bay to support either the El Paso or Arctic Gas plan to bring North Slope gas south. Both companies' plans call for daily transport of more than two billion cubic feet of gas.

At the same time the commission staff argued that either the El Paso or Arctic Gas system would be in a better position to accept new volumes of gas if there is additional production from as yet undeveloped fields either in the Beaufort Sea or the Arctic National Wildlife Range.

THE BRIEF, presented to the commission, held that Northwest Pipeline's Alcan Highway route assumed too little gas available at Prudhoe Bay and offered too little space for expansion if further gas supplies are developed.

The brief called the wildlife range among "the most promising areas of potentially large gas reserves . . ." The brief quotes several witnesses before the FPC hearings who testified that 14 trillion cubic feet of gas or more could be trapped in rock formations below the range.

The other most promising area, it said, was in the Beaufort Sea offshore from Prudhoe Bay and the wildlife range.

IN OTHER briefs released by the commission, the staff argued against certification of the "western leg" of the Arctic Gas system and in favor of a liquified natural gas terminal in Cook Inlet rather than Prince William Sound — if the El Paso system is ultimately approved.

Arctic Gas has asked the FPC to allow it to build a "western leg" pipeline into the Pacific Northwest and California in addition to its major route east from Prudhoe Bay, across Canada and into the U.S. Mideast.

However, the commission staff brief argues that without firm gas supply contracts Arctic should not be allowed to proceed with such a large and expensive project.

RATHER THAN build a new pipeline to serve the West Coast, the staff argues, that area should be served by "displacement," moving gas from other areas in existing pipeline systems. This approach, the brief says, is without risk and will cost little to implement. The annual savings of the displacement approach are estimated at $49 million.

The commission legal staff also disagrees with the commission's environmental staff in arguing for an LNG facility on Cape Starichkof in Cook Inlet. The environmental impact statement recommended that site.

The staff contends that El Paso's own witnesses testified that a Cook Inlet facility would save as much as $171 million in pipeline construction costs since it would eliminate expensive construction through the Chugach Mountains.

NEWS
10/15/76

Kleppe lauds OCS for natural gas hopes

LOS ANGELES (AP) — Exploration for natural gas on the outer continental shelf is the best hope for meeting the nation's gas demands in the future, U.S. secretary of the interior Thomas Kleppe said Wednesday.

"We are enthusiastic about use of the outer continental shelf because the potential for large finds appears to be much greater there," Kleppe told a news conference during the American Gas Association convention in Los Angeles.

"In the face of declining reserves and little or no prospect of creating additional reserves through enhanced recovery, we must rely heavily upon exploration and new discoveries," he said.

Kleppe also said that the Department of the Interior is enthusiastic about the possibilities of coal gasification and "we sharply disagree with the General Accounting office report to Congress charging that symthetic fuels are too costly to fund."

Kleppe said his department fought for the synthetic fuels bill which died in the final days of the 94th Congress. But he acknowledged that a lack of abundant water would be a major problem in developing coal gasification program in the coal rich northern great plains states.

Kleppe predicted that before the end of 1977 "we should know how, and where" gas from Alaska will be transported.

"To avert a replay of the long struggle which delayed the start of the trans-Alaskan oil pipeline, President Ford proposed a timetable to decide the route and system with limited judicial review," Kleppe said.

"Congress made some changes which Interior opposed but Congress did agree to a mandated decision process."

Rival Firm Criticizes Sale Of Royalty Gas

TIMES 11/16/76

by The Associated Press

A top official of Northwest Pipeline Corp. says Alaska's decision to sell its Prudhoe Bay natural gas and support the El Paso Natural Gas Co. pipeline route is an effort to force a liquified natural gas project on the American public.

John G. MacMillian is chairman and chief executive officer of the Salt Lake City-based firm sponsoring the Alcan Project, one of three proposals before the Federal Power Commission for a natural gas pipeline from Prudhoe Bay. The third proposal was made by Arctic Gas Co.

Friday Gov. Jay Hammond announced the state had signed tentative constracts to sell Alaska's royalty share of the gas to El Paso Natural Gas Co., Tennessee Gas Transmission Co. and Southern Natural Gas Co.

McMillian said in a prepared release the El Paso proposal, often refered to as the "all-Alaska line," offers the least advantages economically and the most severe environmental problems in Alaska and California.

"The State of Alaska was given a unique benefit in the Alaskan Natural Gas Transportation Act, which allows the state to use its royalty gas within the state," he said. "To take advantage of this use of royalty gas to force an unacceptable project upon the American people would seriously jeopardize the royalty gas amendment."

He also said commitment of the state's fuel could "jeopardize its use for internal development of Alaskan industry . . . (and) borders on fiscal irresponsibility."

The contracts signed by Hammond grant the state the right to recall some of the fuel for use within the state with advance notice.

McMillian called the sale a last-ditch effort by the state to gain support for the El Paso project, which would require construction of a gas liquefication plant to prepare the fuel for tanker shipment south.

However, he said, "We also realize it will have no effect on the final decision wih respect to which route and which system is best for transportation of Alaskan natural gas."

Spokesmen for the Organization for Management of Alaska's Resources, a citizen group formed in support of an all-Alaska line, say Hammond's announcement will be of crucial assistance in the national debate over a pipeline route.

McMillian said Northwest appreciated "Hammond's recognition of the viability of the Alcan Project . . . we hereby ask the Alaskan people to express their true feelings and beliefs to the governor and the legislative bodies before this proposed sale is finally approved."

Alaska route backers hail gas royalty sale

Supporters of the all-Alaska route for a North Slope natural gas pipeline say Gov. Jay S. Hammond's announcement that he is committed to selling Alaska's one-eighth share of royalty gas will be of crucial assistance in the national debate over a pipeline route.

Hammond said Friday his administration has chosen El Paso Natural Gas Co.'s route for the gas pipeline, and that he wants to sell Alaska's royalty gas to three companies who will support the El Paso project.

THE TENTATIVE contracts signed by Hammond call for half the gas to go to Tennessee Gas Transmission Co. of Houston, one-quarter to go to El Paso, and one-quarter to go to Southern Natural Gas Co. of Atlanta, Ga. The state will have the right to recall some of its gas for use within the state with advane notice.

Spokesman for the Organization for the Management of Alaska's Resources, a citizen's lobby formed to support the Alaska route, say the sale of royalty gas shows the sincerity of Alaska officials.

ROBERT PENNEY, president of the organization, noted that in recent hearings before the Federal Power Commission on three competing proposals for the gas line, federal officials have questioned the sincerity of the state's support for El Paso.

EDITORIAL PAGE

The Anchorage Times

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Powerful Board

THE GOVERNOR has announced the enlargement of the state's Investment Advisory Board with the expectation that the voters will approve on Nov. 2 the proposal for the state to create a permanent fund. The board members will be key figures in decisions for handling of billions of dollars of public funds.

It is proper that the governor should be concerned about the advisory board. Before the enlargement it was composed of 10 men and their duties have been diminishing as the state's surplus funds have been spent.

The board has been concerned mostly with the investment of the state's $900 million nest egg that resulted from the sale of North Slope oil leases in September 1969. Virtually all of that money has now been spent and the state is scraping the bottom of its money barrel trying to make ends meet until oil production royalties are forthcoming.

THE ELECTION on Nov. 2 includes a proposition on the ballot under which a portion of the oil production royalty money would be set aside for investment in a permanent fund. The voters are being asked to approve an amendment to the state constitution making the fund legal. The amendment would also serve as a protection from possible plundering by future legislatures.

This permanent fund, if it is approved by the voters, is forecast as more than a billion dollars in hardly more than five years. Others forecast that it will swell to a multi-billion-dollar fund as the years roll by and royalties continue to flow into the state treasury.

Any committee in charge of funds in such huge sums would be a mighty powerful group. It might even influence the national company, including banks, industries and even the financial philosophy of the country.

THE COMMITTEE would figure in the choice of revenue - producing investments for the billions of dollars in the permanent fund. That would most likely mean the committee could choose which industry to purchase. By this process the committee could determine how much of the productive facilities within the state should be state-owned and controlled.

The executive director would be the most powerful man in Alaska, his clout in public affairs exceeding that of the governor or any of his henchmen, alone or combined. Indeed, he would be more powerful than Jesse Carr who heads up the combination of funds and organizations of the Teamsters.

The power of the director and the advisory board members could be so great that it would become a Frankenstein in the state establishment and a menace to the national welfare. The public must depend upon the governor and the board members to see that such an intolerable situation never comes to be.

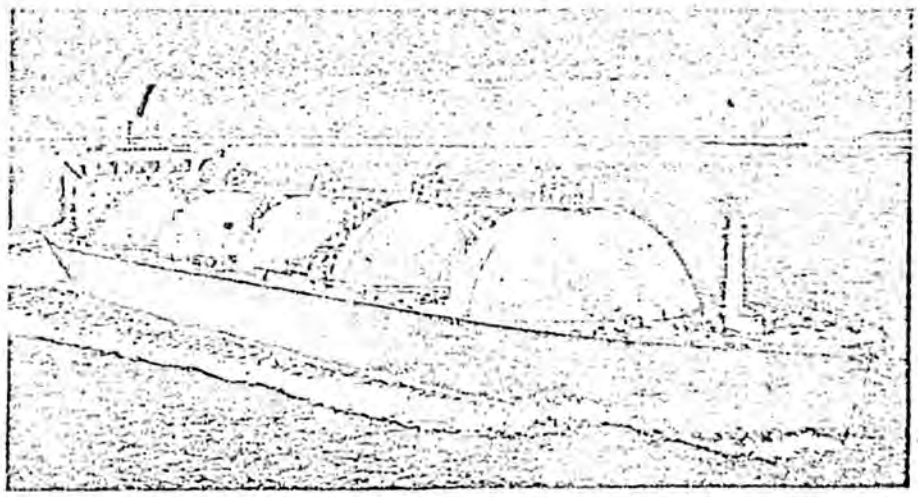
THESE CONSIDERATIONS deserve serious thought and thorough discussion during the few short weeks until the statewide election is held in November. Many of the candidates have taken stands in support of the permanent fund and the constitutional amendment that is needed to make it legal.

It is encouraging to see that the governor has already undertaken serious consideration of the membership of the board. He has not disclosed publicly the criteria he used to determine how the board should be composed to give the public confidence that the state funds would not be misused.

We hope that the governor and the candidates will provide adequate clarification before the election, for the benefit of editorial writers as well as for uhe benefit of voters.

Liquid Natural Gas Tankers Rouse Fears of Catastrophe

by Alexander Cockburn & James Ridgeway



Mammoth tankers carrying liquefied natural gas may soon visit American ports. Artist's concept of the 936-foot-long ship shows five spherical tanks which together can hold some 33 million gallons of the potentially explosive fuel.

In the summer of 1883, a gigantic explosion echoed across the world. The island of Krakatoa, off the coast of Indonesia, simply disappeared into the sea. Its remains were blown 17 miles into the sky and dust particles filtered around the globe, causing extraordinary sunsets remembered by all who had seen them for years afterward. Tidal waves were observed as far away as the English Channel. The noise of the explosion was heard 3000 miles away. Thirty-six thousand people in the near vicinity were killed.

The cause of this catastrophe was a mighty volcanic eruption. Scientists now speculate that the unparalleled intensity of the blast was caused by the sudden mixture of lava with seawater, leading to the creation and release of vast amounts of energy. This theory carries a startling message for modern times. For scientists now worry that the modern industrial age may have unwittingly developed the conditions under which the "Krakatoa effect" could be repeated on a smaller scale hundreds of times around the globe.

What frightens these scientists is not the specter of nuclear explosions with which mankind has lived since World War II, but an entirely new menace: liquefied natural gas. Natural gas, often found in the search for oil, is one of our most valuable fuels. It provides about one-third of all energy consumed in the United States. It is clean and, until recently, cheap. Now U.S. companies that produce and sell natural gas from the Southwest claim the resource is fast being exhausted and, in order to meet demands, they must look further and further afield.

Solution: import gas

While gas is a precious fuel in the U.S., in other parts of the world—the Middle East, Africa and Asia—it is regarded as of little use and burned off at the wellhead, its usefulness lost to mankind. One solution now being adopted by the oil and gas industries is to ship this foreign gas to the U.S.

Gas, of course, is an impractical cargo in its natural form. The solution has been to freeze it down into a liquid form at a temperature of about −260 degrees Fahrenheit. In this state, the gas is 1/600th of its original volume and becomes a practical shipping proposition.

Within the next few years, specially built tankers will begin transporting the liquefied gas from North Africa to ports up and down the Eastern Seaboard of the U.S. There are schemes to ship the gas from Asia and even Alaska to the West Coast by these tankers. Other countries are making similar plans. The small trade from North Africa to Europe is expected to increase, and a $3 billion project is well under way to ship liquid gas from Indonesia to Japan. The U.S. government, in fact, is issuing $730 million in loan guarantees to General Dynamics Corporation — the largest guarantee ever made to a single company—for the building of tankers to carry the gas from Indonesia. The U.S. also is negotiating with the Soviet Union to bring in gas from Siberia.

If all goes according to plan, within a decade or so, scores of these odd-looking ships will be crisscrossing the ocean and routinely sailing in and out of busy American ports with their cargoes of desperately needed fuel. As much as 15 percent of the nation's gas may soon be imported in this manner.

Both in government and industry, experts hail this development as an innovative answer to the energy crisis. But these same experts now are meeting with growing opposition to their plans. At the center of debate is the question of safety and the stark fact that the explosion of just one of these gas tankers in a U.S. port could kill upwards of 100,000 people.

Little real testing has been done on the safety of the new tankers that will carry the liquid gas in huge cylinders embedded in their hulls. In 1970 the U.S. Bureau of Mines mounted a brief experiment. A small quantity of liquid natural gas was dropped into an aquarium, which promptly blew up. Later the liquid gas was dropped into a pond, with equally explosive results. The bureau concluded in a report that no assurances can be offered "that these explosions could not scale up to damaging proportions in a massive spill." The scientists engaged in these experiments all recalled one of the few cases in which the effects of an accident involving liquid natural gas could actually be observed.

On Oct. 20, 1944, in Cleveland, Ohio, 2 million gallons of liquid natural gas burst from two storage tanks belonging to the East Ohio Gas Co. and created a firestorm. Liquid gas flowed



In Cleveland, rescue workers dig through ruins after giant 1944 firestorm—caused by 2 million gallons of escaped liquid gas—gutted 29 acres, killed 131. Experts say the explosion of a liquid-gas tanker would do far worse.

down the streets and into the sewers. The slightest spark exploded it. Manhole covers sailed into the air and fell like bombs on the fleeing crowds. So intense was the heat that birds above the city burned alive as they flew. The streets became rivers of flame. Houses exploded. In the end, 29 acres of homes and stores were gutted and 131 people lost their lives. And the liquid gas tanks in Cleveland held only a small fraction of the amount carried by a modern tanker, which ranges from about 33 to 42 million gallons.

Safety studies urged

In recent months anxiety over the dangers of liquid natural gas has spread. No less a figure than Dr. Edward Teller, the nuclear physicist often viewed as the father of the H-bomb, is concerned: "The gas shortage is apt to become very serious and therefore the importation of liquid natural gas may become really necessary. . . . Time and money spent on the safety of liquid natural gas is less than one percent of what has been spent on the safety of nuclear reactors. I am suggesting that, in view of our need for liquid natural gas, very greatly increased attention be paid to safety studies."

The Coast Guard is so concerned that it has established special procedures protecting gas tankers. In Boston, where small shipments of the liquid gas are already being off-loaded, the shipping lanes are cleared of other traffic long in advance. Fire departments are placed on standby alert. Tankers may only enter the harbor if visibility exceeds two miles. At the first sign of a thunderstorm, all unloading ceases.

Congress concerned

Citizens' groups around likely liquid natural gas terminals (such as Staten Island, N.Y., and Los Angeles) are opposing the building of such facilities. In the Congress, in the Federal Power Commission and in the Department of Transportation, politicians and officials are nervously considering improved safety precautions. Committees in the House may begin public inquiries shortly and could well involve testimony on the likelihood of the "Krakatoa effect" occurring in the event of an accident.

Over the last few months, this concern has been redoubled. Oil tanker disasters, including the explosion of one tanker in Los Angeles harbor and the wreck of another off Nantucket, have brought home in brutal fashion the result of lax safety measures on fuel shipments to the U.S. These calamities would pale in comparison with any accident to a liquid natural gas tanker. It is a race against time in more ways than one: the race to head off another energy crisis; the race of the tanker men to get their new fleets under way; the race of government regulators to catch up on safety precautions and head off what could be a terrifying catastrophe.

PARADE
FEB. 20, 1977

Note This
reputable
publication
Julie

From The Fairbanks News-Miner Times 5/28/76

ALASKANS SHOULD be able to see that a businessman favoring the permanent fund is a kind of conservationist, and an obstructionist fighting every development program is not.

We need leaders in business and public office who realize that it makes little sense to pour all of our effort into catching and penalizing the slightest environmental infractions in pipeline construction, and let hundreds of millions of dollars in earnings from the pipeline go up in bureaucratic smoke.

When one looks at the amounts spent on environmental controls safeguarding little other than the jobs of the controllers, and the way Alaska's last $900 million resource bonanza was blown in five years, we clearly see the direction state government should move.

News 10/22/76

Permanent fund: scheme or goal?

By ERIC BOEMER
For the Alaska Center for the Environment

As the November election draws near, there is a need for higher public consciousness regarding prospective legislators and propositions. Let's look at ballot Proposition 2.

House Joint Resolution No. 39, proposes an amendment to the Alaska Constitution. This is the permanent fund. If approved by the voters of Alaska, it would establish a permanent fund into which would be paid at least 25 per cent of all mineral lease rentals, royalty sales proceeds, federal mineral revenue sharing payments and bonuses received by the state. The principal of the fund would be used only for "income producing investments." Then the income from the fund would be deposited in the general fund to be used later.

The term "income producing investments" needs some speculation. To several different people this is going to mean several different schemes. That is why the public at large should have a strong voice in where these investments are made, if the proposition passes. Voting is just one step in the political process. The next step is for public involvement. In order to avoid domination by special interests concerning this fund, these public resources need public guidance.

The creation of a permanent fund from impermanent resources would give some assurance that an oil lease sale, for instance, would not be held simply to help solve our fiscal problems. If the decision to have a lease sale on state lands were pending, the existence of a permanent fund might dissuade a totally short-sighted, and in-the-long-run detrimental move.

Opponents of the fund, including Tom Fink, disapprove because he feels that the government should not have more money than it can spend. He calls it a "slush fund." A better way to invest the revenue from places like Prudhoe Bay, according to Mr. Fink, is to pay off debts, and use the surplus money for capital improvements.

The Department of Revenue's permanent fund estimate for 1985 is $1.8 billion dollars. An impressive amount indeed! This fund surely has great potential, if it passes. Non-renewable resources have taken eons of years to accumulate, and the rate that they are being consumed now must somehow influence the ways in which the funds will be spent. Perhaps to invest them in renewable resources would be a prudent scheme. Fisheries and forestry and important resources in Alaska as elsewhere, and unlike oil, they will be around for future generations, if we conserve them.

Advocates of the fund, including Clark Gruening, views the fund as a tool. He cites the need for a fund looking towards future generations and meeting social goals in the community and throughout Alaska.

The idea of a permanent fund is not a new one. There are several that are operating now. In Alberta, Canada, there is the Alberta Heritage Trust Fund, which is supplied by revenues from oil extraction. The University of Texas, has the University Fund which receives oil and gas revenues.

Very soon Alaska will be receiving large sums of revenue, once the oil pipeline begins to flow. The question remains, what to do with it? Nov. 2 will set the stage for this decision, and many very similar. The approach so far has been to rapidly get the oil out. "Project Independence" and so on. With a new administration the approach could be different. We will see.

THE WALL STREET JOURNAL, MONDAY, JAN. 3, 1977

How About Zero-Based Revenue?

By Herbert Stein

Zero-based budgeting is one of the Georgia-based products Mr. Carter proposes to bring to Washington. At first, I was not much taken with this idea.

I doubted, for one thing, whether the agencies and the congressional committees that mother them could ever be brought to consider seriously the possibility that their fundamental goals were improper or their basic programs unnecessary if not mischievous. Most federal programs are financed by annual appropriations, so the legal situation is that these programs would expire in the absence of affirmative decisions to continue them. Zero-based budgeting would have to involve something other than a change in the legal situation. It would have to involve a change in the attitudes of the agencies and the Congress, which now assume the desirability of continuing existing programs. Whether presidential exhortation could change that attitude for long is unclear.

Moreover, even if the agencies and Congress could be induced to take seriously a bottom-up re-evaluation of all programs, that would turn out to be only an unnecessarily cumbersome way of approaching the incremental decisions, the decisions about a little more or a little less, that are the manageable and relevant ones. Also, there is some value to inertia, otherwise known as stability, in policy. I always remember Dean Acheson's comment on Senator Taft's repeated demands for a fundamental re-examination of our foreign policy. Mr. Acheson said that we couldn't have a foreign policy if we pulled it up every year to examine its roots.

Some Fictional Dialogue

My vision of zero-based budgeting in action was well represented in a fictional dialogue between the chairman of the House Appropriations Committee and a Cabinet Secretary, as imagined by my friend, Nelson Polsby. It goes something like this:

Chairman: "Good morning Mr. Secretary. We are happy to have you here. And what are you Secretary of, may I ask?"

Secretary: "I'm the Secretary of Defense."

Chairman: "Very interesting. And what does your department do?"

Secretary: "We defend the country, sir."

Chairman: "And how do you do that?"

Secretary: "By maintaining a strong military force."

Chairman: "I see. Have you done any cost-benefit analyses of the value of defending the country?"

Secretary: "Well . . ."

Chairman: "Have you considered whether it would be possible to defend the country more cheaply without your department?"

And so on.

But I have since come to take a more sympathetic view of zero-based budgeting. I arrived at this position by imagining that it was not the Secretary of Defense but the Secretary of Housing and Urban Development who was testifying. In that case, questions about what the agency was supposed to be doing, and what it was accomplishing, seemed more realistic and the answers less obvious. This would be true for other agencies also. Some people might even think it true for the Department of Defense.

Board of Contributors

There seems to me to be an important missing link to the zero-based budgeting idea, and that is failure to apply it to the revenue side of the budget.

Anyway, even if zero-based budgeting would not work literally, and if everyone would know that the possibility of a program being reduced to zero was slight, the aspiration for a fundamental review was a good one and ought to be encouraged.

However, there seems to me to be an important missing link in the zero-based budgeting idea, and that is failure to apply it to the revenue side of the budget. As described so far, zero-based budgeting leaves untouched the notion that the existing tax system and tax rates will continue indefinitely, unless Congress and the President take affirmative steps to change them, so that the revenue from that tax system will be routinely and automatically available for the government to spend. We would still be spending the money for the reason Hillary wanted to climb Mt. Everest: "Because it is there."

This neglect of the revenue side can have two effects on zero-based budgeting as applied to the expenditure side. First, it means that the test which existing programs must pass in order to be continued is less rigorous than it would otherwise be. A program does not have to meet the test of being worth the enactment of additional taxes. It only has to meet the test of being worth the expenditure of some of the money that is automatically flowing into the Treasury. Second, it means that if existing programs fail to pass the test new programs will be adopted because the money is there. Thus, although we might get rid of some old programs, we would get new ones to fill their place, and the total expenditure of the federal government would not be reduced.

This is, it seems to me, the great danger of zero-based budgeting confined to the expenditure side. It will not reduce total spending, but will reduce its average quality, because the new programs will be inferior to the old ones. That is the result of having pragmatic, imaginative people in government. Such people appreciate the deficiencies of all existing programs, but they draw no conclusions about the deficiencies of government programs in general and remain of the belief that the next set of programs will be better. So, with the pressure of zero-based budgeting on the existing programs, we would find the less successful of them replaced by others that are more attractive only because they have not yet been tried.

Barrel of Programs

If one can suppose that at some time all conceivable programs were in a big barrel, it seems plausible that the ones we have already tried are better than the ones still left in the barrel. The combination of zero-based budgeting and a continuing flow of revenue from the existing tax system would lead to drawing more new programs out of the barrel.

The solution for this problem is zero-based taxing. This is the logical and necessary complement to zero-based budgeting. It means that tax rates should expire, or fall to zero, periodically, forcing the government to make an affirmative decision about the amount of revenue it wishes to collect. Indeed, such a policy is more necessary on the tax side of the budget than on the expenditure side. The expenditures, as I have already noted, are governed mainly by annual appropriations, so there already is a built-in requirement of reconsideration, however perfunctory. Taxes are generally enacted for an indefinite period. We get serious consideration of tax reduction only after wars or during recessions. And the defenders of the revenue, that is, the defenders of big budgets, are on to that now and insist that tax cuts in recessions should be temporary.

The argument for zero-based taxing is exactly the opposite of the argument for a temporary tax cut today. Mr. Carter is being urged by some to make only a temporary tax cut in order to preserve his options to dispose of the revenue later. But that is a backward way to look at the question. The money at stake—the future revenue—is the taxpayer's money, not, with all due respect, Mr. Carter's. It is the taxpayer's options that must be preserved, including his option to spend the money himself, or to save it, or, through an affirmative vote of his elected representatives, to assign it to the government for expenditure. Zero-based taxing is a way to preserve the taxpayer's options.

Congenial Allies, Gothic Murder

By Edmund Fuller

In the struggle for independence and the first years of the new American nation Thomas Jefferson and John Adams were congenial allies; the warm friendship that accompanied this colleagueship also embraced Abigail Adams. Then in the years of Washington's presidency, in the stresses of political conflicts and the formation of parties, the bond of warmth and trust between Jefferson and Adams eroded, both feeling helpless though unhappy about it. It finally came to bitterness, on Adams's part especially. The estrangement lasted through the presidencies of each man. By a singular grace, in the years that followed Jefferson's retirement from the White House, a reconciliation occurred through the medium of a remarkable correspondence that lasted until the symbolic coincidence of the death of each of them on July 4, the 50th anniversary of the signing of the Declaration of Independence.

urse of that more than 50-year re- and its healing; close are com- ntly traced in a slender book, Jefferson: A Revolutionary rrill D. Peterson, an adap- res delivered at Mercer in 1975. Readers not s of history or bio- s of both in small Thomas Jeffer- the University foremost au- Dumas Ma-

delphia, two He Mr.

neither of them was "dying at the top." Prof. Peterson sums up their divergent natures (I use initials to save space): "A. was Roman, J. was Grecian; A. was a realist, J. an idealist; A. trusted the lessons of the past, J. dreamed of the future; A. was a Whig of the old school, J. belonged to the modern democratic school; A. advocated restraints on the popular will, J. advocated its ascendancy." Yet often the relative rightness or wrongness of their views is a question of short or long term perspectives. Only blind partisanship would think that either could be consistently or wholly right. This fine little book greatly illuminates the meaning of our political heritage.

On the periphery of Jefferson's own life there occurred, in December of 1811, a bizarre tragedy. In Kentucky, two nephews of the retired President, Lilburne and Isham Lewis, in a drunken frenzy committed the gothically horrid murder of a slave. They were the sons of Jefferson's sister, Lucy, whose family had fallen on hard times in Virginia and pushed westward. This grim drama is unfolded in "Jefferson's Nephews: A Frontier Tragedy," by Boynton Merrill Jr.

In the correspondence of various Lewises with the squire of Monticello, often in crises of his presidential years, one sees the perennially troublesome relatives that every prominent family is apt to have. Jefferson had no intimacy with them, tried to stay clear of their affairs, yet tried to be loyal to his sister. His helpfulness extended even to having the reckless Isham as his houseguest and teaching him the craft of surveying. He never made a public comment on this dark occurrence, which must have given him pain and jolted his general optimism about man.

A fascinating aspect of the book is the account of the great earthquake of 1811, whose tremors "were felt from Upper Canada to the Gulf of Mexico and from Boston to the Rocky Mountains. In parts of Missouri, Arkansas, and the far western parts of Tennessee and Kentucky, huge areas, covering thousands of acres, sank as much as 25 feet or more, and . . . rivers ran backwards as the depressions filled with water," forming vast lakes. This convulsion of the North American plate, outside the common earthquake zones, would have been catastrophic in our times. In one account of the crime, the first temblor shattered the great fireplace in which the Lewises were burning the fragments of their Aftershocks, some of them also ntinued for months. Mr. Merrill's tudy of this grisly murder ng background and aftermath iece of social history.

The Bookshelf

"Adams and Jefferson: A Revolutionary Dialogue"

By Merrill D. Peterson. University of Georgia Press. 160 Pages. $7.

"Jefferson's Nephews: A Frontier Tragedy"

By Boynton Merrill Jr. Princeton University Press. 462 Pages. Illustrated. $16.50.

is that it would increase uncertain taxpayers. Even though they could b that the government would enact ne legislation, and not leave tax rates at the taxpayers wouldn't know what th rates would be. That is a disadvantag

Of course, that uncertainty would unrelieved loss if the system should out so that Congress always re-enacte pre-existing taxes, or enacted the that would have been in force witho zero-based system. But that seem likely. The advantage of having delib decisions made about the level of tax is worth the loss of certainty, and ta ers will think so if, as I believe, the come is lower taxes.

Expire Every Fourth Year

Nevertheless, there is no point to imizing the uncertainty. Therefore, I v propose that tax rates should expire e fourth year, rather than every year tax rates should be enacted in the year of each four-year period, so the payer would know at least what the are going to be in the current year an the next year.

At the maximum he would know rates in the current year and the next years—assuming no unscheduled cha Also, to avoid needless uncertainty would apply the zero-based taxing pr ple only to the individual and corporat rates. Because of their dedication t nancing contractual benefits under S Security, the payroll taxes cannot b lowed to expire. The estate and gift t are related to especially long-run tax ers' decisions and anyway don't enough revenue to be significant from standpoint of disciplining expenditure sions. The excise taxes are also trivial should be abolished. The same is tr customs duties, with the further comp tion that they are governed by int tional trade agreements.

I suggested the idea of zero-based ing at a hearing of a congressional mittee recently. One member of the mittee proposed going farther, and not reducing all tax rates to zero, but als peaking the entire tax code periodi This would permit, or require, the gress to rewrite the several thou pages of definitions and explanations constitute the law. However, I do not this, at least on a quadrennial basis, though I do have lawyers in my fa The resulting confusion would be unb ble.

Mr. Stein is the A. Willis Robertson fessor of Economics at the Univers Virginia, former chairman of the C of Economic Advisers under Pres Nixon and Ford and a member of the nal's Board of Contributors.

HEALTH/MEDICINE

Alberta gives research a big shot in the arm



Alberta's Miniely: 'brain power centre.'

By Lois Bridges

EDMONTON

ALBERTA PROMISES to emerge as a bright spot in the generally bleak picture of Canadian medical research, thanks to the province's decision to spend at least $160 million on health care programs and facilities.

Both government and medical spokesmen say that the infusion of money — from the $2-billion Alberta Heritage Savings Trust Fund — could make Alberta the leading health care research centre in the country.

Most of the money is currently allocated for new and expanded hospital facilities. About $10 million will be spent on applied research programs related to heart disease and cancer. But Gordon Miniely, minister of Hospitals & Medical Care, says that in future the fund will almost certainly support general, or pure, medical research. "We are still having discussions with the medical profession with regard to the broader medical research capacity in the province."

Guidelines

Guidelines for use of the Heritage Trust Fund, fed by royalties from the province's energy resources, allows up to 20% of the money to be used for projects likely to provide longterm economic or social benefits to Albertans. Miniely says that the health care programs not only meet this criterion, but also fit in with the Lougheed government's intention to make Alberta a "brain power centre," attractive to scientific and medical people in different fields.

The decision to concentrate at first on heart disease and cancer applied research programs was partly due to the incidence of these disease among Albertans. Also considered was the fact that a strong research base in these areas already exists in Alberta.

This doesn't preclude future funding for research programs on other diseases, Miniely explains. Again, priority of incidence will be a deciding factor. "It's not a matter of us not being concerned if only 10 people are affected by a given disease. But it's important that expenditures from the trust fund benefit the greatest possible number of Albertans."

Largest estimated expenditure announced so far is $86 million for the first phase of a long-awaited regeneration program at Edmonton's University Hospital. The existing complex will gradually be replaced by the Alberta Health Sciences Centre, a new facility to accommodate applied health care research, health professional education and patient care.

Miniely says the centre will co-ordinate and monitor information for all Alberta hospitals. It will be a referral centre for patients from all parts of the province and a testing site for new services, technologies and procedures.

"There will be a close relationship between the Health Sciences Centre and other hospitals in Edmonton, Calgary and rural Alberta. A committee will be exploring the possibility of having some research fed into the centre from outside points and some decentralized to hospitals in cities such as Lethbridge, Red Deer, and Medicine Hat."

Current commitments also include $26 million for a new children's hospital and $35 million for an expanded cancer centre in Calgary.

Operating costs for the three major projects are expected to come from the normal hospital department budget.

The $6-million program on heart disease involves making additional funds available for diagnosis, treatment, surgery and rehabilitation. According to Miniely, this means providing the most sophisticated radiological (x-ray laboratory, angiography) equipment available, to the University and Royal Alexandra hospitals in Edmonton and the Holy Cross, General and Foothills hospitals in Calgary. The University and Holy Cross hospitals, which handle cardiovascular surgery, will receive additional operating funds and money to support services such as coronary care units and post-operative intensive care units.

Funds will also be made available to allow the Edmonton Cardiac Fitness Institute at the Royal Alexandra to expand, as a first step in establishing a full-fledged cardiac rehabilitation facility.

The $4-million cancer program means more research in thermography (research techniques for diagnosing breast cancer), radiation physics (to determine dosage in deep x-ray treatment), and radiobiology (techniques to increase sensitivity of cancer cells to radiation therapy). Studies of cancer-causing factors and programs involving treatment of cancer with drugs will also be funded.

When Premier Peter Lougheed announced government support for the Health Sciences Centre last October, he said it would become "a centre for both Canadian and world medical scholars."

This could very well happen, say Alberta doctors, but they caution that it's not likely to happen overnight.

The sudden drying-up of medical research funds in other quarters has made researchers "extremely wary", says Dr. Richard Rossall, assistant dean of medicine at the University of Alberta. "Before they make any moves, they will be seeking security of tenure." He added it would probably take at least three years of guaranteed government support and the promise of more to come to lure researchers to Alberta.

Lure of the West

Dr. Lionel McLeod, dean of medicine at the University of Calgary, believes recruitment of "first class professionals — medical and otherwise" will be enhanced by the government's support of health care and medical research programs.

He welcomes the fact that promised research funds will help to relieve what has been "an extremely dry time for researchers in Canada." But he adds: "This is not to say our people won't be competing on the national scene every day. The new and expanded health care facilities are great — but we'll still need national funding for much of the actual execution of research."

ANNOUNCEMENT

Oil imports climbing back

WEST Europe's estimated oil supply for the first half of 1976 reached 278 million tonnes of product equivalent, up by more than 19 million tonnes since January-June last year but still well below the levels of 1973-74. Our figure takes account of a sharp rise in indigenous crude production, but this relatively new factor in the demand/supply equation failed to hold down imports of foreign crude, which were 9 per cent up at 283 million tonnes in total and 7.6 per cent higher at 276 million tonnes in net terms. Comparison with available demand figures indicates that imports were recovering faster than sales owing to stock-building ahead of price increases then expected by mid-year.

The rapid growth in North Sea output brought an additional 6 million tonnes of crude to the European market, on top of the 19 million-tonne rise in imports, and effectively boosted the growth of crude supplies by 9.5 per cent (see Table I). At 16 million tonnes in all, indigenous production admittedly accounted for only 5 per cent of the area's crude requirements in this period, but the proportion may rise to a third or more by the 1980s given a forecast North Sea output of 4.5 million barrels/day (225 million tonnes/year). Despite the obvious balance-of-payments benefit to Norway and the United Kingdom, however, such a shift away from traditional foreign sources is unlikely to exert any downward pressure on OPEC prices while shipments to the USA continue to climb at their present rate.

TABLE I
WEST EUROPE: ESTIMATED OIL SUPPLY*
Half-year figures in thousand tonnes

	January-June 1975	January-June 1976	% change
Crude oil production	10 043	15 889	+ 58.2
Net crude oil imports	256 911	276 374	+ 7.6
Total net crude supply	266 954	292 263	+ 9.5
Equivalent yield of products a) ...	249 602	273 266	+ 9.5
Net product imports b)	9 173	4 832	− 47.3
Total net product supply	258 775	278 098	+ 7.5

*Covers the countries specified in Table IV. a) Allowing 6½ per cent for refinery use and loss. b) Major products as specified in Table IV (imports *minus* exports).

Disregarding indigenous production, the detailed table of oil imports to the area gives a half-year net total of 281 million tonnes for crude and major products combined (see Table IV), subject to the reservation that figures for Italy, Spain and Portugal are partly estimated. The rise since the corresponding period of 1975 averaged 5.7 per cent, with eight of the 15 countries listed showing increases of 10 per cent or more – and going as high as 40 per cent in the case of the Netherlands. Against this, reduced import volumes were featured for the UK, Sweden and Denmark, while Norway stood alone with a net export balance. In most cases, the rise in imports was probably faster than the recovery in demand, which advanced by an average of 5.8 per cent for five selected countries as reported in EEC statistics (Table II). A spot check of the same five shows net imports up by 7.2 per cent.

While crude oil predominated in West European oil movements there was also a substantial trade in products, largely from country to country inside the area. Imports of major products amounted to 63 million tonnes in all, up by one million tonnes since the corresponding period last year, while product exports came to 58 million tonnes against less than 53 million previously. Thus, the net product import position was trimmed from 9 million to under 5 million tonnes, and this consisted primarily of light oils for which there was a strong market demand.

Outstandingly the biggest importer of products was West Germany, with volumes up from 15 million to over 18 million tonnes, but Sweden's increase in refinery capacity during the second half of last year was reflected in a sharp drop in product imports there, to 6.5 million tonnes. Exports of products from Dutch refineries climbed to over 23 million tonnes, almost twice the figure for domestic consumption, and deliveries from France, the UK and Italy were all around 20 per cent higher. Norway scored a big gain in crude oil exports (up from 1.8 million to 5.9 million tonnes), while also importing more of both crude and products than before.

Imports of crude oil are analysed by area of origin in Table III, which covers the nine biggest importing countries and accounts for 95 per cent of the regional total. This shows deliveries up by almost 9 per cent, to 271 million tonnes for the half-year, with above-average increases for France, the Netherlands, Sweden and Italy (estimated), partly offset by declines for the UK, Denmark and Belgium. The figures for every

TABLE II
INLAND CONSUMPTION IN SELECTED COUNTRIES
Half-year figures in thousand tonnes

	January-June 1975	January-June 1976	% change
West Germany	57 261	62 008	+ 8.3
France	48 950	53 053	+ 8.4
UK	42 786	41 420	− 3.2
Netherlands	10 216	12 140	+ 18.8
Denmark	7 841	8 061	+ 2.8
Total of above	167 054	176 682	+ 5.8

Source: EEC *Eurostat*, No 9, 1976.

would increase US dependence on Middle East oil, and for this reason the necessary permission might not readily be forthcoming.

Plans for gas

Besides its oil, Alaska has a rich endowment of natural gas. Arrangements to exploit this valuable resource are, however, not nearly so advanced as those for oil. Until recently, there were two main proposals for bringing the gas to market. One, put forward by the Arctic Gas group, would link Prudhoe Bay to the gasfields of the (Canadian) Mackenzie Delta, a distance of about 2 600 miles, and transport the gas from both sources up the Mackenzie River valley into Alberta, where it would be fed into the existing pipeline network. The El Paso company's all-US alternative is to pipe the Prudhoe Bay gas southwards across Alaska, following the oil route, and ship it in liquefied form to west coast markets.

A third scheme, recently put forward by the North West Pipeline Co (see *Petroleum Economist*, August 1976, page 314), would pipe the gas eastward 730 miles to the Canadian border and a further 935 miles through British Columbia and Northern Alberta to connect with the existing systems of the Westcoast and Alberta Gas Trunkline companies. Since both the US and the Canadian authorities are involved, no early decision on these rival claims is to be expected.

Meanwhile, the search for fresh reserves of oil and gas is being resumed in southern Alaska. In September the Shell-Arco consortium spudded the first well in the Gulf of Alaska – on one of the tracts covering 437 000 acres in the northern part, that were leased by the federal government last April. Lease sales covering the southern part of Cook Inlet and the western part of the Gulf of Alaska are expected during the next few months, followed by offerings in the Behring Sea some time next year. Conditions in these areas are among the most exacting in the world, and costs are correspondingly high. Whether and to what extent the gamble will succeed, cannot be accurately predicted at this stage.

What is easily predictable is that US dependence on OPEC oil will soon be increasing once again unless the search for additional domestic resources is pursued with the utmost vigour. From this point of view the sedimentary basins of Alaska are probably the most promising that remain. But Prudhoe Bay experience demonstrates afresh the length of time that must elapse between discovery and exploitation – in this case almost ten years. It is not merely a question of drilling scores or hundreds of development wells and providing pipelines and other facilities: not least of the companies' responsibilities is that of working out where the new oil can be most conveniently and economically fitted in to the existing complex supply pattern. This is the exercise on which the Prudhoe Bay companies have lately been engaged. ■

OIL LAWS AND CONCESSIONS

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some 900 000 b/d from foreign sources. (There is also an import of products, mostly residuals.) This rough figuring suggests that there would be a "surplus" of Alaskan oil in 1978 even if west coast imports of foreign oil were eliminated altogether – and this is highly unlikely, if not impossible in the short run, on quality grounds.

Crude requirements

The current expectation is that oil consumption on the west coast may rise by some 5 per cent a year, from just over 2.2 million b/d last year to more than 2.8 million in 1980, with a growing emphasis on residuals and middle distillates. Allowing for some continuing imports of finished products, the crude oil requirements of west coast refiners may reach 2.6 million b/d by 1980. Of this total, Californian production, including that from the Naval Reserve of Elk Hills, may provide 1.2 million b/d or more. On the extreme assumption of no imports of foreign oil, this would leave a maximum requirement of 1.4 million b/d from Alaska, of which about 1.2 million would be North Slope oil. If Prudhoe Bay is then producing 2 million b/d, this would imply a minimum "surplus" of 0.8 million b/d for which markets would have to be found elsewhere. The maximum might be in the region of 1.3 million b/d.

One such market is the refineries of the so-called Northern Tier. These are the plants in the states adjoining the Canadian border – Washington, Montana, North Dakota, Minnesota, Michigan and Wisconsin. They have hitherto been heavily dependent on Canadian crude and are therefore the prime sufferers from Ottawa's decision to phase out all exports of crude by end-1981. These exports were running at about 800 000 b/d towards the end of 1974, but will be down to an average of 255 000 b/d next year.

The only long-term solution to the problems of the Northern Tier is to pipe in supplies to these landlocked refineries from the Gulf Coast, California or the Pacific Northwest; and various alternatives are at present being explored. Some of the interests affected believe that the best solution would be to get access to Alaskan oil, though this would entail the provision of desulphurisation facilities. One suggestion is that the oil should be brought in by a 30-inch, 780-mile pipeline from a new port at Kitimat in British Columbia to Edmonton, Alberta, to link-up with the existing pipeline system. Another is for a 40/42-inch all-US line, about 1 500 miles in length, running either from Puget Sound or from Port Angeles – which lies just south of Vancouver Island – all the way to Clearbrook in Minnesota. (The likely transport cost for the whole distance from Valdez to Clearbrook would be of the order of a dollar a barrel.) There is, however, a good deal of opposition to any increase in tanker shipments into the confined approaches to Puget Sound, and the outcome of these proposals, as well as of others being discussed, is thus in doubt. In any case, they could provide no outlet for North Slope oil before about 1980.

The maximum practicable absorption of Alaskan crude on the west coast, including the Northern Tier refineries, would almost certainly leave some surplus to be consumed elsewhere. And the quantity in question may in fact be considerably larger than the foregoing analysis might suggest because half the North Slope output is in the hands of BP/Sohio. Unlike Exxon and Atlantic-Richfield, Sohio has no west coast refinery and will not be able to dispose of all its available supply to other companies in that area. Hence this group's plan to ship some of its oil from Valdez to a new $500-million tanker terminal near Long Beach, California, and pipe it thence (possibly at a rate of 500 000 b/d) across the states of Arizona and New Mexico to West Texas, employing a disused gasline for about three-quarters of the 1 000-mile route. But there is strong opposition in California on fears of air pollution; and in the most favourable circumstances the scheme could hardly be in operation before 1979.

In the meantime, and maybe also for the longer-term, Sohio contemplates shipping its surplus crude through the Panama Canal to east coast (or perhaps Gulf coast) refineries. With this end in view, the company recently chartered seven 60–90 000 dwt US flag tankers (four of them newbuildings due for delivery in 1977 or 1978) for periods of three to five years. The haul to New York from Valdez is farther than that from the Persian Gulf via Suez and must be made in relatively small vessels because of the Canal limitations. At a guess, therefore, the transport cost would be well over a dollar a barrel.

As an alternative to treating the crude in East Coast or Gulf Coast plants, it might be refined in (*e g*) the Virgin Islands and the resulting products shipped into the USA. Because the Virgin Islands (like Puerto Rico) are a US dependency, refineries there which operate on expensive crude are in effect subsidised under the existing "allocation" arrangements; so the products of these "domestic" refineries have a competitive advantage over those from "foreign" refineries in Aruba, Curaçao and elsewhere. It seems doubtful whether the cost of products refined from Alaskan crude in the Virgin Islands would be any less than that of similar products from mainland plants; but while the present artificial crude oil pricing arrangements continue this would seem to be a viable way of using Alaskan oil to meet the needs of consumers in the East.

The only other outlet for oil surplus to west coast requirements would be the export market. The Act which gave the go-ahead to the trans-Alaska pipeline project specifically forbade export of the crude unless the President certified that this would be in the national interest, and Congress raised no objections. On quality grounds, and to economise transport costs, it might make economic sense to export some of the oil, particularly to Japan, rather than ship it in small vessels to the Atlantic Coast. But it is being argued that this

by E. Stanley Tucker

Markets for Alaskan crude

THE desolate North Slope of Alaska offers the American people the best hope of reversing their growing dependence on foreign oil. It promises also to do something to relieve the worsening shortage of natural gas. The flow of oil, which cannot start before mid-1977, could be delayed by the much-publicised welding troubles with the pipeline. But the companies concerned are optimistic, and have lately been giving much thought to the important question of market outlets. Because the USA bulks so large in the world energy picture, other importing countries are taking a keen interest in the outcome.

Development of the Prudhoe Bay field, discovered by Atlantic-Richfield as long ago as 1968, has been as difficult and costly as any in the history of the business. Proved reserves are currently estimated at 9 600 million barrels of oil and 26 million million cubic feet of natural gas. Eleven companies have concessions on the 200 square miles of the field, but nine-tenths of the oil is owned by three groups – BP/Sohio, Exxon and Atlantic-Richfield. Their marketing problems are complicated by the fact that the oil – 27 degrees API with a 1 per cent sulphur content – is by no means ideal from the US refiners' standpoint.

The start-up of production is dependent on the satisfactory completion of the 800-mile, $7.7-billion trans-Alaska pipeline which will deliver the crude oil to the southern ice-free port of Valdez. This formidable pipeline project has been delayed by the determined opposition of environmentalists and by the appalling climatic conditions, apart from the latest crop of welding problems. But the Alyeska Company, which operates on behalf of the consortium of eight companies responsible for the line, still hopes to meet its target date of mid-1977. From an initial 600 000 barrels a day, the flow of oil should reach 1.2 million b/d – the initial capacity of the line – by the year's end; with a further substantial investment, the capacity is likely to be raised to 1.6 million b/d and then to 2 million. Since the US imports of crude and products together are now running at some 7 million b/d (equal to about 40 per cent of US consumption, against 25 per cent in 1971) the North Slope production will not bring independence of foreign oil. But it will reverse the deteriorating trend of recent years.

Likely outlets

The question of where these new supplies can best be used is closely linked to that of price. If, as is commonly assumed, North Slope oil will be excluded from existing crude oil controls, it will presumably be priced at import parity in the areas where it is refined; so the netback to the wellhead will be higher if the markets are relatively near than if they are remote. The natural outlet is obviously the US west coast, which already absorbs the small production (about 200 000 b/d) from southern Alaska. This is a deficiency area where demand is expected to expand rather more rapidly than in the USA generally (largely because of the growing shortfall of gas) but where local production may also be expected to increase, since drilling is once more being permitted in the Californian offshore.

Broadly, the present position is that west coast refineries (operating below capacity) are running about 2 million b/d of crude, of which 900 000 b/d comes from Californian fields, 200 000 b/d from Alaska, and



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On The Ballot

Lawmakers Would Shape Permanent Fund

By SUSAN ANDREWS
Times Staff Writer

If Alaska's voters approve the concept of a state permanent fund Nov. 2, it still will be left to the Alaska Legislature to answer a number of crucial questions, including how much money will go into the fund, who will run it and what will be its goals and uses.

State Rep. Hugh Malone, D-Kenai, who introduced the proposed constitutional amendment creating the fund, predicts it will take at least a year and probably two years to work out those details. "We want to get the public in on it before anything is done," he said.

The state's Investment Advisory Committee has set public hearings Nov. 5 and 6, if the proposed constitutional amendment is approved Nov. 2. The governor has asked the committee to come up with recommendations for legislation regarding the fund.

The Alaska Public Forum will address the permanent fund as one of the key issues facing the state, in regional workshops in eight communities between November and April.

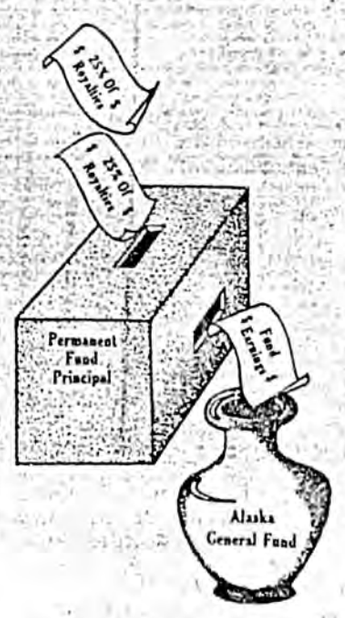
The legislature also will hold hearings, possibly next summer, in Anchorage and Fairbanks.

Those promoting the permanent fund, including Gov. Jay Hammond, see it as a way of providing development capital to diversify the state's economy, strengthen renewable resources — such as fisheries, timber and tourism — and make possible large projects such as dams, which couldn't otherwise be financed.

They also view it as a savings account, to keep some of the state's income from oil and gas out of the general fund so it can't be spent. They point to the $900 million the state received from the 1969 Prudhoe Bay lease sale, which now is nearly all spent.

Others see the fund as a source of loans for community development, such as home mortgages, small business loans; for power development, ports, utilities, roads, or health, education or social needs, such as day care centers.

Malone said the fund could go for all three of those uses. The legislature would decide what per cent of the fund would go to each use.



Opponents of the permanent fund fear it would establish a huge state bank, larger than any in Alaska, which will control possibly $20 billion ultimately and create a new class of men of "great, quiet power."

They suggest the money should be used to pay for capital improvements on a cash basis rather than bonding.

Former Commissioner of Natural Resources Tom Kelly points out that the state legislature in 1974 approved the Alaska Renewable Resources Development Fund, which pledges 5 per cent of the state's oil and gas royalties and cash bonuses to projects promoting renewable resources. The fund goes into effect June 1, 1978, with a ceiling of $250 million.

Kelly says it's a good law which can be changed, continued or modified by future legislatures. "Not so a constitutional amendment that provides for a permanent fund where the investment policy is yet to be determined," he said.

Attorney General Avrum Gross has said the 1974 act would be automatically repealed if the constitutional amendment passes.

In 1975 the legislature attempted to establish a permanent fund which would have received 50 per cent of the state's income from oil and gas lease sales. But Hammond vetoed it after the attorney general advised him that dedicating state revenues is unconstitutional.

The state constitution prohibits dedication of tax income for special purposes.

The proposed constitutional amendment specifies that at least 25 per cent of the state's income from all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses from lease sales are to be dedicated to a permanent fund.

The fund must be used for income-producing investments. Earnings from such investments are to be deposited in the general fund unless otherwise provided by law.

Not included in the fund are proceeds from petroleum production and property taxes or petroleum reserves and ad valorem taxes. The fund cannot be used to finance general operating expenses or capital improvements in the regular state budget and it cannot make grants, either public or private.

The legislature can set the fund's income at higher than 25 per cent of royalty and bonus income — but not lower.

At 25 per cent, the fund is expected to total between $2 billion and $3 billion in the next 10 years.

Consultants have told the state's Investment Advisory Committee that the "income-producing requirement" of the fund gives the state broad latitude.

Since the amendment doesn't specify how much income, the state could earn one per cent on an investment and still meet the requirements of the constitutional amendment.

Also, by buying state or local bonds for non-income producing projects — such as schools or roads — the fund itself will be earning interest on those investments.

How will the fund be managed? There are again a number of alternatives. It could be run by an existing state department, such as the department of revenue, or set up as an independent structure — a state bank. Similar funds elsewhere in the world are most successful, consultants say, when they are free from political control over day-to-day operations, including loans.

For example, the legislature would set limits on certain types of loans, but the loans to be granted would be determined by the management structure set up by law.

Earnings from the investments are to be deposited in the general fund, unless otherwise provided by law.

There are a number of possibilities for uses of the earnings — and the legislature will decide those uses.

The governor suggests a citizens' corporation, Alaska Inc., could be established to distribute those earnings either in health or income benefits to senior citizens or cash dividends to state residents.

Other options include reinvesting the earnings in the permanent fund, pledging the earnings as security for state and local bonds, additional revenue sharing, letting earnings flow into the general fund, lower state income taxes, or return dividends as tax credits.

Critics of a permanent fund are not campaigning against it. They have expressed their views in newspaper columns since last January.

Former Attorney General John Havelock wrote in May, "Who will benefit from establishment of a big, state bank? Those who manage it and those in a position to borrow large sums of money."

He said, "The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power."

Former State House Speaker Tom Fink said the framers of the state constitution wisely prohibited the formation of any permanent funds. He says government ought not ever have more money than it needs to be financially sound. A permanent fund will simply dangle a large slush fund for misuse.

"Now or in the future," he says, surplus monies should be used to pay for capital improvements on a cash basis, rather than going to the bond market; pay off existing debt; and reduce state taxes. And if there is money left over, it ought to be given back to the people.

"We should be appropriating annually about $50 million in cash from 1978 to 1982 to build the new state capital," Fink said, "and not through the issuance of bonds."

Malone, chairman of the state House Finance Committee, argues that with state revenues conservatively estimated at $18 billion to $20 billion over the next decade, there will be plenty of money to move the capital or other projects even if 25 per cent of royalties and bonuses go into a permanent fund.

Bob Richards, executive vice president of Alaska Pacific Bank and a consultant to the state Investment Advisory Committee, says the permanent fund has "the potential for good."

The fund "would enable Alaska in the 1980s to exhibit a certain degree of economic maturity by becoming a net exporter of capital," instead of importer, he said.

By possessing capital, Alaska in the 1980s would have leverage to attract enterprises which help diversify the state's economy.

"The state of Alaska could induce industries to invest in plant facilities in Alaska by agreeing to provide them with the capital required for such projects," Richards said, "possibly at a lower cost than rates required for projects elsewhere in the world."

Trudeau Enjoys Japan Holiday

KANAZAWA, Japan (AP) — Prime Minister Pierre Trudeau of Canada took time out Saturday from his official schedule to enjoy an autumn holiday in this western Japan sea coast city.

Accompanied by his wife, Margaret, Trudeau watched a classical Japanese theater performance for 30 minutes in the morning and enjoyed lunch at a Japanese-style restaurant.

The prime minister and Mrs. Trudeau were scheduled to go sightseeing around Kanazawa on Sunday before returning to Tokyo on Monday.

He has had an audience with Emperor Hirohito and a busy round

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TIMES
11/1/76

No Answer Likely On Resource Fund

The attorney general's office apparently will not have an answer before tomorrow's election on whether the state's Renewable Resources Development fund will continue in existence if voters approve the concept of a permanent fund.

The 1974 state legislature passed a law providing that 5 per cent of the state's income from oil and gas lease sales would be used for renewable resources, such as tourism, fisheries and timber. The law is to go into effect July 1, 1978.

Assistant Attorney General Rod Pegues in August said his own opinion is that the proposed permanent fund constitutional amendment, if approved, would automatically void the earlier law.

However, Commission of Revenue Sterling Gallagher said this week he has asked the attorney general for an opinion and the question.

Assistant Attorney General Will Condon said Friday that Pegues is on vacation and he hasn't had time to research the question but would do so next week.

The proposed constitutional amendment specifes that at least 25 per cent of the state's income from oil and gas royalties and bonuses would go into a permanent fund, which must be used for income-producing investments.

The amendment also states that dedicated funds in existence at the time of the amendment's passage would not be affected.

Condon said the attorney general's office last year issued an opinion that dedicated funds are unconstitutional.

The state constitution prohibits the dedication of income from taxes and license fees.

It was the basis of that opinion that Gov. Jay Hammond vetoed the 1975 legislature's act creating a permanent fund. He said a constitutional amendment was needed to create the fund.

TIMES 10/14/76

Panel Mulls Permanent Fund

By SUSAN ANDREWS
Times Staff Writer

The state's expanded Investment Advisory Committee yesterday heard from a succession of consultants how Alaska could structure a permanent fund and ways that fund could be used if approved by Alaska's voters Nov. 2.

The proposed permanent fund, which would be derived from 25 per cent of the state's income from oil and gas royalties and bonuses, would total $1.88 billion by 1985 from royalties alone, a Department of Revenue report shows.

The consultants, hired under the committee's $135,000 permanent fund budget, said a strong chief executive officer is essential for the success of an investment fund. "The management should be above politics but accountable to the public," they said. The legislature should set policy but should not be involved in the day to day operation, including the loan-making decisions.

Venezuela and Saudi Arabia, as well as the Canadian province of Alberta, were cited as examples of governments that divert excessive oil wealth into development banks for a variety of uses.

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(See Page 2, Col. 5)

Advisory Committee Mulls Permanent Fund Proposals

(Continued From Page 1)

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Commissioner of Revenue Sterling Gallagher said the 11 additional members of the advisory committee, named by Gov. Jay Hammond early this month, are only temporary additions.

He said they were appointed only to advise the governor on the establishment of the permanent fund and their job will end when the legislature convenes in January. By then, Gallagher said, the committee will have come up with recommendations for legislation setting up the fund and its management.

"I hear public support for the fund from three sectors," the commissioner said, "from those who favor a savings account approach, those who want it used to provide assistance in community development and those who want it to provide economic diversity in the state."

He said he sees as a major goal the strengthening of the state's economic base by investing in renewable resources and by policies which would reduce seasonality of employment.

The committee will meet again Nov. 5 and 6 if the amendment passes.

Panel Asks Fund Guidelines

TIMES 11/7/76

By KAY BROWN
Times Staff Writer

The state's Investment Advisory Committee has directed Revenue Commissioner Sterling Gallagher to draw up a law governing temporary investment of the Alaska Permanent Fund.

The permanent fund, established Nov. 2 with voter approval of a constitutional amendment, will set aside at least 25 per cent of certain oil revenues for income-producing investments.

State officials say the permanent fund could exceed $2 billion by 1980.

The advisory committee, winding up a two-day work session in Anchorage, yesterday asked Gallagher to write a statute that would allow investment of the permanent fund in much the same way the Revenue Department currently invests surplus state revenues.

Many members of the committee said a short-range investment plan is needed because the long-range social goals and uses will take much more study and public participation.

Some hope the next legislature can at least work out the structure of the fund, but others envision a two-year public debate over the goals, investment procedures and structure.

The advisory committee will make short-term recommendations for investment of the fund, which will begin accumulating money in about four months. The committee may also present a wide range of alternatives for the permanent structure and purposes of the fund.

The committee's recommendations will go to Gov. Jay Hammond, who in turn will make recommendations to the legislature when it convenes in January.

Gallagher said his proposal will be to invest the fund on a temporary basis in "conservative, safe" securities through the Department of Revenue while the public debate continues.

The committee asked Gallagher to make his recommendation at its next meeting, scheduled Dec. 3-4 in Anchorage.

The committee also adopted a motion asking state Attorney General Avrum Gross to examine four legal questions regarding the fund's structure:

—What does the term "income-producing" mean?

—How much latitude would the legislature have in dividing the fund, investments made through the fund, or boards governing the fund into geographic regions of the state?

—How much power could the legislature delegate to a permanent fund management board?

—Could some or all of the board members be appointed by the legislature?

Anch. Times Oct. 8, 1976

Meekins Says Hammond Wants Control Of Fund

House District 7 candidate Russ Meekins Jr. yesterday warned Bartlett Democratic Club members of what he termed attempts by Gov. Jay Hammond to seize control of the proposed state permanent fund.

The fund, which would set aside 25 per cent of the state's mineral resource revenues, will appear as a proposed constitutional amendment on the Nov. 2 general election ballot.

Meekins charged that Hammond is trying to control the fund through the investment advisory board, which the candidate claimed has no legal authority over the fund.

"The advisory board is a hoax by Hammond. He says they can advise the legislature on uses for the fund. He wants to establish the precendent that the board has authority," he said following the Democratic club's weekly lunch meeting.

Meekins said the board was established originally to handle the $900 million the state received in 1969 oil lease sales. Hammond packed the board with his own people when he named five new members last week, Meekins said.

"He wants to limit the amount of money invested for development of the state's economy," the candidate said.

"Whoever runs the permanent fund, if it is one person, would be a superman with more influence than the governor," he said. "The legislature will determine who controls it. That will be the most important decision of the session."

Anchorage Daily News, Friday, October 15, 1976—17

Panel divided on permanent fund use

Alaska's newly expanded Investment Advisory Board met here Wednesday to examine potential use of the proposed permanent fund — and showed there is considerable difference of opinion about that topic.

In a day-long discussion in which they examined projections about the fund and heard from economists and other financial experts, the panel members posed questions which indicate sizeable differences in how they perceive the fund's future.

THE PERMANENT FUND, which is listed on the November ballot as Proposition 2, asks voters to approve a constitutional amendment to establish an investment account for 25 per cent of certain state oil revenues. The fund is constitutionally designed to be safe from day-to-day spending, but will leave to legislative action precise design of the operation.

Alaska banker and economist Bob Richards told the panel that Alaska's economic history since the gold rush at the turn of the century has not been a pattern of boom-and-bust and should not be predicted to be one in the future.

Because of that, he said, the potential use of the permanent fund need not be directed especially at those areas. "There is no reasen for the state to panic about going into a bust and go explicitly into a program of spending designed to counter that," he said.

The Anchorage Times

Financial Experts To Address Panel

The state's new Investment Advisory Board will meet in Anchorage tomorrow to hear advice from financial consultants as to the best way to manage the state's proposed permanent fund — and what the effect on Alaska's economy will be from such a fund.

Members also will work on proposed legislation for structure and management of a permanent investment fund — legislation to be introduced at the start of the legislature's next session, if voters approve a constitutional amendment on the Nov. 2 ballot.

The proposed amendment to the state constitution would require that at least 25 per cent of revenues from oil and gas lease sales and production, and from federal revenue sharing payments, would go into a permanent fund.

Earnings from the fund's investments, which must be in profit-making ventures, would go into the general fund, but the permanent fund could not be touched by the legislature.

The all-day session, beginning at 9:30 a.m., will be held in the Department of Revenue's ground floor conference room at 509 W. Third Ave., across from the Anchorage-Westward Hotel.

Speakers will include Commissioner of Revenue Sterling Gallagher at 9:30; advisory board Chairman Bob McFarland at 10, Alaska Pacific Bank Vice President Bob Richards at 10:30, consultant Ken Butler from White Weld Co. of New York City at 1:30 p.m. and consultant Peter McDowell of Price Waterhouse Co., Washington D.C., at 2:30.

At 11 a.m., Vince Wright of the Department of Revenue will present an update on revenue projections for the permanent fund.

According to Deputy Commissioner of Revenue Jim Edenso, who has been working with the advisory board since August, Gallagher will comment on questions raised in regard to safeguarding and managing the general fund.

Richards will discuss the Alaska economy and how it will be influenced by the permanent fund.

A bust of Abraham Lincoln stands in a place of honor in San Marino's Government Palace in Italy. The people of this small, independent Republic wrote to Lincoln in 1861, expressing their concern and sympathy over the Civil War and declared him an honorary citizen.

Cause For Concern

Oct. 13 1970
Anch. Times

WE ARE ADVISED that we conferred too much power on the state's Investment Advisory Board last week when we described its members as key figures in the handling of billions of dollars of public funds, if the voters approve the idea of creating a permanent fund Nov. 2.

We have been told by two state officials that the advisory board will have no such powers. If the permanent fund proposal is approved, the provisions for administering it must be made by the legislators after they convene at Juneau next January.

Consequently, it appears that our concern was misdirected. Instead of the advisory committee, we should be concerned with the agency that is to be created in the next legislature.

GREAT CONCERN is appropriate, whether it involves the Investment Advisory Board or some other agency. The proposal on the ballot is that 25 per cent of the state's oil, gas and mineral revenues be set aside in a permanent fund which the legislature could not use for appropriations. The fund would be for investment in income - producing ventures which are to be specifically designated by law.

Even though this may be the greatest idea in modern times and it is hoped will augur the day when Alaskans have a government supported by the equivalent to an endowment, it might also be a monster with insidious consequences. The fund will be so huge that it could, and probably would, dominate this state. It could even control the destiny of major national enterprises.

A BILLION DOLLARS in oil royalties will start flowing into the state treasury next year when production from Prudhoe Bay begins. This annual revenue is expected to double in a short time. There are indications that the royalties will soar higher as more discoveries are made and Alaska becomes the biggest domestic source for the nation's petroleum supplies.

Such huge numbers mean that the proposed permanent fund would also be huge. Estimates show it would be two billion dollars in less than 10 years. A fund of that size could control the entire state economy. Whoever controls the money could become the power center of the state.

SOME SUBJECTS that are worthy of public concern include those noted by Thomas Kelly in The Anchorage Times last Sunday. He cited the unanimity among politicians as unusual and suggested that the motivating factors behind that unanimity should be studied.

Kelly mentioned that some politicians see the permanent fund as a way to put big money in a deep freeze so it won't be available for building a new state capital. Others may consider it a means of stopping economic development. Still others may see it as a power center from which they could control the lifestyle of the state, its economy and its politics.

We have heard none of these possibilities discussed publicly. But they should be.

IT MAY BE TRUE that we zeroed in wrongfully on the Investment Advisory Committee as the agency that would handle the fund. But the error is only that of a bowler who rolls the ball down the wrong alley.

It is probably inevitable that the governor will appoint the members of whatever agency the law provides for administering the multi - billion - dollar fund and he could, if he wished, name the same personalities already named for the advisory committee. It would be the governor's choice.

The danger is that the absolute power that would be created in connection with the fund could corrupt the state administration.

Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Panel Mulls Permanent Fund

Anch. Times
oct-14, 1976

By SUSAN ANDREWS
Times Staff Writer

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Arco will drill exploratory well

Fbks, oct 14, 1976

Atlantic Richfield Co. has announced plans to drill an exploratory well in the northeast Gulf of Alaska.

The well is the second to be drilled on oil and gas tracts leased by the federal government last April. Shell Oil Co. began drilling in late August.

Arco says the well will be drilled using the semi-submersible drilling vessel "Ocean Ranger." The vessel recently completed a stratigraphic test well in the Bering Sea, and is expected to move to the new location over the weekend. The well will be spud as soon as possible.

The well site, designated Salome 72-1, is about eight miles south of Cape Yakataga, 97 miles west of Yakutat. The site is a joint lease by Arco and Shell. The name "Salome" is a code designation assigned to a promising rock formation by the companies.

The Shell Oil site is about 32 miles west of the Salome location on a tract leased by Shell, Arco, and two other companies. Shell is using the Sedco 706 drilling vessel. Support for both drill rigs will be coordinated, Arco said.

Columbus brought the first cattle — similar to Spanish fighting bulls — to the New World in 1493.

Perspective

Is 'Permanent Fund' Proposition No. 2 A Politically-Inspired, Elaborate Hoax?

By Joe LaRocca

(This is another in a series of columns dealing with proposed amendments to Alaska's constitution which will appear on November's general ballot ballot.)

It may not be readily apparent to most Alaskans that the state's currently presiding political establishment has perpetrated an elaborate hoax upon them in the form of its politically-inspired proposal to establish a permanent state fund, mainly from future oil and gas revenues.

Together, and with much fanfare, the Ninth Legislature and the Hammond administration have forged a proposed constitutional amendment designed to remove the state constitution's prohibition against dedicating funds for special purposes. The proposal will appear on the November ballot as *Proposition No. 2: Permanent Fund From Non-Renewable Resource Revenues.*

If approved by voters, it would require state officials to deposit into a permanent fund "at least 25 per cent" of all future revenues from lease rentals, royalties, royalty sales and bonuses which the state receives from mineral interests on state land, as well as the state's share of revenue derived from mineral interests on the federal domain in Alaska. (It should be noted that the single largest source of future state revenues -- the severence tax on oil and gas produced on state lands, which one day soon will produce revenues exceeding $1 billion per year — has been specifically *excluded* as a source of revenue for the proposed permanent fund.)

If voters adopt the proposed constitutional amendment, the principal of the permanent fund could be used "only for income-producing investments permitted by law," which means that the legislature alone would be empowered to prescribe where and how monies from the permanent fund could be invested. Any income earned from those investments would go into the state's general fund, to be used like any other public monies.

SIMPLISTIC THEORY

Presumably voter approval of this proposed amendment would prevent future legislatures and governors from squandering all of the state's liquid assets — as the current and past ones did the bonus revenues from the $900 million North Slope lease sale in 1969 — by compelling them to create and systematically feed an unspendable money pool that would perpetually grow.

The impulse for this simplistic theory stems from widespread citizen outrage over the state's rapid dissipation of the $900 million lease sale surplus, and it incorrectly assumes that if those bonus monies had been irretrievably deposited into a permanent fund at the outset, succeeding legislatures and governors would have been forced to curb their fiscal extravagance and the explosive growth of government that has occurred since.

Nothing could be further from the truth. It's now a matter of record that — pending the depletion of the $900 million — the current legislature and administration (initiated or proposed) a program of deficit spending in only two years which nearly equals the level of deficit spending that their predecessors achieved in six.

The hoax derives from the fact that advocates of the permanent fund now holding public office who thus parade under a banner of fiscal restraint have relentlessly pursued a policy of massive spending which wholly ignored the lack of surplus general funds, and are now plunging the state another three-quarters of a billion dollars, or more, into debt.

The obvious inference: if the absence of any surplus in the state's general fund failed to discourage today's advocates of a permanent fund from massive deficit expenditures, there's surely no reason to believe that the creation of such a fund would deter them or their successors.

Indeed, recent events lead one to the opposite conclusion, for it was the current administration and legislature — putative authors of the permanent fund proposition — who this year have proposed by far the largest package of bonded indebtedness ever, totaling nearly a quarter of a billion dollars; while at the same time borrowing, over a two-year period, another half-billion dollars from future oil tax revenues in direct violation of the constitutional prohibition against incurring public debt for more than a year without express approval of the electorate.

The simple truth is that the current legislature and governor have used the motherhood-mystique of the permanent fund to lull the public into acceptance of the notion that they are practitioners of fiscal restraint when, in fact, the opposite is the case.

MASSIVE ABUSE

Even if the hoax I've described did not prevail, and one assumed good intentions on the part of permanent fund advocates, there are compelling reasons why a dedicated fund is not in the best interest of the state, and should be rejected by voters.

Alaska's existing constitutional prohibition against dedicated funds is a considered product of the unvarying history of massive abuse in other states where dedicated funds were not prohibited. They led inevitably to irrational fiscal policies, administrative corruption and inflexible taxation programs. As a result, in most cases, states which once allowed dedicated funds, now wisely prohibit them.

Much is made of the fact that part of the principal of the proposed permanent fund could be used to provide Alaskans with long-term, low interest loans for homebuilding or business and industrial development ventures. But unless these loans are made available at more attractive rates and terms than the commercial banks are offering, they would obviously be of small help to those seeking them and, in that case, probably would not provide the return on investment which the proposed constitutional amendment contemplates.

On the other hand, if the terms and rates *are* made more attractive, one then finds the state in the ticklish business of subsidizing private borrowers with public funds, in competition with the commercial banking community. At the same time, the requirement that the fund principal may be used only for "income-producing investments" fails to take into account the risk factor inherent in the lending industry, and would put every failed loan in direct violation of the state constitution.

ANYTHING GOES

One is even more trouble by the verbiage contained in Proposition No. 2 which would allow the permanent fund to be used for investments "permitted by law," which means — to anyone familiar with the free-wheeling legislative process — that anything goes.

As one unsuccessful State House candidate from Fairbanks, Nancy Brown, has perceptively suggested, voters should demand to know, in writing, much more about what investments would be permitted, and under what conditions, before adopting Proposition No. 2. For if they do not, they are indeed buying a pig in a poke. But, unfortunately, there's little doubt that the voters will blindly approve Proposition No. 2, for the concept of a permanent public fund has already been sanctified by the state's self-serving political establishment and Alaska's unthinking news media.

Anchorage Daily News, Friday, October 15, 1976—17

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TIMES 10/8/76

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Committee Suggests Three-Level Fund

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday decided the new permanent fund should have a three-level structure, with a policy-making board independent of the fund's chief executive officer and a lower-level operating or management board.

The policy-making board should have 11 members, including two from the state legislature, two from the administration and seven public members to be appointed by the governor. They would serve staggered four-year terms, according to the committee's recommendation.

The Investment Advisory Committee will recommend to the legislature that the operating board have five members, including the chief executive officer and four public members, appointed by the policy board.

The committee has been asked to come up with recommendations for structuring the permanent fund before the legislature convenes in January.

Alaskan voters Nov. 2 approved the concept of a state permanent fund, which would be derived from at least 25 per cent of the state's revenues from oil and gas royalties and lease bonuses. The constitutional amendment specified only that the fund must be used for income-producing investments. It remains for the legislature to set up how the fund will be operated and what will be its goals and objectives.

It has been estimated that the permanent fund will total between $2 billion and $3 billion within 10 years if 25 per cent of royalties and bonuses is dedicated to the fund. The state legislature could dedicate more than 25 per cent but not less.

Yesterday's morning-long session was not publicly announced in advance because, Commissioner of Revensue Sterling Gallagher said, the panel wanted to avoid the "grandstanding" that went on at the committee's last meeting.

At the committee's next scheduled meeting Dec. 16 and 17, consultants from White Weld, a financial consulting firm, will discuss decentralizing the fund.

Chairman Eric Wohlforth said the extent to which loans made by the fund should be regionalized as a question that the committee needs to address.

Committee member Jim Crawford replied, "Isn't that something the policy board will take weeks and months to decide?"

Member Jamie Love said he thinks the people who live in affected communities should have some say in economic development loans made by the state.

" Maybe they want housing instead of jobs," he said, "Or maybe they would encourage some industry as opposed to others.

"This should be institutionalized so a community won't be steamrollered by a central committee," he said.

Wohlforth said the state has an existing vehicle, the Industrial Development Authority, for making loans, which provides that no project will be approved without the consent of local areas.

"I'm for using existing governing boards, in local areas, not creating new ones." He said the authority has been on the books for seven years but hasn't been used.

The emphasis of the committee's discussion was on loans. Crawford said, "We keep talking about lending. We should be talking about investments and making money for the state."

Wohlforth replied that it is clear the legislature will be making "public sector-type investments."

Crawford also asked, "What if the legislature decides simply to make the permanent fund a savings account?"

Gallagher replied, "That's not likely, judging from the public hearings in Ketchikan." At the first Alaska Public Forum held in Ketchikan last weekend, the participants said they thought the state's new oil and gas wealth should be used for development of the state's renewable resources, or for loans for community improvement. Saving the money was a third choice.

Another question that needs to be addressed, Wohlforth said, is whether the permanent fund will assume the responsibility of the various existing state loan programs or fund those programs.

The committee decided that the permanent fund's policy-making board should:

—Hire and fire the fund's chief executive officer.

—Set goals and conduct a "sectoral analysis" to determine the needs in various regions and industries within the state.

—Conduct financial audits and analyze the management operations.

—Evaluate programs, and, perhaps, approve loans of over a specified dollar amount.

The policy board also will make periodic reports to the legislature and the public. It would set the chief executive officer's salary and approve the operating budget.

The management-level operating board will have the job of approving loans and investments, after screening by the chief executive officer and his staff.

The committee's feeling was that loans of under a certain dollar amount could be approved by the staff without board approval.

Consultants from Price Waterhouse have emphasized that no member of the policy-making board should serve on the operating board. The two boards should be completely separate so that the day-to-day loan decisions are not subject to political influence.

Gallagher said he envisions the public members of the operating board as being "financial wizards" — persons with financial expertise.

Love said the primary purpose for loans from the permanent fund "will be for social goals," so he didn't think the operating board should be structured like a commercial bank "whose goal is to make money."

But Jim Rhode, administrative assistant to state Rep. Hugh Malone, pointed out that "if the legislature says 20 per cent of the fund will go to housing and the policy board says where those loans should be directed, then you don't need five or six consumer representatives on the operating board."

Permanent fund in '80: it could be $2 billion

News 11/6/76

By PAUL NUSSBAUM
Daily News Staff Writer

The state's Investment Advisory Board on Friday explored ways of increasing the leverage of Alaska's newly-approved permanent fund, which officials say could exceed $2 billion by 1980.

Two New York financial advisors to the board outlined possible methods of increasing the economic effect of the state's permanent fund. The permanent fund, approved by the voters in Tuesday's general election, will set aside at least 25 per cent of revenues from mineral, oil and gas income for income-producing investments.

Local banker and economist Bob Richards urged the board to use Alaska banks in investing the permanent fund revenues. Richards said bankers would complement the fund's long-term investments with commercial short-term investments.

"Your alternatives and choices are very broad," investment advisor Ted Swick told the board Friday. Swick and Charles Fuhrmann II, vice presidents with White, Weld and Co. Inc., an international investment banking firm, outlined several methods of extending the fund's economic leverage:

—Direct borrowings on the fund to create a larger pool of funds, either with tax-exempt borrowings or debt issues in the capital market.

—Guaranteeing other loans or guaranteeing other people's securities.

—Providing subordinate capital as a financial participant in other projects.

Swick was asked to answer one of the prime objections to establishment of a permanent fund — why set aside money that might be used to pay off state indebtedness immediately?

"I don't envision the existence of the permanent fund making it never necessary for additional funds in the general fund . . . There's no sense paying cash for something that is going to benefit people now and down the road . . . one of the objectives is to have the guy who will use the facility 30 years from now help pay for it," Swick said.

Richards, one of the paid consultants of the board, lobbied for a role by state banks in dispersing the permanent fund investments.

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

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Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Permanent fund raises use issue

Creation of a permanent fund, which could total $3 billion by 1985, tops a list of four proposed constitutional amendments on Alaska's general election ballot.

Proposition 2 asks voters to endorese a constitutional amendment establishing the fund, which is to serve as an investment account into which 25 per cent of certain oil revenues will be channelled.



THE FUND COULD only be used for profit - making projects — such as loans, commercial investments or bonds. Earnings from the fund would be available for general state spending — but the fund itself would not.

The proposal passed the legislature last session by greater than two - thirds majority and so will become law if voters approve it. There has been little organized opposition to the proposal and it is expected to receive a substantial majority of the vote.

Nobody knows exactly how the fund will be used; that decision will be made by legislative action in the future. Although the fund is protected against certain kinds of useage, its precise organization and management have been left flexible by designers.

A FREQUENT ARGUMENT against the fund comes from opponents who say dedicated funds are insensitive to future, unpredictable needs. What if there is some unexpected need in the future, they ask, and much of the state's assets are locked up in the fund and can't be reached for solutions?

To that complaint, proponents answer that the flexibility of allowing future legislatures to decide on precise uses will prevent the "locked up" circumstance.

There have been many proposals for possible fund uses. They range from paying direct dividends to Alaskans to using the money to underwrite such vast projects as hydroelectric dams. But, whatever use it is put to, the permanent fund money would have to be a money - maker. Politicians could spend the interest, but never the principle.

"THIS FUND CAN BECOME a tool whereby Alaska can take some of today's mineral wealth and prepare for the future by investing in the development of human and material resources that will remain productive for many generations," says Commissioner of Revenue Sterling Gallagher.

That view is widely shared among Alaska's leaders. House Finance Chairman Hugh Malone, D-Kenai, shepherded the proposal through the last legislature and talks of its possibilities in sweeping terms. "This is a chance to let average Alaskans have a stake in managing some of the oil wealth. It's more than a bank account; it's a way to change some basic patterns."

Malone says that if the fund is used, for example, to make business loans available to Alaskans, that will be, in effect, letting them personally manage part of the state revenue.

THE FUND ALSO is seen by some planners as a tool to help control the growth of state government. By earmarking 25 per cent of certain revenues for the investment fund, there is obviously less left to be spent on operating expenses — more personnel, more offices, more programs.

As drafted, the fund would be fueled by contributions of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. Projections show the fund topping $1 billion by 1983 and reaching more than $2 billion in 1985.

Fund Advisory Group Split

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday attempted to come to grips with a state permanent fund. But following a day-long meeting, members still disagreed over whether they could suggest how the fund should be structured since they still haven't determined its goals.

Assistant Commissioner of Revenue Jim Edenso said the question of goals and what the state should to with income from permanent fund investments will take public participation.

But, he said, "I fully expect to see this committee come up with a product by January. We're trying to construct something. We have hired expensive consultants. We've spent a considerable amount of money and listened for hours on end.

"We can't answer what the goals are but we can take a cut at how the fund should be organized and structured and how it will relate to the public, the legislature and the administration."

The committee's recommendations will go to the governor.

Fairbanks banker Frank Murkowski, one of three representatives of the state Chamber of Commerce who testified during yesterday's public hearing, said he envisions the state getting involved in long-term, large-development loans.

Committee member Jamie Love asked, "Should the social impact of loans be considered and their impact on the quality of life?"

Anchorage accountant Bill Scott, also appearing for the state Chamber of Commerce, replied that there is likely to be social impact — including the creation of jobs — but that should not be the prime consideration in making a loan from the permanent fund.

Love persisted, questioning

(See Page 2, Col. 1)

Fund Advisory Group Split

(Continued From Page 1)

whether the fund should concentrate on growth or quality of life. "Why not both?" Scott responded. "That has to be a legislative decision."

Revenue Commissioner Sterling Gallagher suggested the committee draw up several alternative ways the fund could be structured. One would emphasize the savings account concept, another long-term investments and a third a smorgasbord of goals, including community development projects.

Scott said the permanent fund needs a strong and able leader. He said the fund should be a separate state entity with its management answerable to the legislature. He suggested the enabling legislation contain provisions to review the fund's operation and its success rate to determine if it is achieving its purposes.

State Chamber Manager Don Dickey of Juneau said the question of structure is a key issue and the chamber wants to come back later with recommendations.

Al Fleetwood, representing the Alaska Bankers Association, said his group would have firm recommendations in 45 days. "It's a little difficult to get the state's bankers to agree on anything but I think we can arrive at a concensus on this question," he said. Sen. Jalmar Kerttula, D-Palmer, commented that it is difficult for banks "to agree on anything except raising interest rates."

Kerttula had been giving the bankers a hard time earlier. He blamed the banking community for the state's heavy losses in the stock market several years ago and urged the advisory committee to build in protections if the fund uses the existing banking system to handle loans.

Muskowski replied that when you go in the stock market, you take risks. "It's a matter of when stocks are sold. The market went down. Maybe the state had some bad advice. They sold at a loss. If they had waited six months or a year, there would have been a profit."

Wohlforth suggested several ways the fund's advisory board could be selected, including direct vote by the people or by appointment by the governor and confirmation by the legislature.

State Rep. Russ Meekins, one of only a few legislators present for the discussion, said privately he envisions a nine member board with three legislators as members and six from the public, representing "diverse interests." He sees a three - level structure: under the policy - setting advisory board would come a manager of the fund and under him an operating board with experts from the banking community to advise on specific loans. The legislature would have no direct authority over which loans would be granted but lawmakers would specify how much of the fund should be used for specific types of loans.

Robert Barnes, president of Alaska Statebank and a member of the advisory committee, suggested that the fund be used in part to provide more home mortgages for Alaskans. He said that because money now comes from Outside lenders, they set the criteria for loans. He said, "I'm up to here in mobile home loans. We can't sell them. You tell someone in San Francisco that a mobile home is selling for $35,000 and he falls on the floor. The fact that the average home here sells for over $65,000 also is hard for Outside lenders to understand."

The committee also heard from Phillip Daniel, representing United Fishermen of Alaska, who urged the committee to set aside money for loans to fishermen to convert boats for bottom fishing and for construction of processing plants. And Robert Smith, manager of Central Alaska Utilities, appealed for a $10 million fund for long-term loans to utilities. He said utilities now must finance long range construction, such as a pipeline with a 33-year life, with five to seven year loans. "This puts the burden on today's customers."

Consultants Ted Swick and Charles Fuhrmann of the New York-based firm of White-Weld said the investment fund has the potential for a triple A credit rating. Anchorage consultant Bob Richards called that judgment "exciting."

In his report, Richards said the state's banking system "offers an efficient conduit through which the permanent fund could channel certain of its investments. Large lending institutions in the Lower 48 already use Alaska banks for serving consumer loans, he said.

He also said consideration should be given to allowing Alaska banks to participate in large economic development type loans.

Lone Gunman Attempts Robbery

A lone gunman attempted to rob a night clerk at the Sheffield House, about 2:15 a.m. today at the Sheffield House, Fifth Avenue and F Street, after asking change for a $5 bill, Anchorage police report.

Clerk Mike Bradley ducked out of

Committee Suggests Three-Level Fund

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday decided the new permanent fund should have a three-level structure, with a policy-making board independent of the fund's chief executive officer and a lower-level operating or management board.

The policy-making board should have 11 members, including two from the state legislature, two from the administration and seven public members to be appointed by the governor. They would serve staggered four-year terms, according to the committee's recommendation.

The Investment Advisory Committee will recommend to the legislature that the operating board have five members, including the chief executive officer and four public members, appointed by the policy board.

The committee has been asked to come up with recommendations for structuring the permanent fund before the legislature convenes in January.

Alaskan voters Nov. 2 approved the concept of a state permanent fund, which would be derived from at least 25 per cent of the state's revenues from oil and gas royalties and lease bonuses. The constitutional amendment specified only that the fund must be used for income-producing investments. It remains for the legislature to set up how the fund will be operated and what will be its goals and objectives.

It has been estimated that the permanent fund will total between $2 billion and $3 billion within 10 years if 25 per cent of royalties and bonuses is dedicated to the fund. The state legislature could dedicate more than 25 per cent but not less.

Yesterday's morning-long session was not publicly announced in advance because, Commissioner of Revensue Sterling Gallagher said, the panel wanted to avoid the "grandstanding" that went on at the committee's last meeting.

At the committee's next scheduled meeting Dec. 16 and 17, consultants from White Weld, a financial consulting firm, will discuss decentralizing the fund.

Chairman Eric Wohlforth said the extent to which loans made by the fund should be regionalized as a question that the committee needs to address.

Committee member Jim Crawford replied, "Isn't that something the policy board will take weeks and months to decide?"

Member Jamie Love said he thinks the people who live in affected communities should have some say in economic development loans made by the state.

" Maybe they want housing instead of jobs," he said, "Or maybe they would encourage some industry as opposed to others.

"This should be institutionalized so a community won't be steamrollered by a central committee," he said.

Wohlforth said the state has an existing vehicle, the Industrial Development Authority, for making loans, which provides that no project will be approved without the consent of local areas.

"I'm for using existing governing boards, in local areas, not creating new ones." He said the authority has been on the books for seven years but hasn't been used.

The emphasis of the committee's discussion was on loans. Crawford said, "We keep talking about lending. We should be talking about investments and making money for the state."

Wohlforth replied that it is clear the legislature will be making "public sector-type investments."

Crawford also asked, "What if the legislature decides simply to make the permanent fund a savings account?"

Gallagher replied, "That's not likely, judging from the public hearings in Ketchikan." At the first Alaska Public Forum held in Ketchikan last weekend, the participants said they thought the state's new oil and gas wealth should be used for development of the state's renewable resources, or for loans for community improvement. Saving the money was a third choice.

Another question that needs to be addressed, Wohlforth said, is whether the permanent fund will assume the responsibility of the various existing state loan programs or fund those programs.

The committee decided that the permanent fund's policy-making board should:

—Hire and fire the fund's chief executive officer.

—Set goals and conduct a "sectoral analysis" to determine the needs in various regions and industries within the state.

—Conduct financial audits and analyze the management operations.

—Evaluate programs, and, perhaps, approve loans of over a specified dollar amount.

The policy board also will make periodic reports to the legislature and the public. It would set the chief executive officer's salary and approve the operating budget.

The management-level operating board will have the job of approving loans and investments, after screening by the chief executive officer and his staff.

The committee's feeling was that loans of under a certain dollar amount could be approved by the staff without board approval.

Consultants from Price Waterhouse have emphasized that no member of the policy-making board should serve on the operating board. The two boards should be completely separate so that the day-to-day loan decisions are not subject to political influence.

Gallagher said he envisions the public members of the operating board as being "financial wizards" —persons with financial expertise.

Love said the primary purpose for loans from the permanent fund "will be for social goals," so he didn't think the operating board should be structured like a commercial bank "whose goal is to make money."

But Jim Rhode, administrative assistant to state Rep. Hugh Malone, pointed out that "if the legislature says 20 per cent of the fund will go to housing and the policy board says where those loans should be directed, then you don't need five or six consumer representatives on the operating board."



Twenty-seven of the 55 delegates to the Alaska Constitutional Convention of 1955-56 gathered on the Fairbanks campus of the University of Alaska on April 23-24, 1966 to observe the 10th anniversary of the ratification of the constitution by Alaska voters and to take part in dedication of Constitution Hall, where the convention had been held. Posing for this reunion photo are, back row, from left, Maurice Johnson, Thomas Stewart (secretary of the convention), Douglas Gray, Victor Fischer, Leslie Nerland, Chris Poulsen, Tom Harris, Barrie White, John Hellenthal, Jack Coghill, Irwin Metcalf and James Hurley. In middle row, Katherine Nordale, William Knight, Dora Sweeney, Ralph Rivers, Helen Fischer, Edward Davis, Dorothy Awes Haaland and William A. Egan. Front row, Herb Hilscher, George Sundborg, James Doogan, M.R. (Muktuk) Marston, Warren Taylor, Seaborn J. Buckalew, W.W. Laws and John Cross.

Constitutional issue

Delegates disagree on permanent fund

By ANDY WILLIAMS
Daily News Staff Writer

FAIRBANKS — For a supposed "motherhood" issue, the proposed constitutional amendment to establish a permanent fund drew considerable flak at a meeting of constitutional convention delegates here last weekend.

The fund drew support from members of the Hammond administration and legislators who proposed it as a means to save some of the revenue from development of oil and gas resources. The amendment on the Nov. 2 election ballot would revise the constitutional prohibition against dedicating funds and establish a permanent fund for at least 25 per cent of revenues from future lease sales and royalty payments.

SUPPORTERS SAID the fund would be used to generate investments within the state and would ensure that some oil and gas revenue was saved and not used for government operating expenses, as most of the $900 million from the 1969 Prudhoe Bay lease sale was used.

But opponents said there were excellent reasons why the constitution was drawn to prohibit dedicated funds. They said it could establish a "fourth estate" of government with little accountability and great potential to do harm, and could lock up money from more urgent needs.

The permanent fund was a chief topic of discussion at two of the workshops at the meeting of delegates to the 1955-56 constitutional convention and an underlying topic of concern in many discussions during the three-day session.

IT WAS MOST roundly criticized during a workshop on the constitutional role of the executive Saturday. Participants said there were tremendous implications to establishing a government agency with the power to allocate large sums of money apart from the constitutional authorities of the legislature and the executive, and questioned whether the concept had been well thought out.

Speakers said the fund could contain $2 billion by the mid 1980s. The agency that administered the fund could greatly influence the economy of the state by its management policies, they said.

In addition, they said the management system had yet to be established by the legislature. If the administrating agency was independent of the executive and legislative branches, it could operate with little accountability, they said. If it were tied too closely to government, its decisions could be subject to political influence, they said.

WALT PARKER, state co-chairman of the Federal-State Land Use Planning Commission, said questions of the fund's management structure were more important than questions of the potential size of the fund. He said management of the fund was not a subject of the constitutional amendment but subject to change by the legislature at any time.

"Until we can come up with answers to that it may not be advisable to go forward with the concept," he said.

Andy Warwick, a former legislator and state commissioner of administration, also expressed reservations about the fund. He said the purpose of government was to raise taxes to pay for essential services. "Here the government is taxing, using some of it and setting some of it aside," he said.

JOHN HAVELOCK, former state attorney general, said the prohibition against dedicated funds was to keep one legislature from "tying the hands" of a future legislature in appropriation of funds. He also said a community's standard of living historically improved over time.

"What we are doing is saving for people down the road who aren't going to need it as much as we do," Warwick said.

A second workshop Saturday on finance and taxation included some supporters of the fund.

Rep. Steve Cowper, D-Fairbanks, and Commissioner of Revenue Sterling Gallagher said it was the only practical way of ensuring that oil and gas revenue was saved. Eric Wohlforth, former state commissioner of revenue and moderator of the panel, said it was "logical to extend the benefits of all revenue as long as possible."

BUT KATHERINE Nordale, a constitutional delegate from Fairbanks, said dedicated funds had not worked well in other states. She said Texas had a $700-million fund that could be used only for buildings on the Texas university campuses. She said the funds were too much for the purpose and were needed elsewhere but could not be touched.

Barrie White, also a delegate from Anchorage, said the fund could be used irresponsibly by the legislature and the governor.

Gallagher said permanent funds for resource revenue recently had been established in New Mexico, Montana and Wyoming and appeared to be working satisfactorily.

Cowper said the legislature attempted to establish the fund by statute but that the governor had vetoed the bill and said it must be done by constitutional amendment.

Official Finds Excitement In Fund's Creation

By SUSAN ANDREWS
Times Staff Writer

Jim Edenso says the most exciting thing happening in the Western Hemisphere is the creation of Alaska's permanent fund, which is expected to total at least $2 billion within 10 years.

Edenso, deputy commissioner of revenue, has been asked by state Revenue Commissioner Sterling Gallagher to work with the state's Investment Advisory Committee in drawing up recommendations to the legislature on how the fund should be structured.

The committee will meet again for two days next month to try to complete its suggestions before the legislature convenes in January.

Alaska's voters Nov. 2 approved the concept of a permanent fund by adopting a constitutional amendment. The amendment specifies that at least 25 per cent of the state's income from oil and gas royalties and bonuses will go into the permanent fund, which must be used for income-producing investments.

The income-producing stipulation is not as limiting as it sounds, Edenso pointed out. For example, money from the fund could be used for any number of projects, including financing docks and roads, simply by buying bonds from local communities and earning interest on those loans.

Other supporters of the fund view it as the source of funds for development of the state's renewable resources, for large-scale economic development projects, and for long-term, savings type investments. How the fund is to be used is another [illegible] the



JIM EDE[illegible]O
Advises Com[illegible]ttee

Franc[illegible]co State Coll[illegible], now a university, where he [illegible]jored in finance. [illegible] Hayaka[illegible] the newly-elected California state senator, was college president then, and Edenso describes him as a "colorful fellow."

Edenso went on to earn a master's in business administration from Stanford University, again majoring in finance.

His background inc[illegible] 12 years' experience in data processing, including work during his undergraduate days to finance his college education.

He went to work for the Bureau of Indian Affairs in Juneau, concentrating on development financing. Although the office is in Juneau, the financing is statewide, he noted.

Edenso was deputy to Tony Motley, commissioner of Commerce and Economic Development, for 18 months, where he managed the state's existing loan funds, including $115 million in veterans' loans. He switched to the Revenue Department in August when it became apparent [illegible] permanent fund was on the horizon.

Eden[illegible] who is not married, said he now [illegible]ends two or three days every [illegible]er week in Anchorage, working [illegible] the permanent fund.

He [illegible]s also been redoing the treasury division's financial and accounting reporting system, in anticipation of handling a great deal more money. "We've been able to do it with a manual system, but now hope to handle it by computer, through the state's data processing system."

In addition, he supervises the day-to-day operation of the treasury division, which handles the state's finances now with a staff of only 13. Edenso said they are recruiting now for a cash manager and a debt manager.

ALASKA RESOURCES



Assessing The Permanent Fund

By Thomas E. Kelly

ON THIS coming general election day Alaskans will have the opportunity to make one of the most significant decisions regarding the future of the state since the advent of statehood.

The issue is a proposed constitutional amendment establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

If any one issue has a chance of adoption by a wide majority of voters, this one does. A true applie pie and motherhood proposal, the permanent fund has been supported by politicians on both sides of the aisle, the state administration, business and, in general, John Q. Public.

FEW CAN FAULT the concept of a permanent fund to curb excessive government spending of huge anticipated revenues from oil and gas production once the pipelines from the North Slope go on stream. The prudent man "salts" away income that will last only for the life of a depletable resource. We made a bad mistake in the past and whooped off the $900 million from the 1969 lease sale and to make the same mistake twice would be intolerable.

Could anything be wrong with establishing a permanent fund? A little bit of sober thought and assessment of the proposal is appropriate before we alter the constitution, because once structured in the cornerstone of government it isn't likely to be changed.

Isn't it a bit odd that people with diametrically opposite political and philosophical viewpoints would all get on the same bandwagon on the permanent fund issue? Could there be ulterior motives by advocates who really don't care about the rising cost of government?

At the risk of being branded a heretic, suppose the reason some are supporting the permanent fund is to amass great power and control the government of this state as they see fit. Could it be that diehard opponents of the capital move see the permanent fund as another means to delay or sidetrack the transfer of the seat of government? Or how about the no-growthers who envision a permanent fund as a way to curb economic growth and development?

THE PROPOSED amendment states that "the principal of which shall be used only for income producing investments specifically designated by law." The income from principal investments goes into the general fund to be appropriated any way the legislature sees fit, so a spending moratorium will not, in reality, be achieved.

Important public works projects such as a causeway across Knik Arm, new and improved means of transportation, public buildings in a new capital city probably would not quality as income - producing investments and would therefore not be eligible under the fund.

True, debt financing through bonding is always possible, but who wants to vote for a general obligation bond issue and potentially higher taxes if the state coffers contain hundreds of millions of dollars as surplus funds? There is a fundamental but perhaps tarnished American principle that our government is not supposed to be a capitalist to itself and that it is only supposed to make and spend the money it needs to provide services that people can't provide for themselves.

Many people are not aware that Alaska already has a dedicated fund. Adopted in 1974, AS 37.11.010 (The Alaska Renewable Resources Development Fund) may be unconstitutional but it hasn't been challenged. Besides it's a damn good law. If it violates the constitution it probably isn't the "Lone Ranger." Try local hire and limited entry outside the state and you might have a problem.

THE ALASKA renewable resources development fund was enacted to provide that not less than 5 per cent of the receipts from mineral lease bonuses and rentals on state lands shall be deposited into the fund. Appropriation from the fund is specifically designed for capital and operating expenditures for the rehabilitation, enforcement and development of renewable resources programs.

Although the act has a self-destruct provision after it reaches a balance of $250 million, it is a law that can be changed, continued or modified by succeeding legislatures. The point is that it is a good law with clear and understandable provisions and if the people don't like it a change can be made.

Not so a constitutional amendment that provides for a permanent fund where the investment policy is yet to be determined.

A recent surprise to many was the latest appointments made by the governor to the advisory commission that will influence investment policy of the state after adoption of the permanent fund amendment. The credentials for membership on this very important committee apparently do not emphasize specific background or experience in the field of investments.

Except for a few well-qualified individuals, recognized and highly skilled investment counselors are conspicuously absent from the members of the commission thus far appointed. Is it a fair assumption that the deck is getting stacked with other than professionals in the complex science of investments? If so, how come?

IN SUMMARY, the questions we should ask ourselves before pulling the aye lever on November 2 are as follows:

1. Is it wise to amend the constitution to provide for future laws governing investments of the state within very narrow guidelines, i.e. the investment must be income producing?

2. Are there ulterior motives other than prudent control and limit of government spending from the general fund and are these other motives, if a fact, designed to serve the best interests of all Alaskans?

3. What is the current status and utilization of the renewable resources development fund and what might be its future under existing law?

Be a thoughtful voter, but vote!

Tom Kelly, former state commissioner of natural resources, is a consultant specializing in Alaska resources. He is a member of the Anchorage School Board.

decision which must be made by ... legislature.

Edenso says he thinks the legislature, in drawing up legislation to establish the fund, will set the percentage at higher than 25 per cent. He would like to see it at 50 per cent.

"When the oil and gas are gone, that's going to be our source of revenue," he said.

Edenso said that money will start going into the permanent fund 120 days after the amendment's passage, and he thinks it is likely the governor and the legislature may wish the state's treasury division to manage the fund until legislation is approved setting up a separate management structure.

Setting the goals and objectives of the fund will take still longer, and Edenso says he wants public input into that decision. He believes it is premature for the public to say what should be done with the income from the fund, however, until all the ramifications can be pointed out.

For example, if the state decides to lower the state income tax, that may mean simply that more tax money will go to the federal government. And he said it may encourage more people to move to Alaska.

Investments within the state from the $2 billion permanent fund will in itself stimulate the economy and provide jobs and encourage population growth, he said.

Edenso sees the permanent fund as filling the gap that now exists in Alaska for long-term investment capital.

Commerical banks are limited to loans of a maximum of seven years, he said, and the state now is limited by law to a maximum of $100,000 in loans in which it participates with commercial institutions.

A more realistic limit now for state participation loans would be $500,000, Edenso said.

Born in the Southeastern community of Craig, Edenso grew up in Ketchikan and attended San

Rhode Studies Income Options

Thursday, November 4,

By SUSAN ANDREWS
Times Staff Writer

"Jim Rhode, the man behind the scenes of the House Finance Committee, has the job of looking at all the state's income alternatives and their consequences.

As administrative assistant to state Rep. Hugh Malone, D-Kenai, chairman of the powerful finance committee, Rhode has been studying the state permanent fund, which voters approved Tuesday, and he has been examining possible changes in the state's oil tax structure.

Rhode is looking at what happened in the province of Alberta, for example, when that government raised oil taxes.

And he and consultants to the legislature are studying countries such as Great Britain and Norway to see what changes they have made in oil and gas taxation and the impact of those taxes. He visited Scotland last year to study the onshore impact of North Sea oil development and how that country was able to put together a successful development with minimal impact.

Rhode says the Prudhoe Bay oil field can better be compared to North Sea oil fields than to oil fields in the Lower 48 because Prudhoe Bay is owned by the state. Most oil fields elsewhere in the U.S. are on private land rather than state land, he said.

Rhode describes himself as a liaison between legislators and their consultants. He recommends those to be hired and interprets what they say.

He finds his $28,000-a-year job satisfying and frustrating. He said it's satisfying to work with legislators like Reps. Malone, Steve Cowper and Clark Gruening who are "intrigued with new ideas and willing to look at different sides of a problem." But it is frustrating to work with "others to whom thinking in alternatives is an acquired taste — like trying to talk someone into trying [illegible]

Rhode says he has tried to be available to members of "the other party" (Republicans). "It's very important to me that I am not seen as a political hire, even though my first concerns are scheduled by Hugh. I believe in the rule respecting the confidences of legislators. They must be able to think out loud, with their public stance taken at their own time and in their own words.

"There has to be someone who has read and thought about everything turned in to the committee. I don't do original research," in contrast to someone like Gregg Erickson, research director for the legislature's permanent staff, who Rhode said "knows more about oil and gas than anyone in Alaska."

One of the consultants whose work Rhode studies is Michael Tanzer, who Rhode called "a leading authority on oil profit potential. He is also a socialist. But he is being consulted for his expertise on profit potential, not for his views on state ownership. I separate the two.

"The chairman (Malone) describes me as the most right-wing man around him. I have disagreed with Tanzer on many of his ideas which I think are open to debate — probably angry debate."

Rhode's recommendation is that the legislature hire a conservative economist to study the Prudhoe Bay field profit potential and to check out Tanzer's conclusions. However, Rhode said not even the oil companies have disagreed with Tanzer's profit estimates, only his ideas on taxation.

Bills to change Alaska's oil and gas tax structure are not in any final stage, Rhode said. "Our feeling is that if the legislature gets better data, it will do less stabbing in the dark. It's in the oil companies' interest to have the facts before the legislature."

Rhode, who was born in Fairbanks and grew up in Juneau, is the son of the late Clarence J. Rhode, who was in charge of the U.S. Fish and Wildlife Service in Alaska in the years just before statehood. Clarence Rhode and another son were lost on the North Slope in 1958 while Rhode was on a patrol to establish caribou and goat populations. Their plane was never found despite one of the most extensive air searches in Alaska's history.

Rhode's father was said to have seen more of Alaska than any other man. A National Wildlife Refuge near Bethel is named for him and the federal government wants to expand the refuge.

Jim Rhode says his father worked out the arrangement for development of the Swanson River oil fields in the Kenai Moore Range. His father didn't want to see drilling in the moose range but the government had made the decision to allow it, so Rhode worked with the oil companies to make it happen with the least disturbance to the environment.

The Swanson River oil fields are now considered a model of the right way to develop oil.

"My father was not a preservationist. He found ways to permit joint use. I agree with that philosophy," Rhode said.

The three Rhode children were fed public issues "breakfast, lunch and dinner" while they were growing up. Rhode says his mother kept up her interest until her death in Juneau from a heart attack in 1972.

After graduating from high school in Juneau where he was student body president, Rhode earned a degree in political science and economics at the University of Washington and a master's degree in government and economics from Corpus Christi College, Oxford University, England.

Following Army duty, including a year as an intelligence officer in



JIM RHODE
Man Behind The Scenes

Kenai, Sitka and Ketchikan.

More than 25,000 elderly and chronically ill persons were vaccinated in special clinics statewide. McGinnis said this constitutes a large majority of the high - risk persons.

State health officials plan to follow the lead of federal health agencies in administering the vaccine to young people and have not received results of dosage level tests from the Center for Disease Control in Atlanta, McGinnis said.

"We should know in about two weeks what is planned for the program for those under the age of 18," he said.

Approximately 700 persons a day have been receiving vaccinations at the public clinic in Anchorage. The clinic is located in the municipal health department building at 327

Biologist Prepares Kachemak Bay Draft

The first written reports on a two-year inventory of the sea life and birds in and around Kachemak Bay are in the preliminary draft stage.

The studies were commissioned as part of the state oil leasing controversy and the upcoming federal lease sale in that area

Department of Fish and Game biologist Loren Flagg says he believes the bay "is one of the richest in the world, if not the richest, in terms of shellfish production."

That's a belief he'd held for a long time, but now, he says, research statistics back him up. Flagg is the department's field project leader for habitat protection studies in Lower Cook Inlet.

The bay is not regarded as a major producer of shellfish, compared to state totals, except when its size is considered.

Sixty-two per cent of the shellfish caught in Cook Inlet are taken in the bay, an area comprising only 2.4 per cent of the Inlet.

One research project established that a major reason for the bay's productivity is the existence of two great "gyres" or whirlpools, that act to delay flushing of water out of the bay.

The delayed flushing action gives king crab larvae time to develop past the larval stage and sink to the bottom to start life as little crabs. The king crabs need 60 days for this cycle, while other shellfish require from 30 to 60 days, and the slowly moving Bay waters gives it to them, Flagg said.

Other factors make the bay a good nursery. One scientist involved in a study contracted to Rutgers University thought the glacial streams were bringing in just the proper amount of silica to build strong shells and skeletons. Also, clear water streams seem to provide the amount of fresh waterneeded to keep salinity at a proper level.

With the state getting ready for offshore oil drilling, more studies lie ahead for the Bay and for other coastal communities. Already, the information gathered would provide a good start on a set of nature books.

Biologists have never known, for instance, where baby crab, just past the free-floating stage, spend their first year of life. The answer is, hiding in their own offshore "flustrella pastures". They don't eat the flustrella, which is a fern-like animal with waving brown branches. They cling to it and dine off the plankton and other creatures that swim about the flustrella.

Even the department's "Mr. King Crab of the World", Guy Powell of Kodiak, was excited by these findings, Flagg said.

"He's been looking for a long time but never located the baby king crab nurseries over there."

Reports of the Kachemak Bay projects will probably be printed by early spring. Besides directing certain projects, the habitat protection division also is responsible for providing other agencies with pertinent information for their impact statements. Also, personnel are asked to provide comments on reports prepared by other agencies.

Right now Flagg is preparing comments on a statement prepared by the National Marine Fishery Service for the Kodiak area. He has lately been working with the Fish and Game staff at Kodiak on research projects as they prepare for the oil lease sale scheduled there in February.

Seven major projects have been pursued in Kachemak Bay in preparation of oil leasing, including bottom studies, shellfish larva distribution and abundance, post-larval king crab studies, intertidal and nearshore sub-tidal ecological studies, food habit studies, marine bird distribution and baseline hydrocarbon.

In addition to actual projects underway the department also has contracts with the firm of Dames and Moore for a combination of geophysical and biological bottom studies.

One Dames and Moore employee, Dennis Lees, assists the department with identification of specimens dredged from the bottom. As part of its contract, Dames and Moore personnel operated a sonar side scanner from the Department of Fish and Game vessel Pandalus in a bottom mapping operation.

One small contract with Rutgers University involves analysis of the contents of the stomachs of sea creatures dredged up from the bottom.

Research crews have principally used the Pandalus in their projects. The vessel right now is being used for crab-tagging operations in the Barren Islands area at the entrance to Cook Inlet.

Throughout the state the department has 15 boats, according to vessel supervisor Carl Lehman of Juneau. The Montague is stationed at Cordova, the Puffin Pandalus and Cutthroat at Homer, and the Resolution and Smolt at Kodiak, the Iliaska in the Iliamna Lake area, and the rest in Southeastern Alaska. The Homer-based boats have been largely involved in research the last two years, while the others are chiefly used for carrying personnel and freight and for wildlife protection.

Divers were recruited for some of the underwater studies. They took a look at young king crab, for instance, bringing up specimens from shallower depths with a hand-held suction dredge. In deeper waters crews sent down a bottom skimmer, which was really a little sled with two nets mounted on it.

"It just bounced along skimming the botton," Flagg said. "We had good success with it."

The Anchorage Times

[illegible] Pages [illegible] Anchorage, Alaska

BUDGET MAY TOP RECORD

Hammond Expects Criticism

Gov. Jay Hammond told a Ketchikan audience last night that next year's state budget would hit a record $900 million despite the battle cry for fiscal conservatism that prevailed during the recent legislative election campaigns.

This year's budget was around $750 million.

"Ironically, the next legislature will be branded the most profligate, spend-happy crew to hit Juneau, no matter who is sent," he said during a dinner speech sponsored by the Ketchikan Rotary Club, Central Labor Council and Chamber of Commerce. "Unfortunately, I'll have to share that dubious distinction."

He said the $900 million figure would only be achieved "if we're successful in cutting back, pruning, standing tough and making vetoes stick."

"There's really one way only in which governmental growth can be throttled down, and that is for the public to insist that we pay as we go or insist that we not go," he said. "Short of that, government growth will continue unabated, you can depend upon it."

The governor said that during the last year the rate of government growth had slowed to 12.9 per cent, but if that rate were projected 10 years into the future, the costs of government would have soared "into the stratosphere."

Hammond also praised the recent agreement reached between the federal Environmental Protection Agency and Ketchikan Pulp Co., the agreement between the U.S. and Canadian governments to pave the portion of the Alaska Highway between Haines and the U.S.-Canadian border near Beaver Creek, and the prospects for development of a molybdenum deposit by U.S. Borax near Ketchikan.

Hammond also roundly criticized the Anchorage Times, saying the newspaper's reports of information from the state pipeline coordinator's office about the state's position on natural gas pipeline routes led people who were at the meeting to believe the newspaper was reporting on an entirely different meeting.

He also criticized the Times for questioning his attitude toward the development of the molybdenum deposit, saying the newspaper preferred "apparently instead that we should have begged Borax to accept the state's blank check."

The state's position has been to allow the project to continue if it proved to be both environmentally and economically sound, Hammond said.

But Hammond said the most important development during the recent election was the creation of the state's permanent fund.

Lipton: Alaska Isn't

Sunday, November 7, 1976, The Anchorage Times A-3

Getting Fair Tax Share

By SUSAN ANDREWS
Times Staff Writer

Consultant Milton Lipton said here yesterday the state of Alaska is not receiving its proper share of income tax from oil and gas.

He told the legislature's interim Committee on Oil and Gas Taxation and Leasing Policy that a net proceeds tax is the "most desirable" way to separate out income earned here.

Lipton pointed out that oil companies are subject to Alaska's 9.4 per cent corporate income tax. But Alaska is a member of the Multistate Tax Compact, in which income is apportioned to the various states. There are "gross inequities" in the amount of income tax paid to Alaska because of that apportionment. If income is not directly realized within the state, it eludes identification, he said.

He said a net proceeds tax, a tax in lieu of the income tax, would avoid legal obstacles resulting from Alaska's membership in the compact. The net proceeds tax is a tax on income from oil and gas properties, after certain allowable expenses have been deducted.

Lipton said the net proceeds tax would result in the oil companies paying more income tax to the states than at present. Alaska would not simply receive more of the pie. If it results in double taxation, then he said, that is a matter for the oil companies to work out with the other states who are receiving a larger share of income tax than is equitable.

An important aspect of in-lieu taxation, he cautioned, is a provision for crediting it against a company's corporate income tax.

State Rep. Terry Gardiner asked whether the same inequities would apply to income taxes paid in Alaska from production of fisheries and timber.

Legislative Research director Gregg Erickson said it is his understanding that one of the largest Japanese-owned forest products companies has never paid any income tax.

Rep. Hugh Malone, D-Kenai, said those questions need consideration by the legislature but "are beyond the scope of this committee."

The net proceeds tax was one of three tax proposals introduced during the last session of the legislature on which no action was taken. Sen. John Huber, D—Fairbanks, said yesterday the net proceeds tax will be reintroduced, along with an increase in the severance tax, to bring Alaska in line with Louisiana, which has a 12 per cent tax on gross production. The third tax proposal, also expected to be considered again, is an "excess value surtax," or "windfall profits" tax aimed at Prudhoe Bay production.

Lipton, who serves as adviser to a number of oil companies as well as the governments of Alaska, Alberta and Indonesia, advised the committee that it is appropriate for the legislature to review the severance tax now.

"If there is an increase, it ought to be moderate," he said, "not out of line with the top rates in other states. And it ought to retain the idea that the severance tax is related to well productability."

Alaska's severance tax now ranges from 5 to 8 per cent, with the highest-producing wells paying the highest percentage. Lipton suggested that Alaska increase the percentage at the top and lower it at the bottom, so that marginal wells would not be discouraged from production.

Lipton was asked how the net proceeds tax would affect native corporations.

He said if their activity was conducted solely within Alaska, they would be directly subject to the 9.4 per cent corporate income tax. He pointed out that rate would apply to all their income, after subtracting losses. If the state goes the "in lieu" route, oil and gas income would be segregated from other income and losses from other activities could not be subtracted.

Committee Chairman Sen. Chancy Croft, D-Anchorage, asked if Lipton could have suggestions for the "in lieu" approach by mid-December, for the committee's consideration. He said that would be possible.



OIL, GAS CONSULTANT VISITS

Consultant Milton Lipton, at right, who is in Anchorage to meet with the legislature's interim committee on oil and gas taxation and leasing policy, chats with Deputy Commissioner of Natural Resources Jack Roderick prior to yesterday's meeting. With them is Mrs. Lipton, who accompanied her husband to Alaska.

arding the severance tax, said his firm, Walter Levy ociates, did not endorse the r-barrel base which the leg- adopted. He said in the case Inlet oil production, the r-barrel clause has resulted adily-increasing tax burden, while the price of oil has been held rigid by price controls. He said a 1,000-barrel-a-day well in Cook Inlet now pays 23.6 per cent severance tax.

If the legislature retains the cents-per-barrel formula, Lipton suggested that it be structured so it doesn't retain the present inequities.

"The severance tax belongs in the total Alaska tax package," Lipton said, "but it ought not to be the determining tax in Alaska's income from oil and gas. If it were, that could have an adverse effect on exploration and development."

East Coast is set for big Atlantic oil search

By STEVEN RATTNER
(C) 1976, New York Times News Service

DAVISVILLE, R.I. — Two years ago, the Navy's vast marshaling yards and piers here, once a booming staging ground for equipment destined for military installations around the world, were abandoned in a wave of cutbacks.

Now, thanks to the advent of offshore drilling in the Atlantic Ocean, the potholed roads and cracked concrete yards are wearing a new face as oil companies and their suppliers begin mobilizing men, drilling rigs, and supplies at this former Navy construction base for the first wave of exploration.

IN AUGUST, 33 companies successfully bid $1.13 billion for 93 tracts in the Baltimore Canyon Trough off the New Jersey coast, about 125 miles from here, but before the drilling can begin, court challenges by environmentalists must be cleared and permits issued by the government. A few continue to predict that the first drill bit will turn by the end of the year but most now expect no action before next spring.

Meanwhile, about 30 of the various companies have taken space here and some of the equipment has already arrived, such as the rows of brightly painted tanks intended to hold thousands of gallons of "mud," a chemical mixture consisting partly of crushed walnut shells used to lubricate and seal drill holes.

The more easily moved items the ungainly rigs, the 200-foot supply boats that will ply the north-south route, and the hundreds of oilmen will mostly await a more definite startup date. As the exploration crests, a year from now, boxcars of supplies will be dispatched to the former Navy base, where the material will be sorted, packed aboard the supply ships and dispatched on the 12-hour run to the rigs.

SOME OF THE FIGURES are staggering. For example, each rig will ultimately need perhaps 15,000 30-foot lengths of drilling pipe. And Exxon alone estimates that it will be buying more than 40,000 gallons of water and 240,000 gallons of diesel fuel each month.

"Atlantic oil is going to be an enormous operation and we plan to be at the center of it," said John B. Dar[illegible], a transplanted West Virginian and division director of the Rhode Island Port Authority, which is leasing the 100 acres. "We may not be another Gulf Coast but if we get half that much we'll be doing real well," he added.

The keystone of the effort is the drilling rig and, as is the practice, the successful bidders have already begun to contract with companies who are specialists in exploration. The biggest bidder, Exxon, the nation's largest company, has hired Western Oceanic Inc. of Houston to bring the Pacesetter III drilling rig.

THE PACESETTER, like all the other rigs planned for this wave of drilling, is a "semi-submersible," meaning that, while from above water it resembles the familiar flat production platform, actully most of it floats beneath the water, anchored by long cables. From this perch, it can produce as many as two dozen wells by boring into the ocean floor at different angles.

Another semi-submersible, the [illegible]ederal J, visited Rhode Island some time ago when two "cost wells," designed to bring up the rock samples that provide the companies with clues to the oil and natural gas possibilities, were dug.

That operation left behind oil spill cleanup equipment belonging to Clean Atlantic, a consortium of the drilling companies, which functions in the case of an oil spill like a fire department at a fire. The equipment is rushed to sea, where plastic booms are used to contain the flowing oil while a suction device, looking like a giant vacuum cleaner, skims it into a separater. The oil is saved and the water poured back.

AND EVEN AS THE COMPANIES prepare to drill in the Baltimore Canyon Trough, they are looking ahead to the Georges Bank Basin, another promising oil and gas location east of Cape Cod, where one cost well has already been completed and another is tentatively planned for late next month.

In anticipation, a supply ship, the Calico Jack, arrived here last week and the Ocean Victory, yet another semi-submersible, belonging to the Ocean Drilling and Exploration Company, is on its way here from the North Sea. At 254 feet high, when it arrives on Nov. 18 or so, it will have to be submerged by 70 feet to pass under the nearby Newport Bridge.

The state is leasing the facilities to the oil companies for a trifling sum, on the theory that the rewards are high. Most of the supplies needed by the oil companies — fresh water, fuel oil, groceries, hardware ranging from clamps to cable and talented machinists — will nearly all be provided by local concerns. In Rhode Island, one of only two states to lose population between 1970 and 1975 and still suffering from double-digit unemployment, the economic relief will be particularly welcome.

RHODE ISLAND authorities have [illegible]mbitious plans for their new [illegible]ndustry. The white clapboard for[illegible]ner admiral's residence sitting [illegible]mpty on top of a small hill is inten[illegible]ed for the local petroleum club. [illegible]wo or three years down the road, [illegible]ey estimate, 2,000 oil workers will [illegible]e on scene and, at some point, Rhode Island even hopes that the [illegible]pidery production platforms will be [illegible]uilt here.

But potential obstacles loom. For [illegible]e thing, while the oil companies [illegible]intain that they have chosen [illegible]visville because it is the most [illegible]:kly usable facility, at 12 hours [illegible]low boat, it is too far for a per[illegible]nent supply point. For another, [illegible]de Island faces competition [illegible]n its neighbors — nearby New [illegible]ford, Mass., for example, is sen[illegible] local workers to the Gulf Coast [illegible]aining in oil production.

[illegible]d from the onset, most of the oil [illegible]cers plan to use Atlantic City [illegible]e terminus for the airborne [illegible]e of men to and from the rigs.

Economist Describes Study He'll Make Of Lease Policy

A University of California economist yesterday outlined a $35,000 leasing policy study he has been contracted to conduct for the Legislative Council subcommittee on oil and gas taxation and leasing policy and the Department of Natural Resources.

Mason Gaffney, professor of economics at the Riverside, Calif., campus, Saturday told the subcommittee his study is in the preliminary stage and he was appearing to solicit input.

The purpose of the study is to review alternative gas and oil leasing policies used in the past and being developed, Gaffney said. "The function of the study is not to arrive at immediate conclusions, but to serve as a basis of debate in the 1977 legislature — and probably forever thereafter," he said.

Gaffney will study leasing policies in other countries and will encompass considerably more than a report released last year by the Department of Natural Resources' division of oil and gas conservation, director Hoyle Hamilton said.

Earlier in the meeting Hamilton briefed the subcommittee on tentative findings of Prudhoe Bay oilfield reservoir studies conducted by his division.

Gaffney explained the tasks he was assigned by Natural Resources Commissioner Guy Martin, cited the objectives of the study and listed a number of alternative forms of leasing and disposition of lands.

Martin directed Gaffney to produce an economic analysis of present state leasing policy; an analysis of alternative systems practical for use in Alaska; an economic and legal analysis of the interrelation of leasing and taxation alternatives and to spell out specific guidelines for administrators to follow in deciding among alternatives.

Gaffney listed what he said he thought were the 10 objectives of the subcommittee and the department in conducting the study: appraise the value of reserves in the ground and how much money can be collected for the state treasury; protect the environment; insure a smooth flow of cash, jobs and goods; encourage competition; encourage local participation; consider practicability for administrators; study the impact on the community; minimize an unequal distribution of wealth among lessees; insure openness of information and procedures to public scrutiny and maintain a high level of incentives.

Subcommittee Sen. Chancy Croft, D-Anchorage, said the study should also consider coordinating lease sale timing with native land claims settlements.

Gaffney detailed several possible leasing policy alternatives; including: bonus bidding, royalty bidding, profit share bidding, rent share bidding, land share bidding, work commitment bidding, volume bidding, contract exploring and sale of fee simple title.

In his briefing on the Prudhoe Bay oilfield, Hamilton said the reservoir covers an area equivalent to the entire Anchorage municipality stretched to include Eagle River. At its deepest point the reservoir extends a distance twice the height of the Anchorage Westward hotel tower, he said.

The study was conducted in two phases at a cost of $340,000 and over a period of 21 months. The study estimated Prudhoe Bay oil reserves at 19.1 billion barrels and gas reserves of 35.1 trillion cubic feet.

As much as 80 per cent of the gas is recoverable, but only 40 per cent of the oil is, Hamilton said. The study concluded oil recovery would be limited to 7.8 to 8 billion barrels for any mode of operation.

SCOMM

#18:29

January 31, 1980

TO: HOMER NEWS, CHEECHAKO NEWS, PENNISULA CLARION

FROM: Representative Hugh Malone
Pouch V
Juneau, Alaska 99811
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THE ALASKA PERMANENT FUND

In 1976 Alaskan voters approved a constitutional amendment creating the Alaska Permanent Fund, to which at least 25% of all oil royalties and bonuses are dedicated. Since that time, as the fund has accrued revenue, the legislature and administration have grappled with the questions of how the fund shall be invested, what shall be done with the income from those investments, and whether increased contributions shall be made to the fund.

Currently, the fund is being managed by the Department of Revenue under an interim management policy which assures that it is invested conservatively in government and other high-grade securities. At present, the fund contains about $350 million. Its investments earn an interest of just over 11% which flows into the general fund.

The House Special Committee on the Permanent Fund, of which I am now chairman, has, since 1976, held extensive public hearings and sought the expertise of numerous financial consultants. We have developed legislation which provides for secure investment of the fund's principal and management by an independent Permanent Fund Corporation which would be both insulated from politics yet accountable to the public through

legislative oversight. This approach - which treats the fund as a trust not to be risked, squandered, or used for the benefit of special interests - received the overwhelming support of the House last year. The bill also raised the contribution level to 50% from all new oil leases, and left the whole question of what to do with the fund's income open to be addressed by additional legislation.

On Jan. 29, the Senate took up the House Permanent Fund bill and voted not to concur, sending the legislation into a free conference committee whose six members - three from each body - will attempt to reach an agreement on how the Permanent should be managed. Although the Senate has not passed a Permanent Fund bill of its own, the proposal which has received the most attention on that side is that of Senator George Hohman (D-Bethel). It would create a massive loan machine guaranteed by the fund's earnings.

Aside from the management question, House members have begun this session to address two additional aspects of Permanent Fund legislation - additional contributions to the fund and the use of the income.

Representative Oral Freeman (D-Ketchikan) introduced HB 509, a bill to appropriate $900 million to the Permanent Fund, at the beginning of the session. It passes the House on January 31 with an amendment making the appropriation contingent upon the passage of the House management legislation by the Senate. As a co-sponser of HB 509, I strongly

support this additional appropriation to the fund. The oil revenues currently being received by the state are in excess of what should be immediately spent, and depositing a portion of them in the Permanent Fund would be a wise and responsible move.

Although there are any number of possible uses of the income, one which is receiving serious consideration in the House is the idea of returning to Alaskans some portion of our oil wealth in the form of Permanent Fund dividends or credits. After all, the wealth belongs to us all. We must decide whether the income stream is better spent if it flows into government or if it flows to individuals for private decision-making. Later, as the oil revenues wind down, the fact that Alaskans have a personal interest in the maintenance of the Permanent Fund will help insure that any changes will receive adequate debate.

Although the voters made it clear in 1976 that they wanted a Permanent Fund which was permanent, expectations concerning the fund's role were unrealistically high. People came to believe that the fund could save oil money safely for the future, return benefits to Alaskans now, and diversify and expand the state's economy.

In reality, the amount of money being deposited into the fund is simply not enough to provide all things for all people. At the current contribution level, for every oil dollar which goes into the Permanent Fund, approximately seven oil dollars go into the general fund.

Alaska's loan programs undoubtably need some revision. However, I strongly believe that their funding should come from the general fund and not be tied in any way to the Permanent Fund. Low interest rates, after all, are a cost to the state's treasury because those who receive such loans pay less for borrowing the money than the money would earn if invested. We're really talking about subsidies - which may be necessary and beneficial - but the legislature and the public alike should know when such subsidies are involved. The only way to make our loan programs responsive to Alaskans is through yearly budget review by the legislature, which means funding them through the general fund. Of course, we can write new law to build in legislative review if the Permanent Fund is to be involved, but that's equivalent to running around the block to get where you are right now.

In short, I'm opposed to using the Permanent Fund to fulfill those functions which properly belong to the general fund. I'm hopeful that this legislative session will see the resolution of Permanent Fund management which will include its establishment as a trust with Alaskans as beneficiaries.

(Note: Representative Hugh Malone (D-Kenai) introduced, in 1975, the first version of the Permanent Fund to appear in the Alaska legislature and later helped to draw up the constitutional amendment which was approved by the voters. He served as Speaker of the House in 1977-8 and is currently chairman of the House Special Committee on the Permanent Fund and a member of the Free Conference Committee on the Permanent Fund.)

Permanent Fund deposit splits legislators

By JEAN KIZER
Associated Press Writer

JUNEAU—A simmering feud erupted in the Legislature today over a bill to put $900 million in so-called "surplus" state revenue into the Permanent Fund.

The House passed the appropriation earlier in the session, and won a commitment from Senate President Clem Tillion during House-Senate negotiations over a tax relief-Permanent Fund dividend bill that the Senate also would approve the measure.

The $900 million appropriation was scheduled for a vote on the Senate floor today. But key senators delayed action in an attempt to work out an amendment or other assurance that a state loan program lawmakers are considering would take precedence over the $900 million deposit.

Sens. George Hohman, D-Bethel, and Bill Sumner, R-Anchorage, said they want to guarantee that if the $900 million appropriation is passed, it will not be deposited in the Permanent Fund until $500 million is appropriated for a state program for commercial and home loans.

The state Department of Revenue says all $105 million committed to the state's emergency low-interest mortgage loan program has been allocated. Page 2. The U.S. Senate will vote today on a bill that would provide $10 billion in emergency assistance for homebuyers. Page 6.

Their worries stem from the fact that lawmakers already have plans to spend right up to the limit of revenue the state is projected to receive next year. But those plans initially were based on spending $300 million for loan programs.

Now some senators are talking about increasing the amount to $500 million. And that could mean there won't be enough money to make the $900 million deposit and also pay for all the other projects and loan programs lawmakers have in mind.

Sumner said he is afraid that if there isn't enough money to cover all the Legislature's appropriations, Gov. Jay Hammond will veto some of their projects in order to have enough money so the $900 million can be deposited in the Permanent Fund.

Hammond has said he favors the $900 million appropriation.

Senators today asked Attorney General Avrum Gross for a legal interpretation on whether state loan programs and other projects funded by the Legislature would take precedence over the $900 million appropriation.

Considering the way the legislation is worded, Gross said he thinks the $900 million deposit is contingent on there being enough money after other government programs and projects are funded.

"You've made the $900 million basically contingent on there being a surplus," he said. "Whatever state government operations you fund will come first."

But he acknowledged that Hammond is free to veto any projects he wants.

And that means if the Senate approves the $900 million appropriation, the governor will have the power to decide whether it has higher priority than other expenditures approved by the Legislature.

It was not immediately clear how House leaders would react to Senate maneuvers on the $900 million bill, which the House leadership has termed a top priority.

Rep. Oral Freeman, D-Ketchikan, chief supporter of the $900 million bill, met hurriedly with key senators today, but he said no agreement was reached.

Legislature passes tax-relief proposal

By LAURA ZAHN
Empire Staff Reporter

On the day state income taxes are due, the Legislature passed a long-awaited bill to effectively repeal the personal income tax for three-year or longer residents, returning some $276.1 million to taxpayers.

Gov. Jay Hammond is expected to sign the bill into law this afternoon.

Each house this morning also passed a bill to distribute $128.5 million in permanent fund dividends to Alaska residents. The plan is essentially the same as one proposed by Hammond, granting dividends of at least $50 per year of residency since 1959.

Only one lawmaker—House Finance Chairman Russ Meekins, D-Anchorage—voted against the tax relief bill.

Meekins was not immediately available for comment, but an aide said Meekins would have preferred a simpler tax relief bill and one which would leave no legal questions.

Several tax relief schemes bit the legislative dust because of constitutional questions. Lawyers have said a plan which favors Alaskans and discriminates against other U.S. residents would be declared unconstitutional.

The only lawyer in the House, Rep. Fred Brown, D-Fairbanks, said from the House floor that he thinks the plan approved today is constitutional.

Last week, the bill was amended on the advice of an assistant attorney general in an attempt to avoid legal problems. While earlier schemes tied the permanent fund distribution and the tax relief issues together in one bill, the plans emerged in separate bills. That way, if one issue is tied up in court, the other should be unaffected, according to legislators.

Meekins and Reps. Hugh Malone, D-Kenai, and Sally Smith, D-Fairbanks, cast the only votes opposing the permanent fund dividend plan. Both bills won unanimous approval in the state Senate with Sens. Tim Kelly, R-Achorage, and Frank Ferguson, D-Kotzebue, absent. Reps. Mike Beirne, R-Anchorage, and Pappy Moss, D-Delta Junction, were absent in the Huse.

Passage of Sen. Mike Colletta's, R-Anchorage, tax plan marks the cumulation of months of debate and drafting of more than 20 different schemes. Anchorage Rep. Ramona Barnes, R, said from the House floor today that the final plan was much like HB 507, a Republican bill. If the party's bill had been passed 90 days ago, she said about a half a million dollars a day would have been returned to the public by now.

It is expected the plan passed today will render moot the tax proposition slated for the November ballot. It would have reduced state income tax from 18 percent of the federal withholding to 1 percent.

Under the just passed tax bill:

✓Individuals who have filed a tax return for any three years since statehood in 1959 will no longer pay state income taxes.

✓Those who have filed tax returns for two years since 1959 are exempt from paying two-thirds of state income taxes. One-year filers are exempt from paying one-third.

✓Refunds will be made for 1979 and 1980 taxes already paid or withheld. The Department of Revenue will mail a refund claim form by July 1 to those who filed 1979 tax returns.

✓Newcomers who have never filed a return must pay 100 percent of the taxes the first year, two-thirds the second, one-third the third and will be permanently exempt in the fourth.

Under the permanent fund dividend bill:

✓One-half of the fund's earnings will go to a dividend pool, allowing the amount of dividends to increase as the fund increases. Payments are to be at least $50 a year.

✓Residents older than 17 will receive one dividend per full year of residency in the state. When Alaskan children reach age 18, they can collect the amount due to them. The maximum payment to be made this year would be $1,050.

Speaker's Corner

Permanent fund solution is the key

By TERRY GARDINER
Speaker of the House

The key to a successful conclusion of this year's legislative session will be the resolution of the management of the Alaska Permanent Fund. In the minds of many legislators, including myself, there is no issue more important to Alaska's future.

When the Alaska voters approved the constitutional amendment that established the Permanent Fund, they were mindful that the state's oil wealth was based on a resource that eventually would be depleted, and that there was a need to provide for the future. The Permanent Fund is that nest egg that will guarantee that when Alaska's oil reserves give out, future generations will still have the benefit of a portion of those resources. The constitutional amendment provides that at least 25 percent of the state's royalties from oil production go directly into the Permanent Fund. The Legislature and the Governor have also stipulated that all of the revenues generated from lease sales shall go into the Permanent Fund.

The constitutional amendment left to the Legislature the decision as to how the Permanent Fund would be invested. It is obvious that the money generated can't simply be put into a savings account, because inflation would eat it away eventually. So the Legislature has spent a great deal of time working with top national investment counselors to determine the best approach to protect the principal of the Permanent Fund, and its earnings.

. Last year, the House overwhemingly approved a bill establishing how the principal would be invested. The bill, supported by liberals and conservatives alike, of both major parties, calls for a conservative investment program in secure forms.

The bill was not taken up in the Senate before adjournment last year, and there is a substantial philosophical difference between the House and key Senate members over how the Permanent Fund should be managed. The main conflict stems from a plan devised by Sen. George Hohman of Bethel to use the Permanent Fund as a vehicle to finance business development in Alaska. The Senate itself has failed to act on Sen. Hohman's legislation for the past two years, and the House stands adamently opposed to using the Permanent Fund as merely a loan program.

As Speaker of the House, I have appointed a conference committee to work with the Senate on working out a solution that both houses of the Legislature can agree to. Rep. Oral Freeman of Ketchikan is one of the legislators I appointed, along with Rep. Hugh Malone of Kenai and Rep. Chat Chatterton of Anchorage.

The House is working to develop a large and comprehensive loan program that we hope will deal with the concern for getting loan money to Alaska residents for housing, business and other purposes. We feel that a solid loan program will provide financial support to Alaskans while relieving the major impediment to a solution of the large question of the Permanent Fund management.

We believe that the Permanent Fund should be an inviolable trust, as a heritage to future generations of Alaskans.

Resolution of this issue is the key to this session of the Alaska Legislature. The House leadership is committed to resolving the Permanent Fund issue and believes that this Legislature will not be concluded without a resolution of the Permanent Fund objectives that have been worked out so arduously for a number of years. Once the management plan has been adopted by both houses of the Legislature and then the Governor, we will have reached an historic turning point in Alaska toward fiscal security and responsible management of our financial resources.

We are fortunate to have the oil resources that we have, which we can use to provide tax relief and social progress at the same time. However, unless we provide for that time in the future when the oil resource is economically depleted, we will not have dealt responsibly with the generations that will follow us. Our work with the Permanent Fund can stand as a yardstick of fiscal restraint to inspire those generations.

Additionally I am hopeful the Legislature will approve the special $900 million appropriation to the Permanent Fund. Rep. Oral Freeman of Ketchikan is the prime sponsor of this legislation, which has gained widespread support. The House has passed this legislation and it now has been referred to the Senate. With the state's new-found oil revenue surpluses this year this bill is a very wise approach. It would be awfully easy for us to just spend all of the state's money on programs and capital improvements for our constituents and to fail to invest for the future.

JUNEAU EMPIRE

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JEFFREY A. WILSON—GENERAL MANAGER

CARL SAMPSON, Managing Editor
FRED HOWARD, Circulation Manager
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Enough is enough

What began as a much-needed attempt to pump up Alaska's deflated economy has become a full-blown raid on the state treasury.

Only a few years ago, Alaskans winced as their state's budget leap-frogged over the $1 billion mark. As proposed Friday by the House Finance Committee, the cost of day-to-day operations of the state government would reach $1.55 billion in fiscal year 1981. Of course, only $1.17 billion will come from state coffers, but that is still a whopping 17.6 increase over the current fiscal year.

If a person, though, were seeking evidence of a raid on the state treasury, the proposed fiscal year budget may look bad, but it is hardly the place to look. Rather, the place to look is the unprecedented capital budget.

The capital budget, which began several months ago as $258 million aimed at helping the state's depressed economy, quickly swelled to $412 million in the unanimously passed Senate version. And on Monday, Gov. Jay Hammond warned the Legislature he would not allow the ballooning budget to bulge past the $545 million mark.

Now really, aiding a troubled state economy is one thing, but during an election year isn't it a bit curious that the public works budget all of a sudden becomes bloated with pork-barrel projects?

There are civic centers to the right, sports complexes to the left, runways ahead and bridges to the rear. The Legislature has surrounded itself with so many projects even it would have a tough time describing it as anything other that pure pork.

In fact, there are so many projects aimed at helping the state's struggling economy and its unemployed construction workers that at least one legislator has said the result is likely to be the need to import workers from the Lower 49 to handle all the work.

Alaskans always object when they are referred to as "blue-eyed Arabs" rolling in oil money. Such a characterization, however, is unavoidable when considering to way the Legislature has been handling itself.

If ever there were a good argument for a statutory limitation on state spending, the state's bloated public works budget is it.

It is one thing to attempt to aid the state's ailing economy; it is entirely another thing, however, to "pig out" on oil money.

Permanent fund needs support

Legislators are beginning to press for adjournment in Juneau and although that date usually comes somewhat later than leaders anticipate, it's not too early to consider the possibility.

House Speaker Terry Gardiner advised representatives last week to take the weekend off, "try to live a normal life," and then come back prepared for the stretch drive. Senate President Clem Tillion this week made his recommendation a bit more specific: legislation not moved from committee by Monday won't be considered this session, he said.

Both examples point to the beginning of the end in Juneau — a period of generally frantic activity where a number of important issues could easily fall between the cracks. *Quid pro quo* becomes the order of the day, as House and Senate dicker over which bills will win approval before the gavels fall.

That legislative log-rolling is an uavoidable consequence of the bicameral system in Juneau, but it's far from the best way to pass judgment on our laws. Representatives must pay careful attention to ensure that the baby doesn't get tossed out with the legislative bath water in the final push.

Although budgets have been largely decided and many other items all but settled, one critical issue is still pending in Juneau: the proposed $900 million appropriation to the Alaska Permanent Fund. Of all the matters on the Juneau agenda, none is more important to the future of the state. Both as a practical action and a symbolic gesture, the appropriation is vastly significant.

It is important first of all simply because the dollar total is so great. Obviously, any decision involving almost a billion dollars must rank as one of the most important of any legislative session. Lawmakers aren't often asked to make a determination of that magnitude with a single vote.

Important questions of policy and direction are also at issue here. Legislators have already proved they are more than willing to spend vast amounts of the surplus revenue for ordinary programs; the massive capital projects budget now under final consideration proves that. Now members must show whether they are also willing to deny some present demands in order to invest in the future.

When initially proposed early in the session, the $900 million appropriation enjoyed wide support. But as time passed, members apparently began to think of all the other projects that could be funded from that sum. A number of legislators reportedly now want to decrease that total in order to spend for current programs.

That would be a tragic mistake. Surely the capital budget — five times larger than any before! — and the operating budget can address our current needs. If we can't find enough to bank for the future in this period of tremendous surplus, there must be no hope of ever allocating resources for the future.

Let's make a statement, today, about our oil wealth. By investing a substantial amount in the permanent fund, we can clearly demonstrate that Alaska has passed the era of short-sighted management and entered a period of more prudent fiscal policy. The vote legislators cast on the permanent fund appropriation will be their clearest statement about that issue.

Hohman, Fund plan could spark public dissatisfaction

By LAURA ZAHN
Empire Staff Reporter

Public dissatisfaction over the Alaska permanent fund management plan passed this week by the Legislature will show up in the November elections, a key figure in four years of work on the legislation said today.

"I think the repercussions (from passage of the plan) will be expressed in the elections. I think a lot of people won't be coming back," said Bethel Democrat George Hohman, who chaired the Senate side of a free conference committee on the fund management until the committee reached an impasse in March and was disbanded.

Hohman is said to be "licking his wounds" since the committee was dismissed, and a second committee adopted a plan close to the House investment philosophy. Hohman describes himself as frustrated.

His permanent fund management proposal (SB 1) would have put some of the principal and earnings of the $400 million fund into business, residential, commercial and municipal loans for Alaskans. When members reached an impasse over an effective date clause on another plan involving the fund (SB 161), the committee was disbanded. Hohman was not reappointed.

The final plan, a form of SB 161, represents mostly House investment philosophies. It does not specify what will be done with the earnings, and limits Alaska resident loans to 15 percent of the principal.

House leaders insisted that only low-risk in[illegible] the fund's principal, estimated to grow to $3.7 billion in five years and $17.2 billion in 15 years. The total Alaskan economy is estimated to be worth about $4 billion today. It is expected to be worth much less than the permanent fund in 15 years.

Hohman said the final plan "implies a lack of faith in Alaska businessmen." He called it "the charter for the Great Capital Exporting Co." He said it fails to help set up a lasting economic infrastructure to develop Alaska's resources, instead of allowing foreign or Outside businesses to do so.

"I think we're kicking ourselves in the face,

[illegible] and then they (the lawmakers) [illegible] approve the plan) [illegible] hurt to the state," Hohman said.

"There is a limit to how much we can [illegible]," Hohman said of investing all of the principal in-state, "but we're not talking about this year for exporting capital, and we're not talking about next year."

Until Alaska can "develop enough resources so everybody can be working," the money should be lent in-state, he said.

House arguments that more secure investments Outside yield a higher interest rate are "a very superficial thing, and it's a cop-out," Hohman said.

"Interest rates are surely going to be lower than the rate of inflation, so the state loses

According to Hohman, then, Alaska [illegible] the result [illegible] economy, [illegible] economic [illegible] and [illegible] reason [illegible] economic [illegible] he said.

Deputy Commissioner of Revenue Pete Bushre confirmed investments will result in a net [illegible] inflation.

Investments can do no better than the American economy, Bushre said. He said the committee should invest in American banks in foreign countries which "outproduce the rate of inflation," unlike U.S. banks. The conferees, however, refused to invest outside the U.S., he said.

Bushre could not estimate what percent of the principal will be invested in the Lower 48, but he said "there are only so many trust-grade investments in Alaska.

House leaders [illegible] it [illegible] real estate market for [illegible], peaks [illegible] then falls with economic booms and bus[illegible] and leaders argued the fund would follo[illegible] such trends.

Additionally, it would be politically unwi[illegible] to foreclose on constituents if they could n[illegible] meet payments.

National money markets, on the oth[illegible] hand, would help accumulate federal "bro[illegible] nie points," instead of making the state loo[illegible] like a hoarder of billions of oil dollars, th[illegible] House argued. Investing Outside would als[illegible] help avoid a large migration to the state b[illegible]

Continued on Page 3

Permanent fund...

Continued from Page 1

pick up oil-funded jobs."

The plan which passed sets up a six-member Alaska Permanent Fund Corporation to manage the fund. The Commissioner of Revenue and two other state department commissioners and three public members will be appointed by the governor. The board would hire an executive director.

House leaders orginally wanted all the members from the general public, while Senate leaders wanted the lieutenant governor and four specific commissioners to serve.

Under a constitutional amendment adopted in 1976, 25 percent of the royalties from Prudhoe Bay oil—or nearly 11 percent of the total oil income—will be sunk into the permanent fund.

Half of the Beaufort Sea royalties and other future oil royalties will also be socked away.

Managing Editor

Editor and Publisher, 1967 to 1971

Alaska's Only Morning Newspaper • Founded in 1946 by Norman C. Brown

Permanent fund plan is worthy

Members of Alaska's House of Representatives voted Thursday to transfer almost a billion dollars from the general fund to our state's special nest-egg permanent fund account. In that step, they have moved Alaska dramatically away from the traditional poverty-or-plenty mentality toward a more prudent, stable future.

House members heard the $900-million proposition explained in graphic terms. The money amounts to a stack of "crisp, fresh one-dollar bills" 113.4 miles tall, explained Rep. Oral Freeman, the Ketchikan Democrat who sponsored the bill. It is also equal to the $900 million the state earned in the 1969 oil lease sale at Prudhoe Bay, a much-discussed windfall that has been equated — properly or improperly — with free-spending waste of the oil revenue. As a symbolic sum, the $900 million is appropriate, indeed.

And as the first major dedication to the permanent fund, it serves a value even more important. By a 38-2 margin, representatives who voted to commit the money to the fund served notice that they don't intend to lavish all the one-time-only oil revenue on a spending spree for a single generation. Their vote was a commitment to the future that can only serve Alaskans well in the years and decades ahead.

In addition, they wisely mandated that appropriation of the money be conditioned on approval this legislative session of an investment plan for the permanent fund. Although the fund was overwhelmingly endorsed by Alaska voters when they approved it as a constitutional amendment in 1976, legislators have been unable or unwilling to design a system for management of the nest-egg account. At issue are different plans prepared by the House and Senate — and they represent, in our opinion, the very future of the fund itself.

Although it's easy to get bogged down in details, the differences between the House and Senate management plans boil down to a fairly simple comparison. Senate leaders in the battle, generally, have urged the bulk of the fund be used for state loans and other traditional in-state lending programs. Representatives have urged a far more cautious, fiscally conservative investment plan that would keep the permanent fund intact.

The House plan, which has been far more widely discussed and debated, seems to us by far the better system. It is in keeping with the ideals that made the concept so appealing to voters — that it be a heritage account, designed to save a portion of our non-renewable resource wealth for the future, not risk it all for development today. It guards against the spending passions of the moment, replacing that approach with a long-range view of safe investment and return.

And House members, including those most responsible for creating the fund in the first place, seem dedicated to



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We can't

BALTIMORE — Pres
Carter has decided that
Soviet invasion of Afghan
is the greatest threat to
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block, who was arrested
charged with shooting a

properly or improperly — with free-spending [illegible] of the oil revenue. As a symbolic sum, the $900 million is appropriate, indeed.

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And House members, including those most responsible for creating the fund in the first place, seem dedicated to ensuring that their vision of the fund is adopted. That's an important issue, worth all the time and struggle it takes to win the battle with the Senate. There's too much at stake for Alaska's future to do otherwise.

In the meantime, their action last week deserves commendation. Our representatives' willingness to take $900 million away from spur-of-the-moment spending and dedicate it to Alaska's future was an act of political courage and individual insight. It will probably prove to be one of the most significant votes taken in this session of the Alaska Legislature.



BALTIMORE — President Carter has decided that the Soviet invasion of Afghanistan is the greatest threat to world peace since the Cuban missile crisis. And he has responded by suggesting that we not throw the discus in Moscow. This is a return to the quarantine strategy of the 1940s and the 1950s. I remember the Hungary Pledge taken by a wealthy right-winger to bring down Russia by refusing to eat her caviar. Earlier, there was an hysterical attempt to prevent Dimitri Shostakovich from coming to America. Back then, cultural exchange was attacked as the Moscow Olympic are now — any willingness to hear Russian music or watch Russian ballet would legitimize" the regime.

We also quarantined China, you remember — which slowed the Sino-Soviet break. The Chinese could have been wooed away earlier, if we had been willing to meet them at any level of concern for their people



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Citizens' answ

NEW YORK — One of them stared out the window and the other leaned against the wall in PJ's Auto Works on Remsen Avenue in Canarsie, Brooklyn. They were talking about Salvatore Desarno, from down the block, who was arrested and charged with shooting a cop four times and dragging the body under a car for five blocks.

"Does anybody know where he got the gun from?" they were asked.

"That isn't hard around here," the one against the wall said.

"Everybody in Canarsie has a gun," the one looking out the window said.

"The guy was only out of prison a few months," they were told.

"That means he could get the gun quicker, he knew where to go," the one looking out the window said.

"Do you fellows keep a gun here?" they were asked.

The one against the wall nodded. "On account of the holdups. I don't care if the police know. Everybody out on the street has a gun, we got to have one in here."

A Doberman pinscher, so rangy that at first you thought he was a yearling race horse, was in the corner straining at a leather strap.

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correct - "bulk of the fund" to "fund income backed by the fund (for ea. $, 10)

what details? never been a bill since SS - always a new draft which is not available to public.

SS SB 1 (last public version) - not safe investments - allows stock purchases - FHA + FVA - housing mortgages. (later house investment plan glued on)

income - [illegible] In fact, no [illegible] use of income except [illegible] not special [illegible].

to leverage income for loans, [illegible] cannot be [illegible] and [illegible] up the corpus [illegible].

[illegible] participants -

852	[illegible]
536	[illegible]
35	[illegible]
274	ag
1677	
14,650	[illegible]
5,850	yet
8,800	housing

total loans 30,850
maybe 20,000 people

February 5, 1980

Dear Editor:

I was dismayed to read your editorial of Monday, February 4, 1980 concerning the Permanent Fund. The cause was your statement that, "Although its easy to get bogged down in details, the difference between the House and Senate management plans boil down to a fairly simple comparison. Senate leaders in the battle, generally, have urged the bulk of the Fund be used for state loans and other traditional in-state lending programs. Representatives have urged a far more cautious, fiscally conservative investment plan that would keep the Permanent Fund intact."

Perhaps you should take the time to read and get bogged down in details regarding the two approaches to the Permanent Fund. Although, there are many differences between the two plans, one common ingredient is that BOTH plans invest the body of the Fund, (and future additions to it), in the same conservative kinds of investments. In short, Editor, there is no difference between the plans on that single score! Therefore, if that is your single criteria for favoring the "House" plan over the Senate plan, your argument stands on a structure far weaker than Alaska's capital-short economic underpinnings.

If you had bothered to read the bill or inquired of knowledgable persons from both Houses, you would know that it is the income stream, (among others), of the fund which is at question. The Senate plan would place those derived revenues into the economics of the state, not export them to the brokerage houses of New York to be lent back to Alaskans, with additional charges for handling, of course.

By the way, I've coined a name for the new House backed management corporation which would oversee the shipment of our wealth to the East coast: Alaskan Capital Export Company. If the House bill passes, Alaska's export of money may exceed our export of oil, fish, gold and fur.

As the debate continues over Alaskan vs. non-Alaskan investments we plan to illuminate the House and Senate plans with very bright lights. I firmly believe that the scrutiny of Alaskans on the House plan will bring beads of sweat to the heads of those who hold it and will show how little it does for any Alaskans, present or future.

Sincerely,

George H. Holman, Jr.

Senator George H. Holman, Jr.
Alaska State Legislature

Lawmakers debate 'issue of the decade'

By The Associated Press

House-Senate negotiators on what has been termed "the issue of the decade" sat down to a bargaining table Monday for a long-awaited candid discussion on the Alaska Permanent Fund.

Members of the House-Senate free conference committee hailed the unplanned discussion as very helpful," and said it prompted new hope that three-year deadlock between the two chambers might be bridged this session.

The House and Senate have been at odds over how to manage the voter-mandated fund and what to do with its multi-million dollar earnings. The fund balance is projected to top $1 billion by 1982.

However, a key player in the deadlock, Sen. George Hohman, D-Bethel, did not participate in the discussion. He left the room just as the talk got underway.

The unplanned discussion focused on some of the philosophical questions surrounding the fund, including the general direction of state spending patterns. The talk evolved after conferees met for a teleconference scheduled to take testimony on the issue from Sitka, Ketchikan and Nome residents.

When teleconference officials informed legislators that nobody had showed up to testify, Sen. Frank Ferguson, D-Kotzebue and one of the three Senate negotiators, announced that he would like to discuss the permanent fund.

That was a first. Previous meetings between the conferees have been very short and superficial, with no real discussion of the issue.

Following Ferguson's announcement, Hohman left the room.

A wide-ranging discussion followed. It left conferees on both sides expressing "new hope" that a compromise could be negotiated. Ferguson said that a few weeks ago he did not think a compromise was possible, but that the situation had changed.

"An open talk like this has helped me," he said.

Rep. Hugh Malone, D-Kenai and a champion of the House's conservative management plan that stresses the concept of the permanent fund as an "inviolate trust," got the discussion started by announcing a startling new revenue forecast.

The forecast projects that the state will receive $32 billion in revenue and interest within the next five years and will accumulate a treasury surplus in excess of $18 billion by 1985.

By 1995 the state will have received $125.5 billion in revenue, according to the Division of Legislative Finance forecast. At that time the permanent fund balance is projected to be $17 billion.

The forecast is based on a set of assumptions that range from what the long-term inflation rate will be to the projected world market price for oil.

Malone used the figures to emphasize the importance of determining a long-term state policy on both the permanent fund and state spending.

"What are the appropriate ways to deal with the magnitude of the revenues the state is facing," he asked. "Unless decisions are made by next year at the very latest the decisions will be made by default."

Ferguson appeared to agree, and he talked at length about the problem of fair distribution of spending in urban and rural areas. Ferguson said he feels rural areas have not received their fair share of state money in the past.

Both Malone and Ferguson agreed that a redistribution of state wealth to private citizens is called for. And they also agreed that an expanded loan program should not be tied to the permanent fund issue.

Those are two of the key issues in the permanent fund debate.

A third key issue centers on how the fund should be managed — whether by a private corporation as the House plan calls for or within the existing state bureaucracy as the Senate plan calls for.

Ferguson said he had some problems with the House management structure, but he indicated a willingness to compromise and so did House conferees.

"Some of those concerns you express about management could be met in the bill," Malone told Ferguson.



Dixville 'notches' first votes

DIXVILLE NOTCH, N.H. (AP) — For a few minutes today, Ronald Reagan could claim the lead in New Hampshire's lead-off presidential primary.

But the front-runner mantle was taken from the former California governor as election officials of tiny Dixville Notch found an error in their count of the 23 votes cast shortly after midnight.

Now, at least until more votes are counted in New Hampshire today, Reagan and George Bush

Delay disturbs senators

New permanent fund bill strikes sparks in panel

By LAURA ZAHN
Empire Staff Reporter

Tempers flared in the state Senate Finance Committee this morning when Senate President Clem Tillion, R-Halibut Cove, brought a new version of a Permanent Fund management plan to the panel, saying it will not be vetoed by Gov. Jay Hammond.

The committee never discussed the new management plan, which sets up a commercial loan corporation, and makes loans available to more veterans and their families.

Instead, the members spent a half-hour venting their opinions on how the new bill was drafted, and how fast issues are being settled this session.

A Permanent Fund management plan was hammmered out Saturday by a few members of the committee and the administration after Tillion decided the issue was not being settled fast enough, Tillion told the committee.

Sen. Bill Sumner, R-Anchorage, who was attending hearings on the fund in his home district Saturday, told Tillion he did not like being excluded from the process.

Tillion consulted with Sen. George Hohman, D-Bethel, the author of a management plan, last week. On Saturday, he talked with Sens. Bil Ray, D-Juneau, and Jay Kerttula, D-Palmer, who "happened to be available," and the administration, Tillion said.

"My community is damned mad" about Anchorage's climbing unemployment and high-interest loans, Sumner said, adding residents are "damned near ready to recall our governor."

"Bill, you're included (on work to put together a bill)," Tillion said, explaining he wanted action on state loans, the fund management and income tax relief this session, and did not think the Legislature was moving fast enough.

"If you don't like it (the new version), change it, but let's get moving," Tillion said.

Sumner first said he would not address any issue until the mortgage and employment problems in his district are settled. After more discussion with Tillion, who said he wanted a bill that would pass and get money on the streets, Sumner said the matter would get his full attention.

Before the meeting recessed for the 10 a.m. Senate session, Holman, Ray and Kerttula had more to say.

Kerttula said he was aware of his minority position in the Republican-controlled Senate, and that his "involvement has been backdoor in this whole thing." He said he was eager to help on Saturday at Tillion's request because his district faces the problems Sumner raised, and resolution of the Permanent Fund issue could help solve that.

Ray said he did not need to take a "backdoor" entrance to negotiations as a member of the Democratic minority.

"I have just as much to say in this committee as anyone else until I get thrown out," he said. "One thing I have learned at this meeting, if nothing else, is never to be here on Saturday."

Sumner said later that if he had objected to who was included in the talks, he would have said so directly. His objection was to excluding some committee members.

"I wish more had been here on Saturday," Tillion said. "I want a bill, like the tax bill, that we can pass 20 to 0 and hand to the House, and say...'get moving.'"

Tillion, a close personal friend of Hammond, said he went to the administration to get a bottomline on what is acceptable so the Legislature could get to work on an acceptable plan.

"I'm so sick of consultants," Tillion said.

He then brought up Senate Bill 161, another Permanent Fund management plan, saying the committee should hurry and pass it out by the end of the week, a deadline set by Hohman.

Hohman then told Tillion, "Your side of the aisle has submarined us," adding—"We're allowing administration influence in the new bill." He said the deadline is his, and he could decide not to meet it.

Hohman has been heading a free conference committee on Senate Bill 161, another fund management plan, and has hearings scheduled until the end of the week.

At that point, Finance Committee Chairman John Sackett, R-Galena, put a stop to the discussion. SB 161 is not in the Finance Committee, but is being considered in free conference committee.

"I will not have it discussed here," Sackett told Tillion.

Loan, Permanent Fund spur conflict

By The Associated Press

At the same time Gov. Jay Hammond was tell- a press conference he likely would veto legisla- n tieing the permaent fund earnings to a state n program, several Anchorage residents were vising lawmakers to do just that.

The testimony came Thursday during the first of statewide teleconferences scheduled by the use-Senate free conference committee on the manent fund.

egislators listened to nearly a dozen Anchorage inessmen, representatives of the fishing in- try and members of Commonwealth North urge use of surplus state money — both from the manent fund and general fund — for low in- st loans and capital projects aimed at bolster- the state's economy.

I'm afraid at this time if the permanent fund t used for the fishing industry, our children will be working for the Japanese," said John Young of Midgulf Seafoods. "If we don't help out industry, we're not going to have an Alaska fishery."

Robert Gillam of Home Federal Savings in Anchorage told the panel that "in the last three-and-a-half months we've not had a single housing loan application," except for government-subsidized loans.

Most of the people did not testify specifically about either the House or Senate bills on management of the permanent fund. Instead, testimony focused on what lawmakers could do to beef-up the economy and benefit Alaskans.

While several suggested use of the permanent fund for loans, others indicated they did not have a preference on how the loan programs are funded, as long as long as low-interest loans are made available.

The Senate permanent fund management bill would tie the fund to a comprehensive loan program, while House lawmakers prefer the more conservative concept of the permanent fund as an "inviolate trust."

The House leadership favors a state loan program funded by the state treasury rather than the permanent fund.

Members of Commonwealth North, a group representing a range of business, labor and civic interests, recommended that the Legislature implement widespread tax relief before increasing contributions to the permanent fund or depositing an additional $900 million into the fund, as proposed by the House.

Specifically, the group suggested repeal of the state's personal income tax, property taxes and business income taxes.

In addition, the group recommended:

—putting a lid on state and local government spending;

—use of surplus state money for loans and for major capital construction, particularly for energy projects;

But while testimony from several persons urged use of the permanent fund for a state loan program, as the Senate bill proposes, Hammond told a press conference that he could not agree to such an approach.

"They (permanent fund earnings) should not be used to finance loan programs, in my view," Hammond said. "They should be done either to provide for the degree of tax relief that we can authorize or as well to provide something as an offset to an AGSOC.

"It seems to me a lot more sensible to invest monies that belong to all the people in some way to produce income and from that income provide a dividend dispersal," he said.

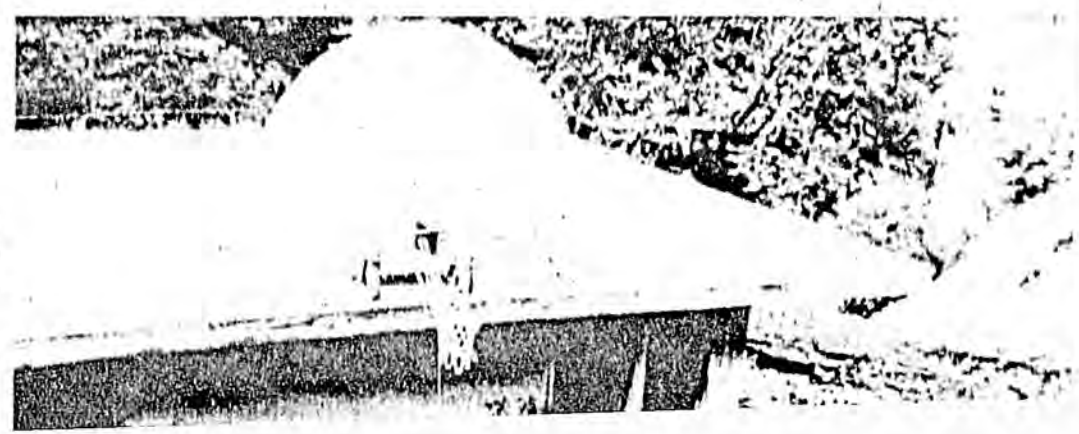
New York City posses orm to fight criminals

NEW YORK (AP) — Amid a plague of ugly me — including what the mayor calls "an demic of gun violence" — New Yorkers are ting back with old fashioned posse justice.

ush-hour commuters in Grand Central Station ered on Thursday as bystanders banded ther to grab a wallet-snatcher. Subway riders led a mugger and held him until police arrived.

riders on New York subways in two attacks, and managed to escape by jumping off the train only moments before it left the station. He's still at large.

—A still-unidentified man was decapitated when he was pushed under the wheels of an on-rushing train, and an 11-year-old boy who was shoved into the path of a subway remains in grave condition.



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Anchorage Daily News

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Fund conferees disagree, disband

By ROXINNE ERVASTI
The Associated Press

JUNEAU — A House and Senate team charged with deciding how the state's permanent fund should be managed failed to reach agreement Sunday and will ask to be discharged.

The adjournment late Sunday night came after a marathon weekend attempt to settle the question, now four years in the running and more pressing as the state's oil revenues run into the multiple billions of dollars.

The committee's failure to agree came after the three House and three Senate members made numerous concessions on their philosophical differences.

But the key hangup was a Senate proposal that the bill not take effect until legislation is passed to earmark 25 percent of the state's oil revenues for loan programs — much as 25 percent of oil revenues now flow into the permanent fund without any attachments.

Neither side would give.

"Our whole approach to the legislation has been to write a policy statement about the permanent fund, and not consider the related questions such as percentage (of oil wealth) contributions to the fund or dedication of its incomes for such things as loan programs," said Rep. Hugh Malone, D-Kenai, who chaired the House team that also included Reps. Chat Chatterton, R-Anchorage, and Oral Freeman, D-Ketchikan.

"The Senate viewed the policy statement as having to include those things, and that was in conflict with our narrower view," Malone said. "The result was a political situation, where a final determination on the permanent fund investment policy and management structure was in effect being held hostage to an idea that

See Back Page, FUND



Shah's next stop: Egypt

By LEONARD GREENWOOD
The Los Angeles Times

PANAMA CITY, Panama — Mohammed Reza Pahlavi, the deposed shah of Iran, left Panama Sunday on a charter flight to Egypt, ending three months of exile on a Pacific resort island.

After several days of secret meetings with Panamanian leaders and U.S. officials here, were to present a formal request for his extradition to face criminal charges for abuses committed during his nearly four decades of rule in Iran.

"The shah himself took the decision to go to live in Egypt after receiving a new invitation from his old friend Egyptian President Anwar Sadat," a U.S. Embassy official said.

U.S. officials said there were any medical specialist he chose.

U.S. officials have denied that the shah's move had been made under the pressure of, or with the aid of, the U.S. government in an attempt to solve the crisis over the 50 Americans held hostage in Tehran since last November.

"If we had had our choice we would rather have had him stay here," said one U.S.

bodia. Some of the camps have already been shelled and — because the border area is said to be a hiding area for the anti-Vietnamese Cambodians — a full-scale invasion is a possibility.

Still, Kaltenbach, like the other volunteers gathered at the airport Sunday, expressed little concern for their own safety.

"It doesn't bother me," Kaltenbach said of the dangers that could await her. "I run fast and I have a lot of faith."

Reconsidering, she added, "Well, I don't run that fast anymore."

Her 18-year-old daughter, Gretchen, seemed a bit more worried. "I'm kind of scared about it, but she's convinced me that they'll get her out of there if there's any problem. If that thing in Iran hadn't happened, I wouldn't be scared at all," she said.

Nelson, a Vietnam veteran who served in the military in the mid-60s, said the potential

[illegible] Davidson, a nurse from Portland, said she was "aware but unconcerned" about the shelling.

"It's just one of the challenges," she said. "It's a decision you have to make when you do something like this."

The four Alaskans are the second group of volunteers from this state to go to the Far East. Earlier this year, eight Alaskans spent five weeks working at a camp at Nong-Samet.

Preparing to board a Japan

[illegible] ever since his military tour there, said simply, "There's a need over there. Somebody's got to do it and it just so happens I had the time."

Anchorage nurse Brigitte Bendszuz, citing one of the "six or seven reasons" for her participation, said she was traveling "because I want to ride an elephant before I'm 50."

She also said the experience of working intimately with her seven team members for the next three months "will be very interesting.

Local boy killed in El Salvador

The Associated Press

A graduate of Dimond High School in Anchorage has been gunned down during violence in El Salvador.

Alex Fontan Melendez, 19, who had been in the Central American country since November on family business, was killed during a clash between leftist guerrillas and government security troops.

His mother and step-father, Connie and Leo Vega of Anchorage, said Melendez was returning from a shopping trip when the violence broke out. They said he was killed when troops fired into a crowd about 50 miles northwest of San Salvador.

Melendez was born in El Salvador and had lived in Anchorage since 1977.



Freed

Ken McFarlan[illegible] daughter Stace[illegible] one of 71 strikin[illegible] city work farm

Fund

Continued from page A-1

it had to be tied to the loan programs. Until we get a chance to develop a loan program, and the House has been working on legislation to do this, and see what it looks like, it seems premature to make implementation of the permanent fund tied to it."

Sen. George Hohman, D-Bethel, who led fellow conferees Bob Mulcahy, R-Kodiak and Frank Ferguson, D-Kotzebue at the bargaining table, said the Senate amendment was merely turning the table on House tactics. He cited HB509 which states that a $900 million appropriation to the permanent fund does not take effect until a permanent fund management bill is approved.

He said the Senate made major concessions on management and investment provisions but that the final bill "didn't allow enough investment of these resources."

He said the Senate idea for guaranteeing revenues for loan programs has been around for three years and that the economic situation today has strengthened arguments for it.

"We were right on target," Hohman said. "If our position had been adopted we wouldn't have the economic disruption we have today."

He said the Senate conferees will make a strong push to get SB1, the Senate bill dealing with loans programs, to the floor for a vote this week.

The committee's work — which ran 14 hours, until 4 a.m., on Saturday and continued for eight hours on Sunday, was amiable. After the impasse was announced, Malone approached Hohman and complimented him on his conduct as chairman of the committee.

Senate President Clem Tillion, who had given the committee a Monday deadline for reaching agreement, attended all the sessions.

He called the bill that failed to be adopted because of the loans issue "excellent" and indicated he would likely name three new conferees who would sign off on it. House Speaker Terry Gardiner was not immediately reached for comment.

Hostag

The last roun[illegible] tween the goverr[illegible] guerrillas ended [illegible] over the guerrill[illegible] alleged political [illegible] released in exch[illegible] hostages.

The guerrillas[illegible] down their origi[illegible] prisoners to a "n[illegible] list of 28. Last [illegible] ernment said it [illegible] its refusal to rel[illegible] oners.

The last hosta[illegible] by the guerrillas [illegible] Ambassador Edg[illegible] was turned loose [illegible] could be with his[illegible] seriously ill in Vie[illegible]

On March 2, f[illegible] matic hostages w[illegible]

Lonely

Continued from page A-1

as socially isolated and lonely were far less lonely than those less than 30 years of age, even though they are more likely to live alone.

However, the survey was not scientifically conducted. Only those who read The Daily News and returned questionnaires figured in the results.

• Unlike the men in New York or Massachusetts, the men in Alaska are lonelier than women. It could be because of a poor male-female ration in Anchorage, or because men have more isolated occupations. It could also stem from the state's high rate of divorce, and a situation where men remain here and women may not.

• Unlike the men in New York or Massachusetts, the men in Alaska are lonelier than women. It could be because of a poor male-female ration in Anchorage, or because men have more isolated occupations. It could also stem from the state's high rate of divorce, and a situation where men remain here and women may not.

• Those in the Aleutians and Fairbanks are loneliest, while residents of Eagle River-Chugiak are lonelier than those in Anchorage.

• The less educated tend to be lonelier, though there are exceptions. The important break seems to come at high school graduation. High school graduates and those going on to higher education are less lonely than those who did not complete high school.

• Married people are less lonely, on the average, than the single, divorced or widowed. Not unexpectedly, the loneliest marital-status category was separated. Time heals this kind of wound in most cases; many single and divorced respondents are not lonely.

• There is no significant relationship between occupation and loneliness. What is significant is that people who are unemployed are lonelier than everyone else. Housewives, blue-collar workers, administrators and students turned out to be least lonely. Technicians, artists and writers, white-collar workers and retired people are more lonely.

• The only significant finding in the religion category is that

Continued from page A-1

• Although "live alone" is the loneliest category, it is not much lonelier than several others such as living with parents or other adult relatives. It is clear that living with someone else does not necessarily alleviate loneliness, as in the case of the military wife.

An Anchorage architect who makes more than $50,000 and lives with his lover in a comfortable condominium seems to defy all the results. He says his persistent loneliness can be traced to his childhood.

His parents divorced when he was 6, shipping him off to boarding school until he was 10. His father obtained final custody the following year and he didn't see his mother for a decade.

"For me loneliness is more or less permanent," says the 48-year-old individual, three-times divorced, who says he can't rid himself of the symptoms of loneliness.

"It becomes a feeling of anxiety or panic. I used to drink a lot, and chase girls, but now when it gets really bad I tend to impose on a friend or put my feet up and get stunned

childhood experie[illegible] portant in deter[illegible] lonely a person is[illegible] The most lonely [illegible] they had a poor[illegible] with their mother[illegible] er. Neither spent [illegible] with them when[illegible] young, nor could [illegible] their parents or [illegible] when they had a pr[illegible]

These same l[illegible] appear to be in a [illegible] tion as adults. T[illegible] their family is no[illegible] them as they wou[illegible] to be. They are le[illegible] their non-lonely co[illegible] have relatives nea[illegible] help them when the[illegible]

When they are[illegible] want to talk to so[illegible] is no one to turn to[illegible] they get very lit[illegible] support, if any [illegible] their relatives and [illegible]

Not surprisingly[illegible] ple have fewer [illegible] non-lonely peopl[illegible] similarly less satis[illegible] number of friend[illegible] the quality of frie[illegible] and with their s[illegible] general.

To make mat[illegible]

Belated Billions

As Oil Money Rolls In, Alaska Has to Decide What to Do With It

Should It Adopt New York?

By Richard D. James
Staff Reporter of The Wall Street Journal

JUNEAU, Alaska—It's been a long wait, but the dream is finally coming true in Alaska.

For years Alaskans hoped that the wealth from the state's big oil bonanza at Prudhoe Bay, discovered in 1968, would start to roll in. But always, it seemed, one more barrier blocked the way.

First, a bitter environmental fight delayed construction of a pipeline to bring the oil out. Then, in 1977, with the finished 800-mile line just days old, a pump exploded, sharply cutting the flow of oil—and, along with it, the state's income from royalties and production taxes. In addition, inflation and pent-up demand for essential government services in a largely untamed land quickly ate up the oil dollars that did dribble in.

Now, however, thanks ironically to the oil-exporting nations, which sharply raised prices in the past year, Alaska suddenly has a money glut. The long-awaited wealth seems likely to rub off on every resident in the state.

Nothing Like Cleveland

The situation contrasts sharply with the well-publicized predicaments facing other state and local governments. More than one is struggling to finance needed services in a time of runaway inflation and voter approval of tax-cut referendums. Others, such as New York City and Cleveland, faced with a decaying and shrinking economic base, are fighting to stave off outright bankruptcy.

"Maybe Alaska should adopt New York," one government finance expert jokes.

Alaska's wealth is kindling some tough questions for the state's lawmakers, now in session here. What should they do with the money? Repeal taxes? Offer low-interest home loans? Invest for a rainy day? The wealth is also prompting considerable soul-searching on some knotty philosophical issues. What will the huge sums of money do to the state's quality of life? Can free enterprise flourish if government holds virtually all the wealth? Does the money belong to the people collectively or to the people individually?

How these matters are resolved will determine in large measure the future direction of Alaskans' way of life. "This will be a watershed legislature that will create the thrust and mix of spending and investment which the state undertakes for years to come," says Lt. Gov. Terry Miller.

Huge Surpluses Loom

Just how big is the state's windfall? After setting aside enough to cover a proposed fiscal-1981 operating budget of $1.3 billion, state officials project that more than $3 billion will be left in the state treasury when that fiscal year ends on June 30, 1981. And that's just the beginning. Even allowing for an annual 12% growth in the budget, the yearly surpluses will continue to grow—$5 billion in 1985, $6 billion in 1987 and a peak of nearly $8 billion in 1991.

In all, the extra money will total $53 billion over the next 10 years and a further $11 billion in the succeeding decade. Together, that's enough to pay everyone in the state $12,000 a year for 20 years. "I'm kind of floored at the amounts of money that are coming in," says Clem Tillion, president of the Alaska Senate.

One gets some inkling of what the higher oil prices mean for Alaska by comparing state forecasts made before and after the price increases. A year ago the state estimated that income from petroleum production for this fiscal year and next would total $1.09 billion. Now the estimate has shot up to $3.61 billion—a 230% increase. The money comes from a royalty of 12.5% on the oil's wellhead price, a 12.25% production tax and a state severance tax on the oil.

This year oil dollars will provide nearly 90% of the state's income. Five years ago they accounted for only a quarter of the total. "We're not too well-diversified," concedes Peter A. Bushre, deputy revenue commissioner, "but neither is Saudi Arabia."

"Blue-Eyed Arabs"

All the money has prompted twinges of fear and guilt. "I think we feel guilty about suddenly being so wealthy, and there is a real fear that we'll be looked on as blue-eyed Arabs" and resented by the rest of the nation, says Sen. Arliss Sturgulewski of Anchorage. Nor are Alaskans unmindful of the pitfalls ahead. "The state will be possessed of huge amounts of money well beyond most states and many countries. The danger is that there will be enough to buy any idea" no matter how harebrained, says one legislative aide.

Not surprisingly, tremendous pressure is building to spend the money, at least the $3 billion estimated to be left over at the end of the next fiscal year. Appropriation bills totaling more than $16 billion have been introduced in the House, and legislators say they are besieged by constituents seeking money for pet projects. "Every little group in the state has appointed a subcommittee to give us advice on how to spend the money," says Russ Meekins, chairman of the House Finance Committee.

At one point the state's largest newspaper, the Anchorage Times, ran a regular feature, "Helping the Governor Spend a Billion," to which readers contributed their spending suggestions. They ranged from building a Swiss-style ski resort on Mt. McKinley to providing free or cheap gasoline to all state residents.

The spending pressures are especially strong because the state has been experiencing a recession ever since oil-pipeline construction ended. Unemployment in towns like Fairbanks, a center of construction activity, currently runs about 13%, more than double the national average. "There's tremendous demand for economic help, and we're likely to overcorrect," Lt. Gov. Miller worries.

Gov. Jay Hammond has proposed a $163 million capital program, with most of the money going for ports and highway projects. Some of the surplus is likely to go toward low-interest home and business loans by the state, again with an eye toward bolstering the sagging economy. The governor has asked for an initial appropriation of $200 million to finance home loans at 9.5%. Another big sum of money—around $300 million—probably will go to finish paying off the state's obligation to Alaska natives, an obligation incurred in the 1971 settlement of aboriginal claims.

One imaginative plan that Gov. Hammond finds interesting is to purchase new-found oil reserves that then would be left in the ground as a hedge against skyrocketing inflation.

Legislators Get a Raise

One thing the legislators already have done with a portion of the money is to vote themselves and some 10,000 state employes a $13 million pay raise. That has angered many residents. What apparently irks them is that the raises were approved before lawmakers made any move to cut state taxes, something now under consideration. "Maybe our timing wasn't too good," one lawmaker concedes, but he notes that state workers hadn't had a raise in four years.

Even all these items don't amount to much compared with the staggering amounts available over the next 20 years. Most Alaskans agree that the money should be used somehow to get ready for the future. "Prudhoe Bay will start declining about 1987, and as that happens we have to be ready to make a transition," says Revenue Commissioner Thomas Williams.

A leading proposal is to put some or all of the money into a special state account known as the Permanent Fund, which was set up in 1976, and invest it in high-grade government and corporate securities. The Alaska House already has passed legislation that would put $900 million from the fiscal-1981 surplus into the fund, and the Senate seems likely to concur. In addition, both houses last week approved putting about half of the income from future oil royalties and lease sales into the fund.

One big remaining question is what to do with earnings from the fund's investments. Under last week's measure, the earnings will flow into the general fund, from which the state pays its day-to-day bills. Many lawmakers say that's fine for the time being. "We don't need to commit the earnings now. Let's watch for a while and see how we live with our wealth," one legislator says. Others, however, call this a poor stopgap and favor a longer-term solution.

The matter isn't likely to be settled this year, but the stage is set for hot debate in future legislative sessions. One alternative that has been advanced is to use the earnings to finance a centralized state loan bank that would grant low-interest loans to Alaskans for everything from fishing boats to homes. Supporters assert that the loans would help diversify and develop the state's economy, particularly its renewable-resource industries—such as fishing, timber and agriculture—which could provide jobs and economic stability after the oil is gone.

Opponents, however, aren't certain the loan programs would do what they're intended to—namely, increase employment and income. Moreover, they feel that pumping huge amounts of cash into the economy is bad. A House legislative aide says: "If we pour all the oil money into loans and capital programs, we would have huge numbers of people coming up here to help us spend the money and we would crush our private economy. If you flood the economy with money from state loans, the state will control it."

Gov. Hammond, while himself seeking an appropriation for low-interest home and business loans in fiscal 1981, opposes any plan to permanently earmark the fund's earnings for low-interest loans of any nature. Distributing the state's oil wealth that way, he contends, would be unfair because it would reward what he calls special-interest groups—those who want and could secure the loans—rather than the people at large.

Whatever the outcome, part of the surplus money will probably be distributed to Alaskans before long. Sentiment is strong for doing it by way of a personal-income-tax reduction, rebate or outright repeal. Thirty-three of the 40 House members have introduced various tax-relief bills, and a voter initiative that would all but eliminate the personal income tax is on the November ballot.

Governor Opposes Repeal

Gov. Hammond strongly opposes tax repeal or using the tax system to hand out some of the state's oil wealth. That stance has prompted serious efforts to impeach or recall the Republican governor. He contends that such tax relief wouldn't be equitable because those who don't pay taxes wouldn't benefit and the oil money belongs to everyone in equal shares. Instead, he would distribute the money by paying dividends to everyone from the Permanent Fund's earnings. That, he believes, would build public sentiment for putting more of the surplus oil money into the fund and for seeing that it is wisely managed. Initially, he proposes a maximum individual payment of $1,000 a year.

The Senate already has passed a compromise measure that would rebate money to workers according to the number of years they have paid taxes and would distribute dividends from the Permanent Fund to non-taxpayers and taxpayers alike. The maximum dividend at first would be $200 a year. The House has approved a somewhat similar combination plan; the maximum dividend would be $350. The differences now are being resolved by a special Senate-House committee.

Through all the deliberations run two undercurrents of worry. One is that the state's wealth will attract the attention of Washington bureaucrats who will find a way to get their hands on some of it.

The other concern is the fate of Alaska's cherished frontier life style. "That's the greatest single concern of the governor and the legislature," one House leader says. "Life here is going to change. We're definitely going to accelerate development and population growth."

WILLIAM S. MORRIS III—PRESIDENT and PUBLISHER
JEFFREY A. WILSON—GENERAL MANAGER

CARL SAMPSON Managing Editor
FRED HOWARD Circulation Manager
TOM BLUMENSHINE Production Manager

Politics of the economy

Their family budgets stretched to the breaking point, Americans are reaching out for any possibility of hope for combating the spiraling ..flation rate.

That conclusion can easily be drawn from the results of Tuesday's Democratic primary in Pennsylvania. President Carter, once perceived as unbeatable because of his struggle with the Iranian crisis, was narrowly defeated in Pennsylvania by a foundering Sen. Edward Kennedy.

How did Sen. Kennedy manage to force Mr. Carter and his "motherhood and apple pie" appeal to step aside? Easy. For months, the Massachusetts liberal has been hammering away at the sad state of the nation's economy.

Sen. Kennedy makes little or no mention of foreign policy or even social issues, which have provided him with his political bread and butter through the years. All he is saying is the economy is in trouble and President Carter is doing nothing to save it. At this point, that statement alone seems to be carrying his campaign.

That strategy worked in New York; it worked in Connecticut; and Tuesday it worked in Pennsylvania.

Concern about the economy is not confined to Democrats, though. On the Republican side, Ronald Reagan has been sounding the alarm for more than a year. The handling of the economy has taken precedence over any other issue in Mr. Reagan's repertoire. George Bush, the other maior Republican contender, has not concentrated in economic issues and has found himself slipping from the spotlight.

It is economics, not defense or foreign politics, which will dictate the winner of this year's nominations in the two major parties. And that is a good sign, because of the U.S. can't get its economic house in order, little hope can be held for the other areas of government that also require attention. It is the economy which provides the fuel for all aspects of the society. If the economy is ill, it affects the other sectors as well.

Any president whose administration has seen the inflation rate leap from single-digit figures to almost 20 percent is in deep trouble. In deeper trouble yet, however, are the people of the nation who must pay the price of runaway inflation.

Propped up mainly by a hope of stopping the serious inflation devastating the economy, challengers to the president are succeeding in winning the support of the people.

At least the challengers offer hope for better things to come. President Carter and his track record, however, offer no hope for improvement.

By Rocky Pomerance

DEAR CHIEF — My daughter loves rock music.

But I have been afraid to let her go to concerts since that tragedy in Cincinnati where youngsters were crushed to death trying to get into the hall.

She says I am overreacting. Am I?

DEAR READER — Your concern is valid if the concert has no reserved seats and if too few policemen and ushers trained in crowd control are on duty.

Many rock concerts, unfortunately, attract drug pushers who turn musical events into supermarkets for pills and pot. Drug users don't act rationally, which contributes to the danger at these events.

Help the majority of clean-cut youngsters to enjoy music by supporting police effor suppress drug traffickin such events.

Incidentally, crowd-co workers sometimes con trate only on exits. They satisfied when there enough safe ways to lea concert hall.

But entrance access is as important. When t aren't enough safe, prop manned entrances to an a torium, you get dange crowd congestion as pe behind push into narro restricted access ramps.

DEAR CHIEF — I am v ried by the sliding glass d in my living room. What l ing precautions can I take?

DEAR READER — A s ple way to secure a slid glass door is to drill a do ward slanting hole thro the two frames where t overlap. Simply insert a or pin through both.

This prevents a burg from lifting the sliding d out of its tracks.

You should also drop a to-size broomstick on inside track. This keeps door from sliding, but you lift the broomstick ea

ROCKY POMERANCE, a nationally recognized authority on law enforcement, is the former police chief of Miami Beach, Fla., and the former president of the International Association of Chiefs of Police. He now heads his own security consulting firm.



Letters

State Loans

Dear Editor:

You've probably heard that if you "give a man a fish, he will have dinner for a night, but if you teach a man to fish, he will have dinner every night."

We have all, men and women, been given a fish in the form of the income tax repeal and the distribution bills, signed into law recently.

If the Legislature wishes us to dine every night, however, it might teach us to fish, metaphorically, by encouraging new business formation with a no-experience-required, no-collateral-required, business loan program, particularly with a partial loan forgiveness clause

of Alaska and in education in c state in supporting the tenets forth by the State Conference Families. The work of this bo represents a balanced view public opinion and reveals its to be consistent with t democratic spirit in which o society accomplishes change.

I strongly urge you to resist t attempts of a reactiona minority to prejudice you again this work, and I also urge you support our delegates to t White House Conference Families.

Your politics and mine diff somewhat, but the concern he is more ethical and philosophic than political. After watchi you conduct in office ove

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insisted refusal to put the money away for future use would be "immoral and irresponsible" and would show no regard for future generations' welfare.

After Freeman asked colleagues to support the bill or give him the benefit of the doubt and vote in favor, Reps. Nels Anderson, D-Dillingham; Leo Schaeffer, D-Kobuk; and Dick Randolph, L-Fairbanks, voted against the measure. Anderson changed his vote later.

He first voted in opposition "as a reminder simply that if we can sock away $900 million than we don't forget the people out there who have needs not met." He spoke of forgotten segments of the state, older Alaskans, jailed citizens with alcohol problems and poverty-stricken residents whom he said must be helped with the surplus money.

Randolph, the state's only Libertarian legislator, said he doesn't "believe government ought to have a surplus." He favored returning the $900 million to Alaska's 400,000 residents in $2,250 checks.

"We are pouring in concrete a massive, controlling government," Randolph said from the floor. "A few poeple like us or, worse, yet, like our bureaucratic friends, are going to have control of that money...Anything this Legislature can do, a future Legislature can undo."

Other legislators rose to the defense of the bill, including Rep. Pappy Moss, D-Delta Junction.

"You don't kill the cow to feast on beefsteak, because before long you're out of both meat and milk," Moss told the House.

Freeman noted that he was proud of the body for the support and said he couldn't claim all the credit for the bill. Reps. Brian Rogers, D-Fairbanks, and Joe McKinnon, D-Anchorage, had the same idea but Freeman drafted it first, he said.

Gardiner balks at state task force for gas line

ROXINNE ERVASTI
Associated Press Writer

House Speaker Terry Gardiner has balked at participating in a task force to oversee state negotiations on the proposed natural gas pipeline, saying the state may be moving too quickly toward a financial commitment.

The task force, appointed by Gov. Jay Hammond, met here for the first time Wednesday. Members agreed to invite North Slope Borough Mayor Eben Hopson to participate, and to ask the Legislature for $1.1 million to hire engineers and consultants to advise them.

Gardiner, who was asked by the governor to be a member or to designate someone in his place, and Rep. Bill Miles, the other House [illegible]

Hammond said it was important for the state to have input in a proposed "letter of intent" on those roles to ensure development of a petrochemical industry in the state.

Hammond said that if "we achieve language that will make it attractive for us to participate further, it will obligate the state's participation, only to the extent that we agree with the overall design of the line and the conditioning plant and the financing structure."

He said the Legislature would have the ultimate say on whether the state helps pay for the conditioning plant, now estimated to cost $3.5 billion.

Gardiner said he was confused. "Why do we want to sign a letter of intent when it is not binding?" he asked. "It would seem that [illegible]

why this new task force can't continue to work with the House and Senate on the issue. There is no reason for the new taskforce to takeover," Gardiner said.

Gardiner also said he had not been [illegible] torily assured that a feasibility study on building a gas liquids line, something [illegible] from the gasline itself, would be [illegible] The committee in its budget [illegible] alloted funds for [illegible] the feasibility and [illegible] quids line.

Gardiner [illegible] task force's [illegible]

SOUTHEAST
ALASKA
The Capital City's Daily
VOL. 74 NO. 22 THURSDAY, JANUARY

House puts $900 million

By LAURA ZAHN
Empire Staff Reporter

The state House of Representatives this morning voted overwhelmingly in favor of making what the sponsor said is the largest single appropriation in the state's history.

On a 38-2 vote, the body approved an amended HB 509, originally sponsored by Ketchikan Democrat Oral Freeman, which will put $900 million of the state's oil-generated revenue into the Permanent Fund.

Before the bill reached the House floor, however, it was amended to stipulate that SB 161, which sets up a management structure for the fund, must be passed before the appropriation can be made.

Freeman's bill had 23 co-sponsors days after it was introduced Jan. 14. He praised the House Finance and Rules committees for moving it quickly and bringing it to a vote today.

In a long and emotional floor speech, after which Freeman received applause from his colleagues, he explained he picked the $900 million figure as a symbolic tribute to the same amount legislators spent 10 years ago after the Prudhoe Bay bonanza.

"We did not blow that money," he said, calling those who say legislators wasted it "terribly unfair." The money was spent on fulfilling some of the the state's needs, as directed by constituents, he said.

"We now have another opportunity...Some of the state's needs have been taken care of, but not all of them. We can take care of all of the needs of this state and still have money left over," Freeman said about surplus oil money, which has been projected as high as $4 billion.

Explaining that $900 million was "a lot of money" — so much that it would stretch 113.4 miles in $1 bills placed end to end — Freeman insisted refus
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Permanent fund showdown!

Anchorage Daily News 1/30/80

By JOHN GREELY
Daily News reporter

JUNEAU — Taxpayers looking for relief, businessmen and homeowners looking for loans, and politicians looking for an election-year issue all soon will be watching six men here.

The six, all legislators assigned a difficult set of negotiations, walked into the spotlight Tuesday when the Senate voted to end a three-year stalemate over the fate of the Alaska Permanent Fund.

At least, the Senate agreed to sit down in formal negotiations over the issue with the House. If those talks are successful, Alaskans may know just what form the chief political promises of the 1980 session — tax cuts and expanded loan programs — will take.

In turn, the Senate's vote Tuesday freed House leaders to push their plan for appropriating immediately $900 million of the state's huge treasury surplus to the voter-created permanent fund. A vote on that appropriation, already endorsed by two dozen legislators, may come later this week.

That bill would bulge the principal of the permanent fund to more than $1 billion. From that, interest earnings of more than $100 million a year could be used for tax credits, direct dividend payments to residents or a host of other ideas being hatched by lawmakers here.

House Speaker Terry Gardiner told The Daily News his chamber was reluctant to vote on the $900 million appropriation until the Senate made its intentions known on the fate of permanent fund negotiations.

"We didn't want to put any more pressure than necessary on them (senators)," Gardiner said.

But, in a move that could put some political pressure on both houses, Gardiner and others

See Back Page, SHOWDOWN

Showdown

Continued

were preparing an amendment that sets one condition on the $900 million set-aside. That is, the money would not be put into the fund until lawmakers agree on an investment scheme for the fund's earnings.

A conservative approach to investing the interest money, one favored by the House, was rejected by the Senate on a 12-7 vote Tuesday. The bill, pending on the Senate floor since last May, now goes to a conference committee of six legislators for final negotiations.

Sen. George Hohman, D-Bethel, who is expected to be one of three senators appointed to the conference, said he opposed the House bill because it amounts to "locking up the permanent fund."

The bill "reflects a lack of confidence in Alaskans and Alaska businessmen," Hohman said.

The influential Hohman made his comments to reporters while unveiling a new public opinion poll commissioned by the Legislative Council he chairs. In part, the poll shows, a majority of Alaskans favor expanded state loan programs to offset higher interest rates, create jobs and avoid perceived negative effects of d-2 lands legislation.

"People are telling us they want loan programs to develop our renewable resources," Hohman said. "If we don't, our major resources won't be owned by Alaskans ... It's a question of using all the tools we have, and the permanent fund is part of that."

Hohman's plan for the permanent fund, embodied in SB1, calls for earnings to be used as "leverage" for buying revenue bonds, which would be turned into a source of loan capital and guarantees for municipal bonding.

That latter guarantee provision has sparked opposition to SB1 in both houses. Many observers here believe the measure never has come to a vote because Hohman lacks a majority favoring it in the Senate.

This predicament was hinted at Tuesday by Sen. Arliss Sturgulewski, R-Anchorage, who told her colleagues on the floor that "we are creating a bargaining team (on the permanent fund) that will speak for us when we have not given them directions (by passing a bill)."

On the House side, meanwhile, Rep. Hugh Malone, D-Kenai, was named chairman of the delegation.

Malone said Tuesday the first item for debate in the conference would be whether to spend any interest money at all.

"There was no point in creating the permanent fund, if it's going to perform the same function as the general fund," Malone said in an interview.

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Sen. Hohman's revenue plan

SEN. GEORGE HOHMAN, the influential Democratic legislator from Bethel, merits some kind of special award. He's come forward — through the unveiling of his long-nourished plan of how the state should use revenue from the permanent fund — with what may be the biggest spending bill ever introduced by a single legislator in Juneau.

Under terms of Mr. Hohman's bill, just about anybody could get a big state loan for any purpose whatever — assuming, of course, there is any money left to lend after the state met other provisions of the senator's legislation.

The loans to individuals and businesses presumably are optional under Mr. Hohman's bill. But he would make it mandatory that the state make loans of up to $5 million whenever asked to do so by towns under 5,000 population or by non-profit corporations. It also would be mandatory for the state to buy bonds at 6 percent interest from any community with less than 5,000 population if there were no other purchasers standing in line.

So much for the permanent fund.

Power of community councils

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"America's Farthest North Daily Newspaper"

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FAIRBANKS, ALASKA, SATURDAY, JANUARY 26, 1980

Permanent fund use said

TOP PRIORITY

House-Senate panel to get bill next week

By JEAN KIZER
Associated Press Writer

JUNEAU—House and Senate leaders outlined their priorities for the 1980 session Friday, and two common goals were scrawled on both lists—a decision on management of the permanent fund and accelerated capital construction.

And in a surprise move, Senate President Clem Tillion said the Senate will send the permanent fund issue to a House-Senate free conference committee next week, an action the Senate previously has refused to take.

"I feel confident the permanent fund will be decided this year, well before the end of the session," Tillion said. "I think everybody is willing to sit down to negotiate."

If so, the negotiations could remove what most legislators see as the major stumbling block to a logjam of priority legislation in both chambers.

After extensive hearings on how the state's multi-million dollar permanent fund should be invested, the House last session approved a management plan and sent it over to the Senate.

But the Senate, whose approach to the permanent fund differs widely from that of the House, refused to vote on the issue or send it to a free conference committee where a compromise bill could be negotiated.

In addition to resolution of a management plan for the permanent fund, both House and Senate leaders said accelerated capital construction spending is a top priority this session.

"Capital improvements shouldn't just be frivolous projects," House Finance Chairman Russ Meekins, D-Anchorage, said, but should meet state needs. Most of the construction money will go to improve the state's transportation system, Tillion and Meekins said.

The other major Senate priority is passage of pay raises for state employees, many of whom have not received pay hikes for several years, Tillion said.

But House leaders said they have several other priorities aimed at assuring "individual Alaskans see some benefits for the utilization of Alaska's resources," Gardiner said.

Faced with the prospect of several billion dollars of surplus money in the state treasury by the end of next year, the House leadership met several times prior to the session to develop an overall plan for using the surplus wisely, with the goal of bettering the quality of life in Alaska, Gardiner said.

"We want to be careful we don't go on a big spending spree," he said.

House leaders outlined a three-pronged approach: invest a substantial part of the surplus funds, spend some to meet demonstrated needs, and distribute a share of the money to Alaskans through some sort of tax relief.

House leaders said the capital move may well be a priority of several individual lawmakers, but that it is not a priority of the Democratic leadership. Gardiner also said he did not consider state participation in financing of the gasline a top priority.

"No good ideas have been proposed yet," he said.

Here are the priorities House Democratics listed:

- Decide on a management plan for the permanent fund. House leaders said they also will push for a bill to deposit $900 million in excess revenue into the fund next year in addition to the oil revenues required by law to go into the fund. The bill is expected to come up for a floor vote next week.
- Beef-up the state's loan programs.
- Adopt a comprehensive energy package that would include creation of an Alaskan Energy Research Institute. House leaders said the institute should be well funded and would delve into areas such as how to increase oil recovery. House leaders said they see

(See FUND, page 3)

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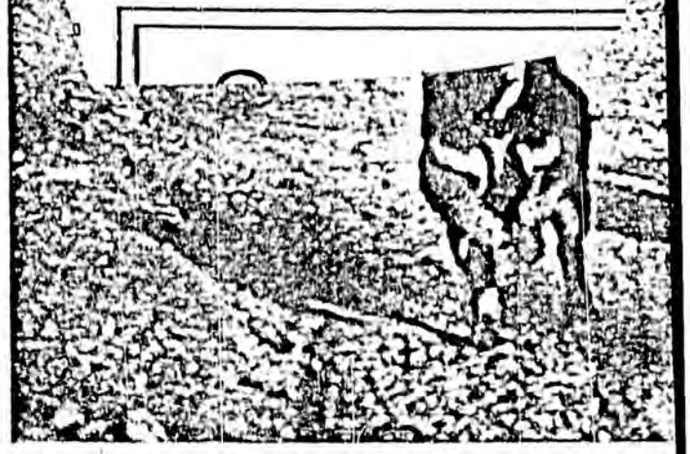
FUND . . .

(Continued from page 1)

the institute as a way to demonstrate to the nation that Alaska can use its oil revenues responsibly.

- Provide tax relief for state residents. House leaders said they don't favor a repeal of the state personal income tax, but definitely support tax relief of some kind.
- Increase capital construction spending, mostly for improvements to the state transportation system.
- Approve an accelerated Native Claims Settlement payment of more than $300 million.
- Fund specific economic development projects icluding the Delta Barley Project, a new dairy farming project in the Pt. McKenzie area of the Matanuska-Susitna Borough, and bottomfish development.



TROUBLE ON THE TRAIL—The lead dog and two others took off leaving owner Steve Peek behind Friday, moments after starting what was to be a recreational outing. The tether line broke during acceleration. "I guess the dogs chewed the

Olympic panel asked to m

COLORADO SPRINGS, Colo. (AP)— He said, "I ...

Alaska must save for future

Anchorage residents will receive a double blessing as tax time rolls around next year. Municipal officials have handed most homeowners a reduced property tax rate to tuck in alongside the state income tax elimination.

For the first time since borough-city unification, the average homeowner will find a tax bill smaller than the year before. Not only has the mill rate gone down — which has happened before — but increases in appraisals have also been trimmed. That happy combination will add up to dollars and cents for taxpayers.

As much of the nation slips inexorably into recession, Alaska stands in sharp contrast. The state spending fueled by oil tax wealth should contribute mightily to the economy here. Personal spending also will climb as residents dispose of their rebated state taxes and bonus checks. So far as economic matters can ever be predicted, the indications are that Alaska stands to fare far better than our sister states.

That fact will not be overlooked. Indeed, it has already sparked comment from presidential candidate John Anderson, who suggested recently that the eight states with significant oil wealth must be required to share that income with other states. His undefined call for redistribution of state revenues is a clear harbinger.

Congress also will take careful note of Alaska's finances. Traditionally a consumer of government wealth, not a producer, Alaska has benefited greatly from federal spending here. In 1977, the most recent year for which figures are available, federal spending here amounted to $4,389 per person — far higher than the national average. In California, for example, 1977 federal spending totaled $2,223 per capita.

State requests for special consideration are likely to fall on increasingly deaf ears in the Capitol now, however. Already, alarms have been sounded.

That probably means Alaska will have to shoulder more of its own burden. Thankfully, we have the resources to do so, but it remains to be seen whether we have the wisdom.

Certainly a mad spending rush, allocating nearly all our revenues for immediate projects, won't serve us into the future. The permanent fund, a nest egg account, is our perfect vehicle. Keeping in mind that we're about to be kicked out of the federal nest, we should plan now to ensure a continued source of income for the future — one that can keep benefits like the tax reductions coming for Alaskans in the future.

forum

"THROWING AWAY MONEY WAS THE PRICE NECESSARY TO GET THE GOOD BILLS" —CLEM TILLION



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Peter Ble

one bit of inaccurate infor tion which I wish to note your readers. The Decem 1979 meeting on adoption Anchorage did not pass a r lution on limiting private a tions. The matter was u discussion as resolutions w being approved, but a con sion was never reached on issue.

My apology to the par at the meeting for notes.

dia Klein

and income-tax revenues are halved from the expected $6.3 billion to no more than $3 billion, the surplus could cushion the shock for the first year at least. The blow would probably be greater the second year and the third. The trick for those opposing proposition 9 is to get voters to look that far down the road.

The bankrupt and the billionaire

Alabama and Alaska rub shoulders in any alphabetical list of the states. But geographically they are about as far apart as any two states can be. And financially they stand at the two extremes, one a billionaire, the other near bankruptcy.

Alaska is afloat on a golden sea of petrodollars, now that the domestic price of oil is being deregulated to keep in step with the prices charged by Opec. In the fiscal year that begins on June 30th the state, which levies taxes amounting to 25% on the wellhead price, expects to have a surplus of $3 billion after paying all the costs of government. This is expected to rise to $8 billion in 1991, bringing its total surplus to over $50 billion in a decade.

The state has chosen to return much of this wealth to individuals, to spend as they wish. First to go is the income tax; anyone who has paid taxes for three years is to be forgiven his 1979 tax and to be exempt in the future (recent arrivals will have to wait three years for their reward). But to include people with low incomes, who do not pay income tax, there is to be a dividend of $50 a year for each year spent in Alaska since it became a state in 1959. And this dividend should rise year by year because it will be paid out of the earnings on the Permanent Fund, which was established to make sure that Alaska has money put by from its present bonanza when the oil runs out.

One of the more frivolous suggestions about what to do with the state's wealth was to "adopt" New York city. Alabama may be needier, though not necessarily more deserving. The state government is running out of cash and it seems all too likely that the elderly, the sick, poor and prisoners (whose prisons are still under court-ordered receivership because of appalling conditions) will have to pay the price. By June 1st Alabama has to find $70m to pay the state's contribution to the cost of Medicaid. Failure to find this money would mean losing the $210m in matching money that comes from the federal treasury. And this could lead to the eviction of many elderly poor people from nursing homes where their bills are met from Medicaid. The governor, Mr Fob James, is talking about putting a ceiling on the amount that the state will pay towards the medical expenses of the poor in general.

Even in Alabama the blame is being put at the door of Governor James's predecessor, Mr George Wallace. He had the power to modernise the state's tax system, in step with other southern states. But he was philosophically opposed to the growth of government and, instead, kept income taxes low: no Alabamian, no matter how rich, pays more than 5%. The 7% sales tax, which hits poor people because it applies to food and medicine, brings in almost twice as much revenue as the individual income tax, and corporation taxes are laughably low. Worse still, under Alabama's constitution, any new tax or increase in taxes must first be submitted to a popular referendum. It will be the last straw if congress decides to eliminate revenue-sharing for the states; this would cost Alabama $35m a year.

Indians

Preparing to meet new raiders

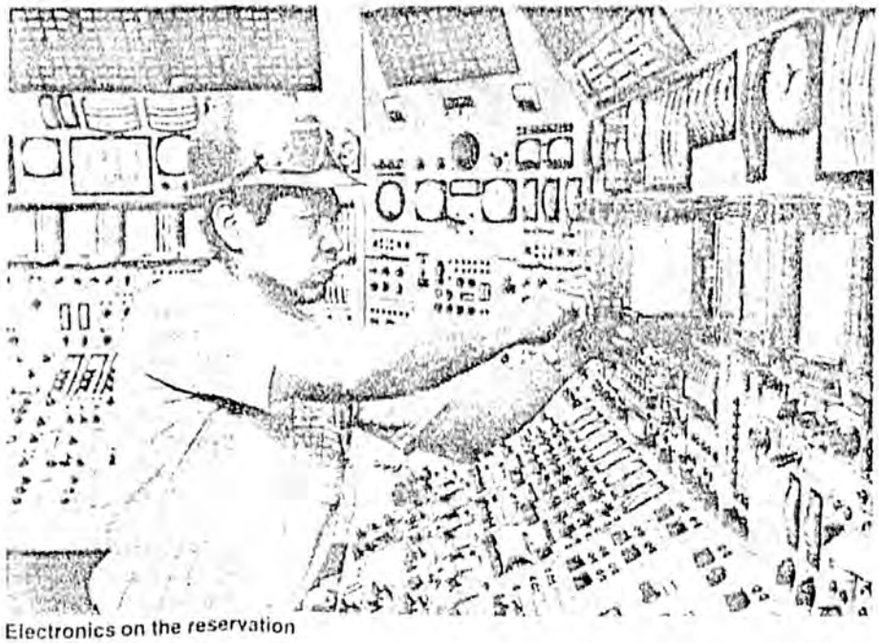
FROM A SPECIAL CORRESPONDENT

Most of the original inhabitants of the United States, the Indians, have long been resigned to life on lands that are agriculturally poor. And the federal government—perhaps out of guilt, perhaps out of knowledge that the revenues to be had were not great—has never tried to tax the produce of these reservations. Quite right, too, say the Indians, for, as they see it, the terms of their forefathers' treaties with the United States give the government no right to levy such taxes. But that view is now being challenged, for the oil, gas, coal and uranium that lie beneath the impoverished soil of many Indian lands have aroused the interest of an energy-hungry white world and of its representatives in congress.

The tribes have managed to escape the windfall profits tax: oil from Indian lands will not be taxed. Yet contests of every sort continue, from the forests of Maine and New York to the salmon rivers of the far north-west, between the tribes and the federal government, or state governments, or private interests of the white world.

Many of the tribes are in a poor position to sustain such contests. Their tribal governments are in disarray because of a generation gap between the elders of the council and younger men; there are divisions between members who want to continue the tribes' traditional way of life and those who want a connection with the money economy of modern America; and there are disagreements between the tribes and governmental agencies of the United States. Since tribal governments rely on an unspoken consensus in deciding what to do, opposition groups and individuals acting in the name but without the authority of their tribe can cause complications.

Although, like other minorities, Indians try to secure passage of favourable legislation, testify before congressional committees and seek support at the White House, their main reliance is on litigation, and it has brought many of their recent successes. But there is dis-



Electronics on the reservation

EDITORIAL PAGE

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

No Credit Card

REP. CLARK GRUENING hit the nail on the head the other day when he responded to criticism that the permanent fund bill backed by his committee wouldn't provide enough loan money for Alaska projects.

He said if all the good things a permanent fund could finance were added up, 20 funds the size of Alaska's couldn't pay for them. His message strikes what is becoming the key question involving the permanent fund.

As legislators take up three different bills setting up the fund's management and use, the thorniest problem to surface is how much of it will be treated as a nestegg and how much as a development loan fund.

The bill written by Rep. Gruening's special House committee would keep the loan fund relatively small — $100 million. The Senate's version indirectly would make virtually all the fund's income available for lending, and the Hammond administration's bill stands about in the middle of those two ends of the spectrum.

AT THE HEART of the issue is the question of what Alaskans want the permanent fund to be and what role it should play in the state's economy.

When voters approved a constitutional amendment for the fund in 1976, the idea was that the fund would be a nestegg to save part of Alaska's oil wealth for the future. Money in the fund was to be invested, and revenue from those investments would be free for other uses, one of which would be to pay general operating expenses of state government.

That was a good idea then and it's a good idea now. But things are getting complicated in Juneau.

The fact that the House committee's plan has come under fire for leaving too little available for loans within the state implies that some politicians see the fund as more than a nestegg. Some apparently want it to be a cornucopia of money to finance just about anything Alaskans' hearts desire.

THAT MIGHT sound good at first, but a realistic second hearing brings up drawbacks Alaska should avoid.

A fund of billions for lending at least indirectly at state discretion would open the gates for a whole new governmental intrusion into the private economy of Alaska.

Political influence on use of the permanent fund could become a severe problem. Easy money for community development projects could send local governments on a spending spree taxpayers would regret later. The state government could become a creditor to thousands of individual Alaskans.

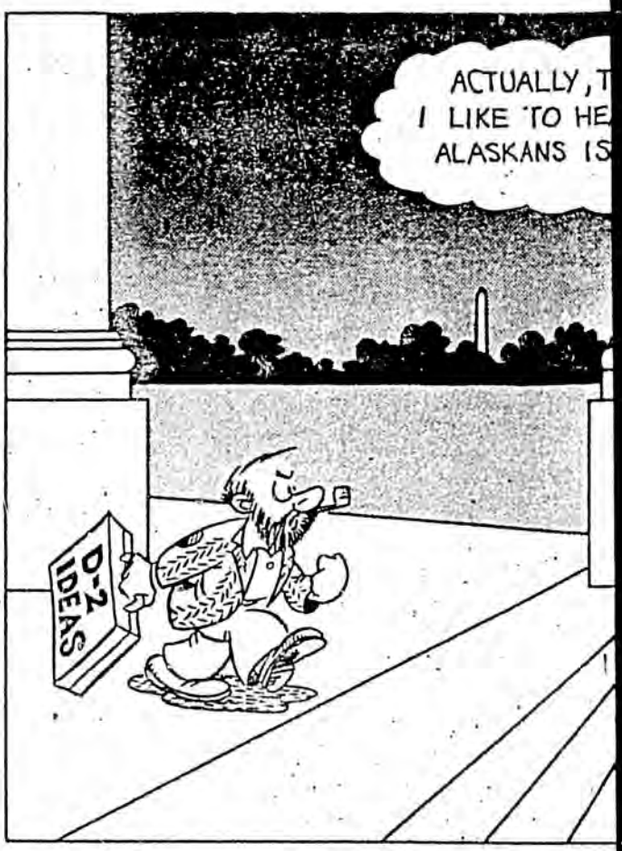
Restricting most of the premanent fund to securities and other tight investments — the conventional nestegg idea — while leaving a relatively small portion for direct loans appears to be a reasonable way to avoid these pitfalls.

After all, Alaskans didn't vote in 1976 to convert oil wealth into a credit card loan fund for themselves. They voted to cache it for the future to avoid losing it in a spending spree such as the one that devoured the $900 million Alaska received in the Prudhoe Bay oil lease sale.

That goal should be kept in mind as legislators consider bills setting up management and uses of the fund.

Soviets Think Big

THE TRANS-ALASKA pipe- their propaganda and the term



POLITICS TO



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RALEIGH, N.C. — A month ago, when Democratic Gov. James Hunt went on statewide television to announce his decision on pleas to pardon the Wilmington 10, the national news media flocked to Raleigh to cover the event. And when Hunt refused to grant the pardons, agreeing instead only to shorten the prisoners' sentences by about one-third, a storm of protest from around the world descended on him.

In a large sense, Hunt had fellow Democrat and fellow Southerner Jimmy Carter to thank for the phenomenon. Carter's much-heralded human rights initiative targeted at other countries inevitably led the Soviet Union and other nations to point their fingers at this most celebrated American human rights case. While Hunt deliberated on what to do, and after he had decided, Carter stood aloof, declining to equate the Wilmington 10 with examples of political oppression abroad.

But now, in the aftermath of Hunt's decision, all evidence suggests that at least for the short term, and here in North Carolina, Hunt is coming up smelling like a rose. A statewide poll just conducted by the University of North Carolina for television channel WBTV in Charlotte shows 52 percent of 707 persons interviewed agreed with his decision, to 21 percent who would have preferred that he not intercede at all and only 12 percent who favored pardons or further reduced sentences.

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JUNEAU, ALASKA

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YOUR STRENGTH, PERSISTENCE, GUIDANCE AND STATESMANSHIP
IS RESPONSIBLE FOR CREATING THIS HISTORY-MAKING LEGACY.

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Briefly

Alaska

Court upholds rape sentence

By The Associated Press

The Alaska Supreme Court has called rape "a most serious offense warranting a significant punishment" in its decision to uphold a Sitka judge's sentence of 15 years for a man who pleaded no contest to a rape charge.

In an opinion issued on Thursday, justices said the sentence by Judge Duane Craske for Paul Kenneth Tate was not excessive.

Tate was accused of raping a woman in what was characterized as a robbery and justices noted that he has a long record of anti-social behavior.

Fishing training funds OK'd

By The Associated Press

The governor's office has made about $49,000 available to finance a herring gillnet training program for villagers in the Bristol Bay area.

Gov. Jay Hammond said in a press release that his bottomfish coordinator is assisting the University of Alaska's Sea Grant program in the project, which is intended to assist residents of 26 villages in entering the herring fishery that opens April 15.

The program is intended to train Bering Sea residents in the technology of herring gear construction and techniques of herring fishing.

Hohman: Invest in oil

ANCHORAGE (AP) — State Sen. George Hohman, D-Bethel, is drafting a bill he says will offer the state better protection against skyrocketing inflation than the investment of cash surpluses in the Alaska Permanent Fund.

The bill would allow the state to invest up to $900 million in oil, some of which would be kept in the ground, Hohman said.

He said the program would encourage independent oil companies to explore in Alaska and thereby stimulate the state's sagging economy.

DEC gets remaining $2 million

By The Associated Press

The House has appropriated the remaining $2 million for the Department of Environmental Conservation's budget for the year ending June 30.

The funds had been withheld last year because of concerns by some legislators, Rep. Oral Freeman, D-Ketchikan, among them, that the DEC was thwarting legislative intent by overly stressing implementation of some regulations.

At issue was the agency's refusal to approve a subdivison of state lands proposed to be disposed in the Ketchikan area, but Freeman relented on his insistence that the DEC's budget be "short-funded" after an agreement was worked out to pay for sewage disposal with some state funds.

Land lawsuit 'last resort'

By The Associated Press

Gov. Jay Hammond said a lawsuit may be the "last and only resort" available to the state in overturning Carter administration actions to protect federal lands in the state.

Hammond said at a press conference on Thursday that the state is now taking depositions from federal officials in its suit challenging the authority of Carter and Interior Secretary Cecil Andrus to with-

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By The Ass

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Permanent fund management plan top priority for Miller this year

By CHUCK KLEESCHULTE
Empire Assistant Editor

Lawmakers this session must find a compromise solution for managing the state Permanent Fund, Lt. Gov. Terry Miller says.

Miller, who will concentrate this session on passage of a permanent management system for the fund, says the issue is too important to be delayed further.

"We've had very different philosophies at work in the past on how the fund should be managed and invested. But we have enough money going into the fund now where we have to reach an agreement this session," Miller said last week.

As lawmakers today opened the last session of the 11th Alaska Legislature, discussion of the fate of the state's giant trust account, created by voters in 1976, appears near the top of legislative agendas.

The House last April approved its version of a management bill which would place 25 percent of current mineral lease money, mostly from Cook Inlet and Prudhoe Bay, into the fund. The fund under the House bill would receive 50 percent of future lease revenues and 50 percent of all mineral lease bonuses.

The House plan calls for managing the fund in a conservative fashion with the money being invested in areas such as U.S. Government treasury bills, certificates of deposit and corporate grade debt rated "AA" or better.

The investments would be managed by a five-member independent trust board. The question of how earnings from the investment would be handled haven't yet been addressed by the House.

The Senate, meanwhile, has been expressing support for a more liberal investment policy of fund assets. State Sen. George Holman, D-Bethel, late last session proposed investing fund income in state loan programs and distributing some of the earnings through a tax credit program.

Gov. Jay Hammond has gone on record as favoring an increase in the percentage of lease funds funneled into the permanent fund—possibly up to 75 percent. Hammond also has backed a concept similar to the House bill that some portion of the fund go into an inviolate "trust" account to assure future residents a legacy of the state's oil wealth.

Miller last week said the administration is flexible on the specifics of some of its concepts for the fund. "There is some room to talk over the specifics. We should be able to reach agreement on a bill both houses can accept and one that will benefit the people of this state.

"The key is that we sit down and start working out the details." Miller said.

He said given the nation's current high inflation some liberalization in traditional money management practices is probably desirable for the fund.

He suggested that different percentages of the fund be allotted to different types of accounts, some money going to state loan programs, other funds slated for investment in high rated securities, still other funds going to a trust account and a small percentage to a resource-development loan bank. He said R&D funds could be used

Continued on Page 2

Permanent fund...

Continued from Page 1

to further projects such as community hydroelectric plants.

Miller said the legislature and administration need to be aware of the most recent advances in money management in drafting the permanent fund and use sophisticated management techniques. He added that lawmakers especially must stress money management, rather than simple spending in taking up consideration of the fund this year.

"We need to adopt a spending pattern which will not cause us to lose our revenue. In 1970 after the '69 lease sales we adopted a spending pattern which held through the decade, a pattern of accelerated government growth. The 1980 legislature must be careful not to adopt a similar spending pattern this year," Miller said.

Hohman's Q+A

QUESTIONS AND ANSWERS CONCERNING ALASKA'S PERMANENT FUND & G F

Q. What exactly is the Permanent Fund?

A. In November 1976, Alaskans approved a constitutional amendment which requires that at least 25% of all income from oil and gas royalties, leases, rentals, sales, etc. be placed in a fund which cannot be appropriated for government expenses. The fund must be invested in income producing investments specifically designated by law. This fund has become known as the "Permanent Fund". About 7 out of every 8 state oil dollars actually go to the G F

Q. How much money is presently in the Fund, and how much money will be placed in the Fund in the future?

A. As of November 30, 1979, there was 200,189,000 dollars in the Fund. As for the future, it is not known exactly how much money will be placed in the Fund because of numerous variables. Some of these variables include: (a) Whether or not the legislature appropriates addidional money to the Fund; (b) whether or not water source injection is used to extract oil from the North Slope; (c) whether or not a natural gasline will be built and the date of its completion; (d) the dates, times and success of various techniques which increase the oil yield from the Prudhoe Bay reserves; (e) the well head price of oil; and (f) miscellaneous expenses such as increase in tariffs, increase of moneys used to produce the oil, inflation, and other factors which cannot be accounted for with any amount of great detail.

Keeping in mind these variables, it is still helpful to look at some of the projections which have been made by the Department of Revenue, and by the Legislative Finance Division. The Legislative Finance Division has computed an annual contribution rate to the Permanent Fund which

will create a Permanent Fund of 8.1 billion dollars by the year 1996. The State of Alaska Department of Revenue has projected that by the year 1996 the Permanent Fund will total the sum of 11.63 billion dollars. These figures are not adjusted for inflation. The Legislative Finance Division projected that in real dollars, (adjusting for inflation) the value of the Fund in 1996 would be 510.3 billion dollars.

Q. How is the money which is accumulating in the Permanent Fund presently being managed, and invested?

A. At present, the fund is being managed by the Department of Revenue, and is currently being invested according to the guidelines outlined in Alaska Statute 37.10.065, which limits investments to "safe" investments such as quality stocks, government insured obligations etc. Income earned by the Permanent Fund is currently being paid into the general fund and subject to appropriation by the legislature. As of November 30, 1979 the Permanent Fund had earned $8,514,037.95.

Q. What is the future of the Permanent Fund and its earnings?

A. The future management of the Permanent Fund and its earnings is the subject of great concern to all Alaskans. The legislature is attempting to work out an agreement which would be suitable to both the House and the Senate. At the present there are two proposals before the legislature. The House version is known as (SB 161) and the Senate version is known as (SB 1).

Q. What is the difference between SB 161 and SB 1?

A. The primary differences between the two proposals are: (a) Management of the Fund; (b) Investment of the Fund and (c) Investment of earnings from the Fund.

Q. Briefly explain these major differences.

A. Management of the Fund - SB 161 (the House version) would set up a non-profit corporation to be administered by a board of trustees. SB 1, (the Senate version) would allow the Department of Revenue, Division of Treasury (after some restructuring and reorganization) to continue management and investment of the Fund. The ability of the Department of Revenue to undertake the investment of the Fund was the subject of a study done by Lombard-Wall Incorporated, a New York management consultant firm. The consulting firm concluded that the Department of Revenue has the capability and expertise to manage such a Fund. Also, past experience with non-profit corporations such as ASHA, and the Renewable Resource Corporation has led the Senate to believe that the management of the Fund should not be done by a separate non-government entity.

Investment of the Permanent Fund

Both the Senate and House proposals would allow the managers of the Fund to invest the principal in: (a) Obligations insured by or guaranteed by the United States Government; (b) obligations secured by reserves paid in by the United States or agencies of the United States; (c) Federal Home Administration mortgages; (d) corporate debt securities differing only in the grade or rating applied to those securities by a nationally recognized rating service. There are no Alaskan corporations which presently trade on any of the recognized exchanges with any of the ratings provided for in either the House or Senate Bill. Consequently, all moneys invested in corporate securities would be invested outside the State of Alaska. The House Bill allows for short term corporate promissory notes of the highest rating assigned by nationally

recognized rating services; none of the short term corporate promissory notes in Alaska would meet this category.

The Senate version of the bill would also allow the principal of the Fund to be used for the purchase of conventional Alaskan residential mortgages, providing the original loaning institutuion retains a ¼ interest in the mortgage; and for the purchase of Alaskan commercial secured loans if the offering financial institution retains at least a 1/3 interest in the loan.

Summary of major differences regarding the investment of principal

The major difference in the investment of the principal of the Permanent Fund between the House and Senate Bill is the allowance for investment of Permanent Fund moneys within the State. If the House proposal were adopted, most of the principal of the Permanent Fund money would be invested outside the State because the only category within the House proposal which is a viable means for investing in the Alaskan economy is the purchase of the Government guarantee portion of Small Business Administration and Farmers Home Administration loans. The Senate Bill allows for the same investments as the House Bill plus the purchase of Alaskan residential mortgages and commercial loans. These investments place Permanent Fund money into the Alaskan economy.

Investment of Earnings from the Permanent Fund

The House proposal does not make any provision for the investment of earnings and leaves this to the discretion of future legislators. The Senate Bill however, sets out a comprehensive investment policy which is briefly outlined as follows:

(A) Bonding Program - Under the Senate Bill proposal the earnings from the Permanent Fund would be paid into an unallocated reserve account. One half of this unallocated reserve account would be used to guarantee revenue bonds from various tax exempt municipalities, boroughs, and other entities throughout the State in order to make the bonds from these various areas marketable. The end result of this program would be an increase of the earnings of the Fund by leveraging the amounts to create a market outside Alaska for the purchase of the bonds. In this manner, for every million of Alaska dollars earned from the Permanent Fund, the State could guarantee and make marketable 10 million dollars (outside money) in bonds. It is projected that the earnings from the Fund would be sufficient to guarantee and make marketable all of the future bond needs for the State of Alaska to enable Alaskan communities to meet capital expenses in excess of the rate currently provided for through the current method of funding capital improvement projects. It is the intent of the Senate to use these bonds to create funding for the development of renewable resources in order to prevent investment from outside investors such as foreign countries. In this manner Alaskans will own and develop Alaska's renewable resources such as fish, timber, and agriculture.

(B) Revenue from Bonds - Bond revenues would be paid back to the Alaska loan programs fund which would provide revenue for all loan programs within the State. Consequently, all loans would be administered by one agency. The Senate Bill would increase the limits which presently exist in the area of student, residential and other loan areas to more realistically reflect current costs.

Q. Under the bonding program, would the State of Alaska be required to purchase bonds?

A. Only in rare instances. For municipalities of less than 5,000 people, the Commissioner of the Department of Revenue would have to submit a competitive bid in order to create a market for these bonds. If no other person were to bid, the State would end up becoming the purchaser of these. However, there is very little risk to the State as these bonds, in order to be issued by the various municipalities would have been subject to local laws requiring voter approval. As such, the voters in the area where the bond would be issued would be the guarantors of the note. Also, if the municipality were to default, the Commissioner of the Department of Revenue would have the authority to deduct the delinquent amount from the States revenue sharing money earmarked for the municipality.

Q. Why is it important to determine the investment of the earned income from the Permanent Fund now, rather than at a future time?

A. The Alaskan economy is currently in a state of crisis, particularly in the area of small businesses. Therefore, it is imperative that the legislature act this session, to aid the small businessmen throughout Alaska. The adoption of SB 1 would create moneys for small businesses at low interest affordable rates which could be used not only to help out existing small businesses, but to generate new businesses particularly in the area of renewable resources. Moreover, the Senate plan has been carefully thought out and drafted to insure maximum utilization of income earned for the Fund. There is no need to wait for a future date to spend the earnings from the Fund.

Q. Why has it been so difficult for the House and Senate to agree on the management and investment of the Permanent Fund?

A. Probably, because of differences in political philosophy and a composite of misunderstandings in regard to the differences between the two Bills. It is the goal of every legislator whether he be a Representative or Senator to do the utmost to benefit Alaska. With this goal in mind, it would seem inescapable that SB 1 would be the most advantageous to Alaskans for the reasons outlined in this questionnaire. However, differing views and ideas are certainly encouraged and all thoughts in regard to the Permanent Fund and its investment should be analyzed before laying the foundations which will ultimately affect the future of Alaska. It would be beneficial to the legislature for persons to become informed and provide information in regard to the management and investment of the Permanent Fund. Positive feedback in the form of letters, telegrams, and participation in the upcoming video conferences is encouraged in order to get as much public input as possible. It is in this manner that the legislature can fulfill its mandate to act in the best interest of all Alaskans.

The Anchorage Times

City/State

Section B

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J. Tobin

laska's Legislature routinely the millions — or is it billions? sn't make much of an impres- hundred grand, and a little bit d it's no easy task to come by, akes home a weekly paycheck or an honest hour's work. And o be a small businessman try- al investment, to manufacture service to customers — and e a few jobs for working men

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nd one worth devoting some time s participants always call it) has he money it needs to finance next ates on May 15, which also coin- banquet. At that gala dinner af- cers and members of the various ather to salute this year's work — ir success, and to pay tribute to rd way that the world of private is bathed in red ink, as well as

Businessmen plead for loans

Associated Press

Juneau — Wearing badges proclaiming they are the "indignant survivors," 18 men and women in business pleaded with — and sometimes threatened — legislators to appropriate more money for low-cost loans.

The group traveled to Juneau at their own expense to counter a week-long parade of consultants that a House-Senate free conference committee on the permanent fund heard this week. Most of the consultants, hired by the administration or the House, told conferees that the permanent fund earnings should probably not be used to finance state loan programs.

The citizens' delegation here Friday included some persons who had been among an angry crowd that challenged Gov. Jay Hammond to get more loan money out last week in Anchorage.

Hammond on Friday announced the state will pump an additional $75 million into low-interest business loans, and declared a three-month moratorium on foreclosures on state business loans.

(Related Story, A-1)

Angie Kruckenberg, owner of OK Lumber in Fairbanks, led off the testimony with an emotional plea for 8 percent interest loans, and concluded to a round of applause.

"Let this money be used for the small businesses in Alaska at low interest," she said. "Turn it over and make money for us and make us one of the wealthiest countries in the world. We have the best people in the country here in Alaska, and they are ambitious. It makes me cry to see the billions of dollars going stateside to feather somebody else's nest."

Like many of the witnesss, she told the committee of her own financial problems, saying she and her husband came to Alaska in 1973, bought "nine acres of swamp" which they have filled in and created "probably one of the most updated lumber yards in Fairbanks."

She said they got into the lumber business to supply construction resulting from the trans-Alaska pipeline, but now are unable to purchase the necessary $1.5 million to $2 million inventory needed to survive. She said a $300,000 ceiling on personal loans is "peanuts."

"We want to put in a truss factory, but we had to spend everything we had to build a warehouse. What can you do with $300,000 (which she has borrowed from the state) except build a warehouse that might sit empty?

"We have people like myself who have ambitions, but we can't get the dollars to coincide with our equity," she complained, adding that her business is worth $7 million but she can't borrow against it.

Pat Stephan of Anchorage said that instead of allowing the free enterprise system to work, the government is running people out of busi-

(See LOANS, Page B-2)

Official enters plea of innocent

Associated Press

Juneau — Former state Department of Education transportation officer Greg Thies pleaded not guilty in Juneau Superior Court Friday to charges of embezzling public money.

Thies, 33, was arraigned on two charges of embezzling a total of $40,571.24 in money that was to have gone to the Anchorage and Lower Yukon school districts.

Thies was secretly indicted by a Juneau grand jury on March 6.

He was fired from the Department of Education last July for un-



Nuclear plant cleanup could trigger violence, say residents

Associated Press

Washington — Rioting could erupt if the Nuclear Regulatory Commission permits venting of radioactive gas from the damaged Three Mile Island nuclear plant, say community leaders from the site area.

Six persons, including a psychologist, a clergyman and a hospital administrator, told the NRC Friday that worry about radiation has already put thousands of people "on the edge" of violence.

The NRC met for about an hour with the spokesmen, who advised the commission that its wisest course might be to abandon plans to restore the stricken plant and close it forever.

"Hey, friend, we've had it. If there's violence, if there's an eruption of the population to do something untoward, then I say, friend, it's in your hands," said the Rev. William Vastine of New Cumberland, Pa.

"The greatest contribution you could make (to restore trust in the commission) is to close that plant," he added.

Those testifying reminded the commissioners of two confrontations earlier in the week when federal officials went to towns near the plant to explain venting procedures. The officials, some of whom were struck, were shouted down and cursed by angry residents.

"As a psychologist, I'm scared. Those meetings were rowdy. Unless people get a realistic feeling that they're in control of their lives again, their anger is going to be increasing," added Dr. Robert Colman of Harrisburg.

The NRC staff has recommended that some 57,000 curies of krypton gas be moved from the plant's reactor containment building so cleanup operations can begin at the facility, site of the worst accident in commercial nuclear history. Final action on the plan is expected early next month.

Three of the five commissioners, including Chairman John Ahearne, listened quietly as the panel of spokesmen took turns speaking.

The panel recommended that all five commissioners meet as soon as possible with residents and that a special citizens group be appointed to have final say on any cleanup plans. The panel also asked to meet with President Carter. Ahearne promised to do his best to fill the requests.

Officials from the Metropolitan Edison Co., operator and part owner of the plant, spoke briefly at the end of the ing. They said they would support the NRC's efforts to better inform residents around the plant of the cleanup operation.

Loans . . .

(Continued from Page B-1)

ness. He said his family owns Polar Realty, a tool rental company, the Stephan Fine Arts Gallery, a car body repair shop and a trucking company.

He said that in just six months, the interest rate on a $670,000 bank loan he holds has gone from $8,000 a month to $14,000 a month. A recent investment of $1.4 million on a building will be wasted, he added, "if tenants can't pay the rent and can't get loans for inventory.

"The building will rot," said Stephan, whose 16-year-oid son also asked for expanded state loans.

"Our trucking company is idle," Stephan continued. "The body shop is idle . . . people are not getting their cars fixed anymore because they need to keep the insurance checks. I've never seen such a rate of theft from the rental business. People will rent 10 chainsaws and turn around and sell them."

He said business people "need the government to get off our backs."

"The federal government created the problem, and the state won't help us out," said Stephan. "I'm scared to death you are going to spend all the money from the permanent fund before the people get a hold of it."

He also said loans are not "giveaway" programs. 'They're collateralized," he said.

A newcomer to the state, Ned Seibel, said he sold one-half of his electrical business Outside, "moved here, bought into an established firm, and have watched it go down the drain."

"I want to earn," Seibel said. "I want to make my own way. This money should be loaned to the people."

Ed Darby, manager of the Alaska Truck Center in Anchorage, said his firm is now carrying $1 million on the books because people can't get financing. "We're being forced more and more to finance the purchase of new trucks, and we're financing good loans, but they're at high interest, and as a result, we have to increase our prices to the consumer," he said.

Don Loesche of Totem Air, whose firm has applied for a state loan, said capital is available but at a price. "We've talked to E.F. Hutton (financiers) and they like our plan. They've found foreign money for us. But they want a 49 percent partnership.

"There are 3,200 homes in Anchorage vacant," he continued. "We need (the money out) to create jobs, so people can come and move into those homes."

Rep. Chat Chatterton told Loesche: "I am told that the Legislature is planning to appropriate money that will lead to the distribution of about $3 billion in the next 12 months, all in Alaska. Now how much more money would you want?"

The delegation said that was not the point. "How much more have you got?" asked Jack Johnson, the leader of the group.

He said the point was that the state will be rolling in billions of dollars of money that belongs to the people. "You're playing with our lives here," he said.

Johnson also said that there is strong support to recall Hammond and warned that legislators, too, might find themselves "recalled" after this fall's election.

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Associated Press

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TOKEN

Kenneth Taylor, left, formerly Canada's ambassador to Iran, holds up a key to New York City Friday after it was presented to him by New York Mayor Ed Koch. Taylor's wife, Dr.

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Arch. Times

Sen. Hohman's revenue plan

SEN. GEORGE HOHMAN, the influential Democratic legislator from Bethel, merits some kind of special award. He's come forward — through the unveiling of his long-nourished plan of how the state should use revenue from the permanent fund — with what may be the biggest spending bill ever introduced by a single legislator in Juneau.

Under terms of Mr. Hohman's bill, just about anybody could get a big state loan for any purpose whatever — assuming, of course, there is any money left to lend after the state met other provisions of the senator's legislation.

The loans to individuals and businesses presumably are optional under Mr. Hohman's bill. But he would make it mandatory that the state make loans of up to $5 million whenever asked to do so by towns under 5,000 population or by non-profit corporations. It also would be mandatory for the state to buy bonds at 6 percent interest from any community with less than 5,000 population if there were no other purchasers standing in line.

So much for the permanent fund.

Power of community councils

A NEW CIVIC awareness of the power and influence that a ... wield ...

attending a meeting of the Turnagain Community Council repre-

March 5, 1980

The Alaska Permanent Fund and Management of Alaska's Wealth

This information is provided by Representative Hugh Malone, chairman of the House Special Committee on the Permanent Fund and a member of the free conference committee on the Permanent Fund.

The Alaska Permanent Fund was established by the voters in 1976 to receive at least 25% of all mineral royalties and bonuses. What this means in real terms is that approximately one out of every eight dollars which the state receives in oil revenues is deposited in the Permanent Fund. The fund currently contains about $350 million and is earning interest of over 11%. It is being invested by the Department of Revenue under an interim management plan, and the earnings flow into the general fund. The legislature has yet to decide just how the Permanent Fund shall be invested and managed over the long-run. A free conference committee, of three House and three Senate members, is presently meeting in an attempt to reach agreement on Permanent Fund legislation.

Alaska today is in the unique position of having enough money to adequately provide governmental services; to construct needed capital projects; to eliminate the personal income tax, expand loan opportunities, and return a share of the oil wealth to Alaskans as dividends; and to save a portion of the wealth for the future. Although earnings of the Permanent Fund will never completely replace today's oil revenues, they can go a long way towards helping stabilize the Alaskan economy and reducing the need for personal income tax payments in the

future.

Q. What are the basic components of the House Permanent Fund bill (HCS for SB 161)?

A. The House bill focuses on the management of the Permanent Fund and addresses three major concerns-- safety of principal, accountability, and legislative oversight. The fund would be invested as a trust consisting of a wide variety of quality, high-grade investments. These investments have been described as "squeaky conservative." The House also decided that the fund, because of its fundamentally different goals, should not be invested by the same people who manage money for day-to-day use by the state-- the Department of Revenue-- but should be managed by a public corporation distinct from state government. The proposed Permanent Fund Corporation, with its own board of trustees, would be made accountable in several ways. The House bill also expands the powers and duties of the Legislative Budget and Audit Committee to oversee all lending and investment functions of the state, including those of the Permanent Fund Corporation.

Q. How much money would the House bill deposit into the Permanent Fund?

A. The House bill would raise the contribution level to the Permanent Fund from the current 25% to 50% of all bonuses, 25% of royalties from existing leases, and 50% of royalties from new leases. It's important to remember that 50% of bonuses and royalties actually means about 25% of all oil revenues, so that three-quarters of state revenues would still be going to the general fund for general governmental purposes.

Q. What would be the advantages of investing the Permanent Fund according to the House plan?

A. The Permanent Fund, if invested as an "inviolate trust," would be just as secure as possible and would return substantial earnings to Alaskans. Because the investments would be diversified and would not rise and fall with Alaska's economy, the earnings would be stable. In addition, the establishment of a secure trust would be a sign to the national financial community that Alaska is following a responsible fiscal policy. The passage of the House bill would not preclude aiding the state's economy in other ways as well. Loan programs, capital projects, tax repeals or refunds-- all these can be taken care of through the general fund.

Q. Under the House plan, what would happen to the fund's earnings?

A. The earnings would flow into the general fund, just as they do today. Future legislatures would still have the option of redirecting the earnings. Paying them as dividends to today's Alaskans is one idea.

Q. How does the Hohman bill (SB 1) differ from the House bill?

A. Senator Hohman's fill is an extremely long and complex one which deals only peripherally with the Permanent Fund. SB 1 provides for the elimination of existing loan programs and development authorities and the substitution of a new program combining all loan purposes. The loan program would be tied to the Permanent Fund by using the Permanent Fund earnings to guarantee revenue bonds to fund the loans. The Hohman bill also differs from the House bill in that its Permanent Fund investment list is much broader (and less secure), its contribu-

tion rate is set at 100% of bonuses and 25% of royalties, and the fund is managed by the Department of Revenue.

Q. What are the House objections to the Hohman bill?

A. The primary objection is that it is concerned much more with the state's loan programs than with the Permanent Fund, and that a free conference committee on the Permanent Fund is not the place to so drastically restructure the loan programs. SB 1 is extremely complex and, if implemented, would have far-reaching consequences for the state's economy and credit rating. Specific problems with the concept include 1) the earnings of the Permanent Fund are put at risk, 2) consolidation of the loan programs does not solve the existing problem of access to them, 3) the programs would receive automatic funding without legislative review, 4) there is no method of prioritization and the different loan programs could not be judged separately on their merits, and 4) municipalities would be encouraged to issue unrestricted debt.

Q. What does the House offer as an alternative to the loan program portion of SB 1?

A. The House Finance Committee is currently developing a package of loan bills which will address the needs of Alaskans for easily accessible and low-cost loans. Although the details are yet to be worked out, some consolidation will occur and loans will be made available for financing housing and businesses. Emphasis will be placed on ensuring that those people who most needs loans receive them. Interest rates will be reasonable. I feel confident that the House will pass comprehensive and responsible loan legislation within the

next several weeks. I might add that $35 million a month in state funds is right now available for Alaskan mortgages through HCR 33, sponsored by the House Finance Committee this session.

Q. What does the state's financial picture look like for the next few years?

A. The latest financial projections are very impressive. With the Permanent Fund receiving just 25% of royalties and bonuses and with the earnings being distributed to the public, at the end of 1982 we should have about $1.2 billion in the Permanent Fund and $6.7 billion in the general fund. Since, at current growth and inflation rates, $1.6 billion will be needed to meet the state budget, there will be over $5 billion <u>extra</u> in the general fund to be appropriated for whatever purposes the legislature desires. While the opportunities for spending money within the state are vast, the legislature also bears an unprecedented responsibility to manage Alaska's new wealth wisely. Setting a portion of it aside in a secure Permanent Fund should be one step in responding to that responsibility.

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tourism loans 33:7
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unallocated reserve account 12:10

value limitation 37:25
veterans 39

REPEALERS -- SB 1 (1980)

The following existing loan funds, authorities, and development corporations are effectively repealed by the current version of SB 1.

03.10 Agricultural Revolving Loan Fund
16.10 Commercial Fishing Revolving Loan Fund
16.10 Fisheries Enhancement Revolving Loan Fund
18.26 Alaska Medical Facility Authority
18.56 Alaska Housing Finance Corporation
18.100 Housing Development Revolving Loan Fund (allows grants only)
18.100 Senior Citizens Housing Development Fund (allows grants only)
26.15 Veterans Revolving Loan Fund
41.22 Outdoor Recreational, Open Space, and Historical Properties Development Fund
41.30 Area Redevelopment Revolving Loan Fund
44.33 Child Care Facility Revolving Loan Fund
44.33 Residential Care Facility Revolving Loan Fund
44.55 Alaska Gas Pipeline Financing Authority
44.56 Alaska Power Authority
44.58 Alaska Municipal Bond Bank Authority
44.59 Alaska State Development Corporation
44.60 Alaska Small Business Development Corporation
44.61 Alaska Industrial Development Corporation
45.86 Water Resources Revolving Loan Fund
45.88 Alternative Technology and Power Resources Revolving Loan Fund
45.90 Tourism Revolving Loan Fund
45.95 Small Business Revolving Loan Fund
45.98 Historical District Revolving Loan Fund

Existing funds and corporations which are not repealed by SB 1 are:

14.40 Scholarship Revolving Loan Fund (apparently an oversight)
14.40 Memorial Scholarship Revolving Loan Fund (apparent oversight)
44.47 Temperate Social Activities Revolving Loan Fund
44.56 Power Project Revolving Fund (an oversight?)
44.19 Disaster Relief Fund
37.11 Alaska Economic Disaster Impact Fund
37.12 Alaska Renewable Resources Corporation
44.54 Commercial Fishing and Agriculture Bank

NOTES ON PURPOSES, ORGANIZATION, MANAGEMENT AND REPORTING PROPOSALS IN SB 1

I. The Alaska Permanent Fund

A. Purposes

- A separate fund consisting of certain state mineral revenues.

- Used for income-producing investments which may include in-state investments that have a risk level and expected yield comparable to specified alternative investment opportunities and consistent with the prudent-man rule.

- Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely" (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of the English Language, 1976)

- Accumulate sufficient income in the Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources (Source: Joint Chairman's Report on CS SSHJR 39, March 24, 1976).

- Purpose of the income is to secure obligations of the proposed Alaska Loan Programs Fund.

B. Organization, Management and Reporting for the Principal (assets) of the Alaska Permanent Fund

- Policy decisions about permissible types and proportions of investments would be made by the legislature and contained in the statute.

- Operational decisions about specific investments would be taken by the Commissioner of Revenue and his staff.

- Commissioner of Revenue is appointed by the Governor, confirmed by the Legislature, and serves at the pleasure of the Governor.

- Annual operating budget subject to the Executive Budget Act.

- Quarterly and annual investment reports to the Legislative Budget and Audit Committee, Investment Oversight Division (proposed).

- Annual report to Governor, Legislature, and public.

II. The Alaska Loan Programs Fund

A. Purposes

- Use virtually all the State's financial resources, other than those required for normal operations of State government.

- Provide the lowest possible interest costs to Alaska borrowers, consistent with sound financial practices.

- Make available to all sectors of the Alaska economy loans including long-term financing.

- Establish a strong, single loan source.

- Make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector(s).

- Import capital to fund loans to the veterans, housing, commercial, public, non-profit, and education sectors in Alaska.

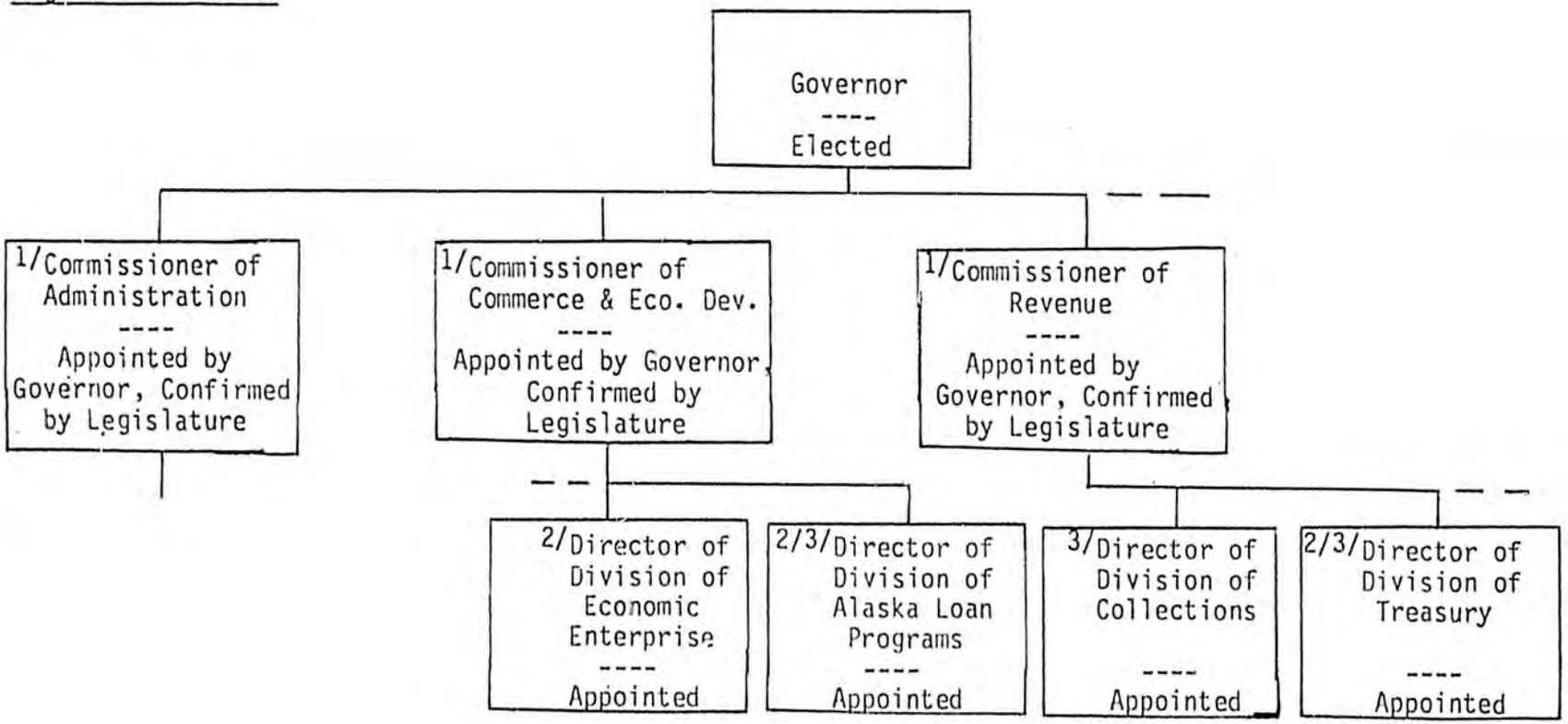
- Refund any or all existing state or municipal general obligation and revenue bonds.

- Provide fire and liability insurance for projects financed by the Alaska Loan Programs Fund.

- Provide a market for all future general obligation bonds issued by Alaska municipalities.

B. Management of the "Alaska Loan Programs Fund."

Organization Chart



Notes:

1/ These three Commissioners function as the "State Bond Committee"

2/ These three Directors would function as the "Alaska Loan Programs Evaluation Committee"

3/ These three Directors could be classified as partially exempt

C. Decisions

- Policy decisions about general loan program sectors; i.e., municipalities with populations less than 5,000, non-profit corporations, all other municipalities, veterans, industrial development, education, tourism, child care facilities, fishermen and other business; individual loan amount upper limits and recipient categories would be made by the Legislature and included in the statute.

- Policy decisions about the amount of revenue bonds to be sold to provide funding of the Alaska Loan Programs Fund would be made by the State Bond Committee.

- Policy decisions about the investment of fund cash balances and reserve accounts would be made by the Director of the Division of Treasury, subject to the approval of the Commissioner of Revenue, unless disapproved by the Legislature within a period of 60 days.

- Policy decisions about the total amount of loans to be made to various sectors of the economy would be made by the Director of the Division of Loan Programs, apparently without reference to a Commissioner.

- Policy decisions about interest rates to be charged would be made by the Commissioner of Revenue.

- Policy decisions about further subsidies of interest rates to be charged would be made by other loan agencies such as the ARRC.

- Operating decisions about rescheduling and foreclosing on delinquent loans would be made by the Alaska Loan Programs Evaluation Committee apparently without reference to a Commissioner.

- Annual operating budget subject to the Executive Budget Act.

D. Reporting

- Monthly reports on investments by Director of the Division of Treasury to the Legislative Budget and Audit Committee.

- Monthly reports on loan defaults by the Department of Administration to the Departments of Revenue and Commerce and Economic Development, and to the Legislative Budget and Audit Committee.

- Monthly reports on loan collections by the Division of Collections to the Legislative Budget and Audit Committee.

- Quarterly reports on investments, defaults and collections by the Legislative Budget and Audit Committee to the Legislature.

P. B. McDowell
February 29, 1980

NOTES ON LOAN PROGRAMS/REVENUE BONDING AUTHORITIES

A. General Notes

What are the possible goals of the Legislature (House)?

1. Primary Goals

(a) Import capital to fund housing, business/industry and state/municipal capital projects in Alaska.

(b) Expand the Alaska economy in terms of GDP and personal disposable income of present residents, (not in terms of revenue to state government).

(c) Plan the economic development of Alaska, where

- State government is the planning agency
- Private and municipal sectors are encouraged (but not coerced) to fit into State plans with financial incentives provided by State bonding, loan and equity investment programs

(d) Provide loans at below market interest rates to Alaskan residents, municipalities, and non-profit corporations for limited and/or unlimited purposes.

(e) Make loan program/revenue bonding policy explicitly (on purpose) rather than implicitly (accidentally) as at present.

(f) Unify various state loan programs into a single program to enhance planning for priorities and increase organizational visibility and legislative control.

2. Secondary Goals Re Management

(i) Criterion: The distance from the Legislature with regard to policy and operating decisions.

(ii) Definitions: Policy decisions are those which define the size, classes of expenditure and general criteria for differentiating among individual recipients of program funds or services.

Operating Decisions are those which differentiate among individual recipients and determine the amounts allocated to individual recipients.

Possibilities

(a) Policy and operating management by the Legislature itself, or a subdivision thereof

(b) Policy and operating management by independent state corporation separate from the Commissioner-headed departments

(c) Policy and operating management by a single commissioner level department of the executive

(d) Policy management by multiple commissioners (a committee) and operating management by state civil servants not subject to confirmation

(e) Operating management by private sector commercial banking institutions

(f) Policy and operating management by municipalities

(g) Policy and operating management by non-profit and/or quasi-municipal government corporations

(h) Policy and operating management by state civil servants below the levels subject to Legislative confirmation.

N.B. For all the alternatives above, policy and operating management could be separately assigned to any two alternatives.

P. B. McDowell
February 1, 1980

Bill 35

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1976

CHAPTER 2

THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

(Assented to May 19, 1976)

Preamble

WHEREAS substantial revenues are being received by the Province from the sale of non-renewable resources owned by the people of Alberta; and

WHEREAS there is a limited supply of non-renewable resources and therefore revenues from the sale of those resources will ultimately be reduced; and

WHEREAS it would be improvident to spend all such revenues as they are received; and

WHEREAS the Legislature of Alberta considers it appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years:

THEREFORE HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1. In this Act,

(a) "Investment Committee" means the Heritage Savings Trust Fund Investment Committee established under section 3;

(b) "non-renewable resource revenue" means

(i) moneys received by the Crown pursuant to agreements as defined in *The Mines and Minerals Act*,

(ii) moneys received by the Crown as bonuses to acquire agreements as defined in *The Mines and Minerals Act*, and

(iii) moneys received under an agreement between the Crown in right of Alberta and the holder of a bituminous sands lease under which the Crown agrees to accept money payments in lieu of royalty under the lease;



(c) "Special Act" with reference to any fiscal year after the 1976-77 fiscal year means an Act of the Legislature authorizing the transfer from the General Revenue Fund to the Trust Fund of 30 per cent of the non-renewable resource revenue received in that fiscal year;

(d) "Trust Fund" means the Alberta Heritage Savings Trust Fund established under section 2.

Alberta Heritage Savings Trust Fund

2. (1) There is hereby established a fund to be known as the "Alberta Heritage Savings Trust Fund".

(2) The Provincial Treasurer shall hold and administer the Trust Fund in accordance with this Act.

(3) The Provincial Treasurer shall establish and maintain a separate accounting record of the Trust Fund.

Heritage Savings Trust Fund Investment Committee

3. (1) There is hereby established a committee called the "Heritage Savings Trust Fund Investment Committee" consisting of all members of the Executive Council.

(2) The Investment Committee shall designate one of its members as chairman and another as vice-chairman.

(3) The Lieutenant Governor in Council may make rules governing the calling of meetings of the Investment Committee, the quorum required at its meetings and, generally, the conduct of the Committee's business and affairs.

Transfer of assets

4. (1) As soon as practicable after the commencement of this Act, there shall be transferred from the General Revenue Fund to the Trust Fund $1,500,000,000.

(2) The amount transferred pursuant to subsection (1) may be transferred in cash or other assets, but where assets other than cash are to be transferred, the Investment Committee shall, before any transfer is made, approve

(a) the assets to be transferred,

(b) the manner in which and the time or times at which the transfer is to be made, and

(c) the valuation of the assets or the method by which the assets are to be valued,

and may impose such conditions relating to the transfer as the Investment Committee considers necessary.

(3) Where the Investment Committee is of the opinion that any asset to be transferred under subsection (1)

(a) will yield a reasonable return or profit to the Trust Fund, and

(b) will tend to strengthen and diversify the economy of Alberta,

the Investment Committee may direct that the asset upon its transfer shall form part of the Alberta Investment Division of the Trust Fund as if the asset were the subject of an investment made pursuant to section 6, subsection (1), clause (c).

(4) Assets other than cash that are transferred pursuant to subsection (1) and that do not form part of the Alberta Investment Division of the Trust Fund by virtue of a direction under subsection (3) shall consist only of assets within the classes enumerated in section 9, subsection (1) and upon being transferred shall be deemed to be investments made under that section.

(5) The income of the Trust Fund accrues to and forms part of the Trust Fund.

Transfer of non-renewable resource revenue

5. (1) After the commencement of this Act,

(a) 30 per cent of the non-renewable resource revenue received in the 1976-77 fiscal year shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act;

(b) 30 per cent of the non-renewable resource revenue received in the 1977-78 fiscal year shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act but only if the transfer is authorized by a Special Act enacted in that fiscal year;

(c) 30 per cent of the non-renewable resource revenue received in the 1978-79 fiscal year and in each fiscal year thereafter shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act but only if, in the case of each fiscal year, the transfer is authorized by a Special Act enacted in the preceding fiscal year.

(2) The title of a Special Act shall be "The Alberta Heritage Savings Trust Fund Special Appropriation Act" followed by a reference to the fiscal year to which it relates.

(3) The President of the Executive Council or a member of the Executive Council designated by him for the purpose shall, with leave of the Assembly,

(a) introduce during the 1977-78 fiscal year a Bill for a Special Act relating to the 1977-78 fiscal year, and

(b) introduce during the 1977-78 fiscal year and during each fiscal year thereafter a Bill for a Special Act relating to the next succeeding fiscal year.

(4) The Provincial Treasurer shall, with respect to each month in

(a) the 1976-77 fiscal year, and

(b) each succeeding fiscal year in respect of which a Special Act is enacted,

transfer 30 per cent of the non-renewable resource revenue received in the month from the General Revenue Fund to the Trust Fund as soon as practicable after the end of the month in which it is received.

(5) Notwithstanding subsection (4), the Provincial Treasurer may, with respect to any month to which that subsection applies, estimate 30 per cent of the non-renewable resource revenue to be received in that month and transfer that sum from the General Revenue Fund to the Trust Fund during that month or as soon as practicable after the end of the month in respect of which the estimate is made.

(6) With respect to the 1976-77 fiscal year and each succeeding fiscal year in respect of which a Special Act is enacted, the Provincial Treasurer, depending upon whether the total of the sums transferred pursuant to subsections (4) and (5) is greater or less than 30 per cent of the non-renewable resource revenue received in that fiscal year as shown in the public accounts for that fiscal year, shall

(a) transfer moneys from the General Revenue Fund to the Trust Fund, or

(b) transfer moneys from the Trust Fund to the General Revenue Fund,

so that the amount of the non-renewable resource revenue in the Trust Fund for that fiscal year is equal to 30 per cent of the non-renewable resource revenue received in that fiscal year.

(7) No interest is payable with respect to any money transferred pursuant to this section to or from the General Revenue Fund or to or from the Trust Fund.

Divisions of the Trust Fund

6. (1) The assets of the Trust Fund shall be used for the following purposes:

(a) the making of investments in projects which will provide long term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Trust Fund;

(b) the making of investments by way of loans to

(i) the Crown in right of Canada, or

(ii) the Crown in right of any other province of Canada, or

(iii) any other person if the repayment of the loan and the payment of interest thereon by that person is guaranteed by the Crown in right of Canada or the Crown in right of any other province of Canada;

(c) the making of investments which, in the opinion of the Investment Committee or in the opinion of

the Legislative Assembly as expressed in a resolution of the Assembly,

(i) will yield a reasonable return or profit to the Trust Fund, and

(ii) will tend to strengthen and diversify the economy of Alberta.

(2) Investments referred to in subsection (1), clause (a)

(a) shall only be made if moneys are first appropriated from the Trust Fund by an Act of the Legislature specifically for a purpose described in subsection (1), clause (a),

(b) shall not exceed 20 per cent of the assets of the Trust Fund, and

(c) shall form the Capital Projects Division of the Trust Fund.

(3) Investments referred to in subsection (1), clause (b)

(a) shall be made or approved by the Investment Committee in accordance with the directions contained in any resolution of the Legislative Assembly,

(b) in the absence of any such directions, shall be made only with the approval of the Investment Committee,

(c) shall not exceed 15 per cent of the assets of the Trust Fund, and

(d) shall form the Canada Investment Division of the Trust Fund.

(4) Investments referred to in subsection (1), clause (c)

(a) shall be made or approved by the Investment Committee in accordance with the directions contained in any resolution of the Legislative Assembly,

(b) in the absence of any such directions, shall be made with the approval of the Investment Committee, and

(c) shall form the Alberta Investment Division of the Fund.

(5) For the purposes of this section,

(a) investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the amounts expended pursuant to Acts of the Legislature referred to in subsection (2), clause (a);

(b) investments in the Canada Investment Division and the Alberta Investment Division and all other assets of the Trust Fund shall be valued at book value;

(c) the percentage limitations referred to in subsection (2), clause (b) and subsection (3), clause (b) shall be determined at the end of each fiscal year.

Disposition of investments

7. (1) Where any investment is made under section 6 with the approval of the Investment Committee, no disposition shall be made of that investment except with the approval of the Investment Committee.

(2) Where a resolution of the Legislative Assembly directs the making of any investment pursuant to section 6, no disposition shall be made of that investment except pursuant to a resolution of the Legislative Assembly.

(3) Where a resolution of the Legislative Assembly directs the disposition of any investment then, notwithstanding subsection (1), the investment shall be disposed of in accordance with the directions contained in any resolution of the Legislative Assembly.

Terms and conditions on approvals

8. Any approval given by the Investment Committee under section 6 or 7 may be made subject to such terms and conditions as the Committee considers necessary.

Residual investment powers

9. (1) Notwithstanding section 6, where any moneys in the Trust Fund have not been or are not being invested pursuant to that section, the Provincial Treasurer may invest and may re-invest those moneys in any or all of the following:

(a) the bonds, debentures or other evidences of indebtedness of, or guaranteed as to the repayment of principal and interest by, the Government of Canada, the government of any province of Canada or any municipal corporation in Canada;

(b) the bonds, debentures or other evidences of indebtedness of or guaranteed as to the repayment of principal and interest by the government of a country other than Canada;

(c) the bonds, debentures or other evidences of indebtedness of any agent of the Crown in right of Alberta;

(d) certificates of deposit, deposit receipts or other evidences of indebtedness given by a chartered bank or treasury branch in consideration of a deposit or deposits made with the bank or treasury branch;

(e) certificates of deposit, deposit receipts or other evidences of indebtedness which are unconditionally guaranteed by a chartered bank;

(f) the bonds, debentures or other evidences of indebtedness of or guaranteed by any corporation, if those bonds, debentures or other evidences of indebtedness are authorized investments under section 63, subsection (1) of the *Canadian and British Insurance Companies Act;*

(g) mortgages or hypothecs of real estate or leaseholds in Canada if the amount paid for the mortgage or

hypothec together with the amount of indebtedness under any mortgage or hypothec on the real estate or leasehold ranking equally with or superior to the mortgage or hypothec in which the investment is made does not exceed three-quarters of the value of the real estate or leasehold covered thereby;

(h) mortgages or hypothecs of real estate or leaseholds in Canada notwithstanding that the mortgage or hypothec exceeds the amount authorized under clause (g) if the excess is guaranteed or insured by, or through an agency of, the Government of Canada or a province of Canada, or by an insurance company approved by the Treasury Board.

(2) The Provincial Treasurer may dispose of any investments made or deemed to be made under this section.

(3) Notwithstanding section 28.4, subsection (1) of *The Financial Administration Act*, the Provincial Treasurer shall transfer moneys from the Trust Fund to the Consolidated Cash Investment Trust Fund only where the moneys have not been invested or re-invested under subsection (1) or where the moneys have not been invested pursuant to section 6.

Administration fees

10. (1) Where any costs, expenses or other payments are directly attributable to the administration of the Trust Fund, the Provincial Treasurer may charge the cost, expense or payment to the Trust Fund.

(2) After the end of each fiscal year the Investment Committee shall

(a) estimate an amount consisting of the fees, wages, salaries, costs, expenses or other payments incurred in connection with the administration of the Trust Fund and paid out of the General Revenue Fund in the preceding fiscal year, and

(b) authorize the Provincial Treasurer to transfer the amount estimated under clause (a) from the Trust Fund to the General Revenue Fund.

Quarterly reports

11. (1) The Provincial Treasurer shall, as soon as practicable after the end of each quarter of the 1977-78 and succeeding fiscal years, prepare a report summarizing the investments made under section 9 and listing the investments made under section 6 during the preceding quarter.

(2) When a quarterly report is prepared under subsection (1), the Provincial Treasurer shall forthwith furnish copies of the report to all members of the Legislative Assembly and to the Clerk of the Legislative Assembly and upon doing so shall make the report public.

Annual reports

12. (1) The Provincial Auditor shall from time to time and at least once each year audit the accounts and financial transactions of the Trust Fund.

(2) The Provincial Treasurer shall, as soon as practicable after the end of each fiscal year, prepare a report summarizing the operation of the Trust Fund during the preceding fiscal year and containing a financial statement, audited by the Provincial Auditor, showing

(a) transfers of cash and other assets to the Trust Fund during the preceding fiscal year,

(b) payments made from and income accrued to the Trust Fund for the preceding fiscal year, and

(c) the total moneys expended under Acts of the Legislature referred to in section 6, subsection (2), clause (a) in respect of investments in the Capital Projects Division of the Trust Fund.

(3) When an annual report is prepared under subsection (2), the Provincial Treasurer shall forthwith furnish copies of it to all members of the Legislative Assembly and to the Clerk of the Legislative Assembly and upon doing so shall make the report public.

Review of operations

13. (1) There is hereby established a select standing committee of the Legislative Assembly called the "Select Standing Committee on The Alberta Heritage Savings Trust Fund Act" consisting of 15 members.

(2) The members of the Select Standing Committee shall be appointed at the commencement of each session in the same way that members are appointed to other select standing committees of the Legislative Assembly.

(3) When a copy of an annual report is furnished to the Clerk of the Legislative Assembly pursuant to section 12, subsection (3) the annual report shall be deemed to be referred to the Select Standing Committee for review and a report concerning the investments of the Trust Fund which may contain any recommendations of the Committee concerning those investments.

(4) Where a motion is made in the Legislative Assembly for second reading of a Bill for a Special Act relating to the 1978-79 or any succeeding fiscal year, then, unless the Assembly by resolution otherwise directs, the debate on the motion shall be proceeded with only if the report of the Select Standing Committee relating to the preceding fiscal year has been tabled in the Assembly.

(5) The Select Standing Committee may, without leave of the Assembly, sit during any period when the Assembly is adjourned or after prorogation of a session of the Legislature.

R.S.A. 1970, c. 142

14. *The Financial Administration Act is amended*

(a) as to section 16.1 by adding the word "or" *at the end of clause (e) and by adding the following clauses after clause (e):*

(f) between accounts in the General Revenue Fund and the Alberta Heritage Savings Trust Fund, or

(g) between accounts in the Consolidated Cash Investment Trust Fund and the Alberta Heritage Savings Trust Fund, or

(h) for the purpose of making investments under section 9 of *The Alberta Heritage Savings Trust Fund Act*,

(b) by adding the following section after section 40.1:

Advances

40.2 The Provincial Treasurer shall, upon the direction of the Treasury Board, advance from the General Revenue Fund to the Alberta Heritage Savings Trust Fund such sums as may be required upon such terms and conditions as the Treasury Board may impose.

(c) as to item 1 of the Schedule, by adding to the list of designated funds of the Provincial Treasurer the following:

(a.1) Alberta Heritage Savings Trust Fund.

Coming into force

15. This Act comes into force on the day upon which it is assented to.

Printed by the Queen's Printer for the Province of Alberta, EDMONTON

STATE OF ALASKA

JAY S. HAMMOND, Governor

OFFICE OF THE GOVERNOR

DIVISION OF POLICY DEVELOPMENT AND PLANNING

POUCH AD
JUNEAU, ALASKA 99811
PHONE: 465-3512

February 22, 1979

The Honorable Hugh Malone, Chairman
House Special Committee on the Alaska
Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Malone:

You have requested background information about SB 226/HB 277, Governor Hammond's enabling legislation for the Alaska Permanent Fund. When considering SB 226/HB 277, I believe it would be helpful to also consider at the same time two other measures which the Governor has introduced. The first is SJR 26/HJR 23, which would amend the Alaska Constitution to increase contributions to the permanent fund from 25% to 75%. The second is HB 99, which would distribute one-half of the earnings of the fund to Alaskans in the form of tax credits. These three bills represent a package which, when read together, accomplish the objectives set forth in the attached material.

I would like to share with you several documents which were instrumental in the formulation of policies embodied in the Governor's permanent fund package. The first document is a memo which describes the Governor's policy decisions regarding the purpose and use of the fund. The policy principles which the Governor has identified as those which should control the management of the fund are:

1. Investments should be based upon a list of eligible investments.

2. All other things being equal, preference should be given to in-state investments.

3. The Governor and the Legislature should select in general terms their preferences among types of eligible investments.

4. Market rates of interest should be earned on all Permanent Fund investments.

5. If the Legislature and the Governor wish to have certain categories of investment subsidized, such subsidies should be appropriated from the General Fund.

6. One half of Permanent Fund earnings should be returned to the public in the form of tax credits.

7. The other half of Permanent Fund earnings should be returned to the General Fund for use in the provision of public goods and services via the operating budget.

8. Thorough reporting and audit requirements should be included in the legislation.

9. Fund managers should not be responsible for designing or deciding upon economic or social policy.

The first document offered provides a more detailed explanation of these principles and explains how the Governor's permanent fund bill incorporates these policies.

The second document is a section-by-section outline of SB 226/HB 227. The third document is "The Alaska Permanent Fund - A Decision Guide" which summarizes our view of the permanent fund issues at the close of the last legislative session.

I hope these documents will assist your understanding of the Governor's proposal. We will be happy to provide any additional information to your committee as needed.

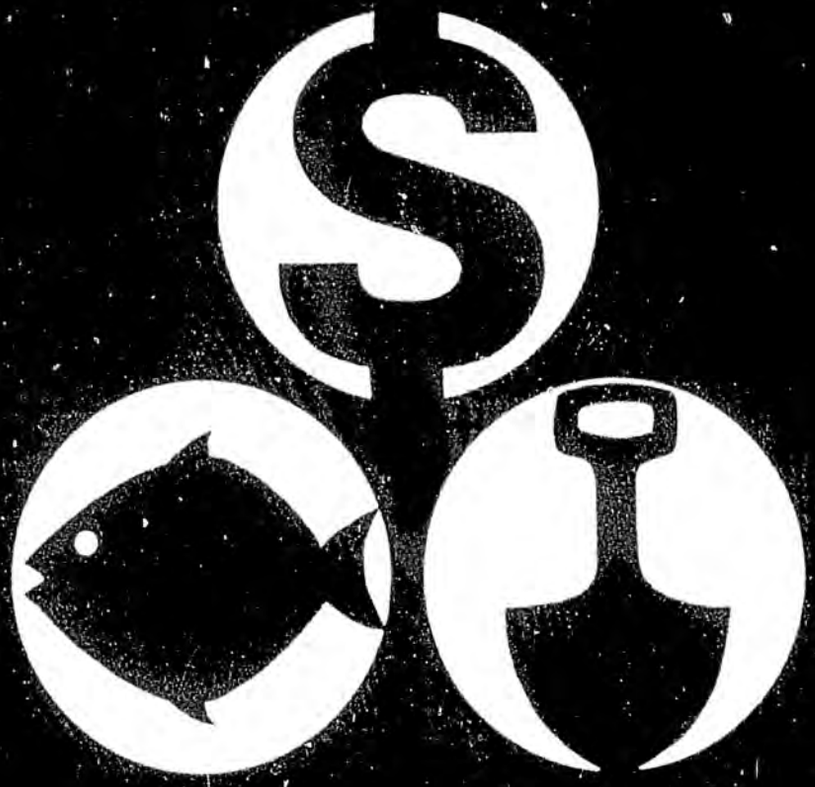
Sincerely,

Frances A. Ulmer
Director

Attachments
FAU:ms

A Proposal for the Alaska Permanent Fund

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



Rep. Clark Gruening, Chairman
Rep. Terry Gardner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

Special Committee on
The Alaska Permanent Fund
Pouch V, Juneau, AK 99811

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I Introduction

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

The amendment reads:

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

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

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

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

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

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

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

II What the public said

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

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

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

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

Third, where there are sound investments in Alaska the permanent fund should make them without duplicating financial services already available.

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

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

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

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

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

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

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

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

III What the consultants said

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

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

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

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

In order to keep this report as concise as possible, no detailed explanation of the advice of every consultant and advisor is offered here. Rather, a brief summary of the main points of consensus illustrates the principles that guided the committee.

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

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

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

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

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

IV What the committee did

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

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

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

Third, how should the fund be managed?

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

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

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

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

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

This downturn was caused primarily by two events.

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

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

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

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

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

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

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

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

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

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

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

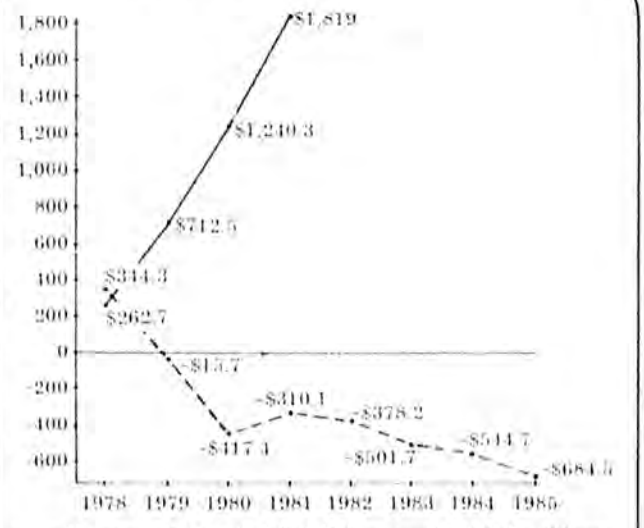
It is important to note that, in addition to whatever money is put into the permanent fund, there are previous constraints on state revenue. These include a 5 per cent dedication to the Renewable Resources Development Fund, payments to the Alaska Native Fund and fixed assets in various state loan funds.

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

The committee's proposal puts 100 per cent of bonuses (minus 5 per cent for the Renewable Resources Development Fund and 2 per cent, until it is paid off, for the Alaska Native Fund) into the permanent fund. The committee decided that no bonus money should go into the general fund because such a policy could lead to the premature sale of leases simply to balance the state budget.

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

Chart 1
100% Contribution

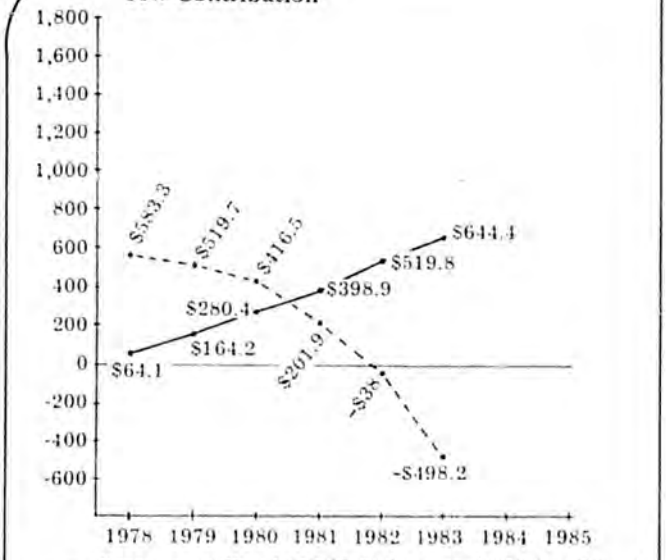


Note:

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

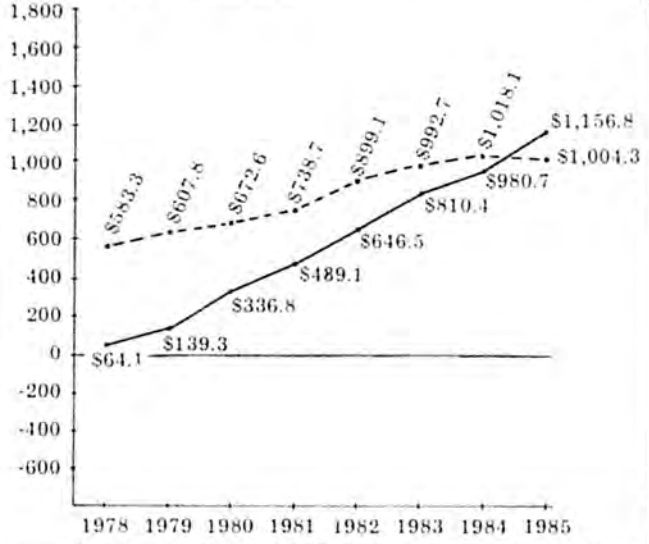
Source: Division of Legislative Finance

Chart 2
30% Contribution



—— Permanent Fund (1985 Balance = $903.3 million)
- - - General Fund (1985 Balance = −$2,202.7 million)

Chart 3
30% Contribution



—— Permanent Fund (1985 Balance = $1,156.8 million)
- - - General Fund (1985 Balance = $1,004.3 million)

Note:

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

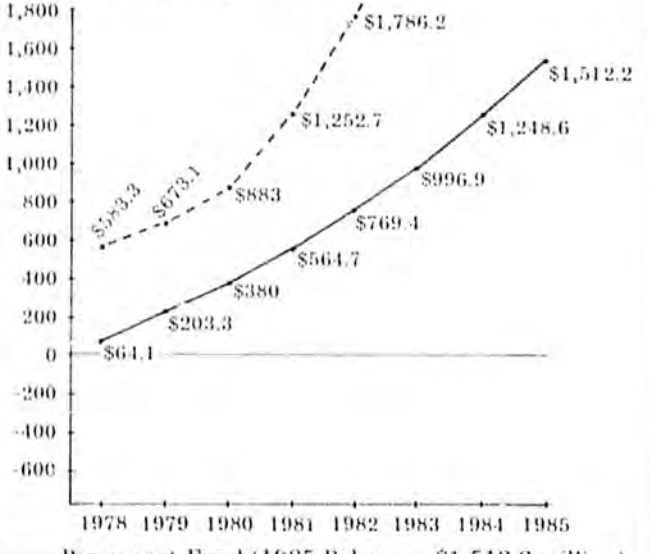
In Chart 2, wellhead values increase 2.5% annually; expenditures increase 15% annually; tariffs are about $6.25 per barrel; the State loses the dispute over deduction of treatment costs for royalty calculations; the state severance tax "floor" remains at 80¢ per barrel (equivalent to a wellhead value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

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

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

Source: Division of Legislative Research.

Chart 4
30% Contribution



—— Permanent Fund (1985 Balance = $1,512.2 million)
- - - General Fund (1985 Balance = $4,185.9 million)

VI What should be the financial goals of the fund?

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

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

Second, fund investments must produce income. This rules out investments in projects and programs that will not return income directly to the fund. Without dictating a specific level of return, the committee decided that permanent fund investments must meet market rates and terms to insure, insofar as possible, their security and ability to produce income.

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

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

VII How should the fund be managed?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Guarantees are a commitment to pay any default on interest or principal payments on bonds. Once the government agency issuing the bonds makes these payments, the portion of permanent fund earnings used as the guarantee would be freed and flow to the permanent fund or general fund.

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

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

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

X The Renewable Resources Development Fund

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

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

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

The work draft sets up a corporation, called the Alaska Renewable Resources Corporation (ARRC). The corporation is an independent, non-taxable public corporation managed by a three-member board of trustees. Trustees are appointed by the governor and confirmed by the legislature for four-year terms. They are full-time and salaried. Trustees are empowered to employ an executive director and staff. They also are empowered to render financial assistance within the constraints set in the work draft.

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

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

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

XI Summary

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

The committee's package aims at four goals:

First, to be consistent with the constitutional amendment and statute creating the RRDF.

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

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

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

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

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

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

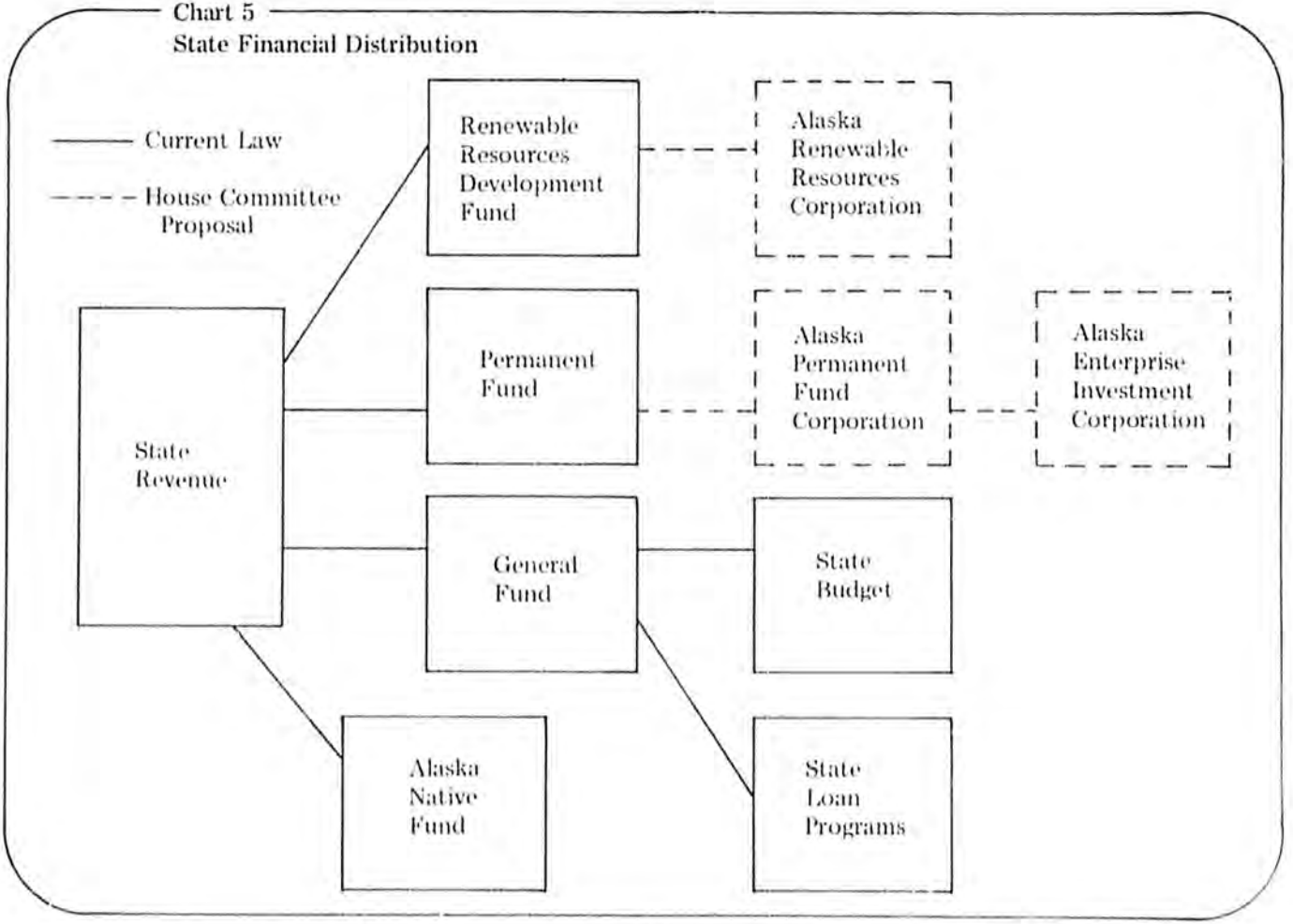
Medium risk would include portions of those listed above and part of the Alaska Enterprise Investment Fund.

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

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

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

Chart 5
State Financial Distribution



Appendix

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

Reports

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

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

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

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

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

Transcripts

Committee Meeting, July 13, Anchorage.
Symposium, September 10, Anchorage.
Public Hearing, September 14, Fairbanks.
Public Hearing, September 15, Anchorage.
Committee Meeting, November 18, Anchorage.

Minutes

Committee Meeting, July 14, Anchorage
Public Hearing/Committee Meeting September 17, Kotzebue.
Public Hearing/Committee Meeting, October 20-21, Juneau.
Committee Meeting, November 19, Anchorage.
Committee Meeting, December 12-13, Anchorage.

Memoranda

Revenue Projections, Legislature Affairs Research.
Revenue Projections, Division of Legislative Finance.
Questionnaire Returns.
Index to Committee Files (Documents listed in the index are available upon request).

Written Testimony

Various

Proposed Legislation

On the Alaska Permanent Fund
On the use of Alaska Permanent Fund earnings
On the Renewable Resources Development Fund (work draft)

MEMORANDUM TO

GOVERNOR HAMMOND

DRAFT

FROM: Fran Ulmer

SUBJECT: Principal Difference Between Espe Proposal and Administration Permanent Fund Legislation

The following memo outlines the principal differences between the Espe Permanent Fund management proposal and the management proposal as embodied in SB226, your Permanent Fund bill. While most of these issue are hopelessly inter-related, we have done our best to separate them into coherent, separate but connected discussions.

1. Structure: Independent Board vs. Treasury Proposals

The Espe proposal recommends that both the savings (endowment) part of the Fund and the development banking part be managed by an independent corporation with a board modeled after the Federal Reserve Board. The example given is a nine member board with the President of the Senate, Speaker of the House, Commissioners of Revenue, Commerce, and five gubernatorial appointees as members.

Your proposal recommends that the savings portion, the first twenty-five percent, be managed by the Department of Revenue, Division of Treasury. Your proposal also recommends that the development banking portion, any contributions above twenty-five per cent, be managed by an independent corporation, with a board consisting of the Commissioners of Commerce and Economic Development and Revenue and five public members appointed by the Governor and serving at his pleasure.

Discussion: The two basic purposes served by an independent board are insulation from politics and provision of expertise. As the Division of Treasury already manages several trust funds which have not been subject to political influence, and as there are significant economies of scale to be gained from Treasury management, your bill recommends management of the savings portion of the Fund in Treasury. Because the development banking section provides for more active

investments in the Alaskan economy, your bill recognizes the greater need for insulation and outside expertise and calls for independent corporation status for this portion.

In addition, the Legislature is giving considerable attention this session to the question of control of independent entities in the context of the debate on both the Permanent Fund and the loan programs. Many legislators have expressed concern over the tendency for independent boards to substitute their policies for those of the Legislature as expressed in statute, ~~and~~ as other statements of legislative intent, this has raised questions concerning the wisdom of entrusting the Permanent Fund to such an independent board.

2. Methods of insulation from political pressure: How effective?

Proposals:

The Espe proposal recommends that insulation be achieved through management by an independent board. The members of this board could be given fairly long terms (nine years) which would provide insulation from shorter-term political pressures. (The House proposal, which envisions only a savings function for Permanent Fund principal, also proposes independent corporate structure to increase Fund visibility resulting in insulation from political pressure.)

Your proposal recommends insulation from political pressure via two basic mechanisms. For the savings portion, insulation is achieved through a statutory investment list which defines the range of eligible investments. Within the constraints of this list and the rules of prudent investment (i.e. diversification), any investments would be acceptable. Further, there are several trust funds (pension funds) presently managed by Treasury about which there have been no complaints of influence peddling with respect to investments.

For the development banking portion, insulation is sought via independent corporation status with a board whose majority would be public members. Legislative and executive policy control would be

achieved through statutory control over the catagories for eligible investments. Insulation from political pressure would be achieved by control of actual investment decisions by an independent investment committee appointed by the board. This provides a second tier of insulation from political pressures.

Discussion: There are basic tradeoffs inherent in structural attempts to provide proper policy control of public funds by elected officials yet prevent improper influence/peddling by those officials. Structural attempts to fortify this attempt can help defend against human frailty, but ultimate responsibility must lie with individual politicians and managers. As there has been no research into the effectiveness of various structural alternatives for preventing political interference, it comes down to a matter of judgement. Insulation from politics can be seen as a continuum with direct legislative and/or cabinet decision-making on the least insulated end and totally independent management on the other. The former end allows elected representatives to make policy but provides the opportunity for political, rather than strictly economic, decisions. The latter end allows freedom to make investment decisions on strictly economic and financial grounds, but relinquishes any connection between elected officials and the public's money. Your proposal is balanced more towards the former, while the Espe proposal leans toward the latter.

Which?

This model ignores the small size of Alaska and the frequent existence of personal and financial relationships among its residents. Perhaps the key lies with visibility and self-interest. Whichever approach is selected, it should be required to conduct as much of its business as possible in the public eye. And the institution itself, whether in Treasury or separate and independent, should be required to maintain a high public profile. Concurrently, mechanisms to connect the Fund with the public in terms of direct financial benefit (i.e. Permanent Fund dividends) should contribute greatly to the goal of prudent and profitable management. The public will be watching.

Agree?

3. Mixing Purposes under the Permanent Fund

Proposals:

The Espe proposal combines two purposes under the Permanent Fund-savings and economic development. Both purposes would be administered by the independent corporation. The Espe proposal also recommends community development type investments in infrastructure to facilitate economic development.

Your proposal also has the two purposes of savings and economic development, but places them under separate management structures, Treasury and an independent corporation respectively.

Discussion: The major arguement here is that the distinction between purposes may blur over time, leading to an erosion of politically less popular purposes in favor of more popular ones. The risk of this occuring is greatest when the least division between purposes exists (Espe proposal), and this risk is reduced as more barriers are in place (your proposal). The House Permanent Fund has been arguing a different position that deserves your consideration. They maintain the general fund exists (and, because of surplus revenues, has the capability) to meet all economic and community development purposes. They further maintain that these programs can be designed as independent corporations or lending programs from the surplus to avoid growth in operating or capital budgets. They conclude that the Permanent Fund should have one clear purpose and one purpose alone-savings. This would lead them to resist proposals which give the Permanent Fund multiple missions or create the impression of there being multiple Permanent Funds. Part of their fear stems from the Alberta experience, where their Heritage Fund was "sold" as a savings device, but in reality it has four "windows," each with a different purpose but only one of which is savings, which receives the residual after the other purposes have been met.

4. Public Institutions vs. Private Institutions - Going Through The Banks

Espe:

The Espe proposal states "Further, through utilizing existing financial institutions both for deposits (Certificates of Deposit investments) and as a conduit for the purchasing of loans, these objectives can be satified with virtually no increase in state bureaucracy or operating expenses." The objectives referred to are:

1) "It is imperative that Alaska's current fiscal surplus be managed to ensure long-run sustainable growth of revenues... the primary objective for the endowment fund should be capital preservation in the form of risk-free and low-risk investments."

2) "Clearly certificates of deposits with Alaska banks qualify as appropriate low-risk investments...Such an investment in Alaska bank CD's will enable Alaska banks to make more funds available for longer term loans...purchasing Alaska loans also qualifies as an appropriate investment for the endowment fund, at rates commensurate with current money market conditions."

It concludes "In summary, the attractive aspect of the endowment fund concept....is that it can be invested in a manner that simultaneously achieves the two important objectives of capital preservation and the allocation of funds to Alaska families and businesses."

Your proposal for the Permanent Fund savings portion allows for purchase of CD's of Alaska banks but not for purchasing Alaska loans. The development bank portion could invest in CD's with funds available after filling "capital gaps," i.e. purchasing Alaska loans.

Discussion: Clearly both proposals allow for investment in Alaska CD's and loans. They differ in that your savings portion would be excluded from purchasing Alaska loans. However, the development bank portion and more importantly your AIPA loan program proposal would be able to purchase Alaska loans to increase bank liquidity. The House proposal presently excludes Alaska CD's as eligible investments for the savings function. The rationale for this exclusion

and for excluding loans from savings investments lies with political considerations discussed in the first three sections. First, CD's are presently purchased from the general fund, as are Alaska loans (about $450 million worth, although these are direct or participation loans, not purchase of private bank loans). Thus the general fund has been meeting these purposes, and it is not clear that the demand is so great as to compel Permanent Fund investment in addition. Secondly, as HCR 33 and, the entire history of state investment in Alaska loans demonstrates, the demand of the Alaskan economy for investment funds, as expressed by the legislature, is a demand for below-market interest rates. Can we expect the Permanent Fund (the people's money) to be immune from these pressures? Can the Permanent Fund savings portion really be managed to ensure long-run sustainable growth of revenues, i.e. to preserve capital, and to allocate funds to Alaskan families and businesses? Is there really a need for investment capital beyond that presently being provided through the general fund?

5. Public Sector Development Banking - We Already Have It.

Proposal 5:

The Espe proposal states "Development bank loans should be made to qualifying projects in both the public and private sectors. Public projects include those typically engaged in by the public sector - loans and other power projects, ports, transportation facilities, etc. which expand the infrastructure and which, thereby, make it easier and more feasible for the private sector to pursue its own objectives."

Your proposal does not specify development-type investments for the development bank portion of the Permanent Fund. Rather, it specifies a list of ten fairly conservative, low-risk and liquid investment catagories for temporary investment of the ~~banks~~ their development allocation of Permanent Fund monies. It further instructs the bank to make initial determinations and annual assessments of the state's capital markets to identify investment opportunities for which private capital is not available, and to assess the reasons for such "capital

gaps." The bank may then recommend to the Governor and the Legislature additions to their investment capabilities to meet those gaps.

Discussion: Your bill does not address the concept of "public" versus "private" investments and therefore all of the types of investments recommended by the Espe proposal would be possible if the bank found such investments to be sound yet capital deficient and the Governor and the Legislature concurred in that finding. However, again the issue of alternative sources of available funding comes up. For infrastructure generally we have the capital budget funded by the general fund and general obligation bonds, which require a vote of the people. For dams and other power projects, we have as well the Alaska Power Authority and the Alaska Industrial Development Authority which can finance sound projects on the revenue bond market. For ports, transportation facilities, etc., we have in addition to the capital budget and G.O. Bonds, the Alaska Industrial Development Authority, the Municipal Bond Bank, municipal bonding powers, regional authorities, and probably other institutions as well. What can the Permanent Fund provide to projects with "reasonable economic viability" that all of these other options cannot? Your proposal requires the bank to ask and answer this question. Is there any compelling reason to go farther than that at the time?

6. Why does Alaska need a development bank?

Proposals:

The Espe proposal recommends development banking for large projects with "reasonable economic viability over the long term" which are "designed to expand the industrial base of Alaska..." The proposal recommends against development bank participation in projects which can obtain total financing from the private sector. Instead, the proposal states "Private projects suitable for development bank participation are those such a nature and size that public assistance is substantial-oil and gas pipelines, petrochemical facilities, fish processing plants, mineral refineries, sawmills, etc. "It also recommends "that another function of the development bank be to guarantee the bonds, capital notes, ~~or~~ or other types of debt utilized to finance large private projects, and that the development bank serve as a conduit for the issuance of revenue bonds which have the effect of reducing the debt service burden of private projects." The proposal concludes "It is not the intent of the development bank to subsidize industry, but rather to take more than normal risk in causing projects to happen which have demonstrated feasibility."

Your development bank proposal is based on the premise, expanded in the discussion section below, that we don't really know ~~if~~ we need or want a development bank or not. You have proposed establishment of a "blue ribbon" board and staff to analyze economic sectors or projects which are capital deficient (cannot attract private capital) and identify the reasons for such capital shortages. Specifically, the bank is to assess what market or other risk factors are causing private capital to fail to flow and present these factors to the Governor and the Legislature, who may then shoose to extend state financing through the development bank if the benefits from extending such financing warrant acceptance of the risks involved.

Discussion: This section ~~will begin with an examination of the recommendations in the Espe proposal.~~ It is a reasonable assumption that the difference between development banking and normal private banking is that the former can accept projects with "reasonable economic viability over the long run "while private investment would require almost certain economic viability in a certain period of time, with all risks well understood and of an acceptable level. The Espe proposal speaks of projects for development banking which are "of such a nature and size that public assistance is substantial..." While the meaning of this is unclear, let us assume that public assistance means either (or both) government decisions (leasing, permits, taxes, etc.) or government financial assistance. If the former decisions create project risk unacceptable to private investors, the most efficient correction is to address those factors, not to provide public investment. If "public assistance" just means public financing, under what circumstances is such financing justified? The proposal states "It is not the intent of the development bank to subsidize industry, but rather to take more than normal risk in causing projects to happen which have demonstrated feasibility." If the risks are due to government - caused uncertainty, we have already seen that government action to reduce those uncertainties and not government financing is the appropriate action. If the risks are market risks, such as prices, cost of production, availability of markets, etc., the real question is should the state accept these risks which the private sector chooses not to accept. Your proposal is designed to have those risks as well as project benefits identified and presented to the Governor and the Legislature. If these policy-makers decide that the benefits justify the risks, then the bank can proceed with the financing and assume "more than normal risk." Such a tight decision-making process makes public investment rational and explicit, and is preferable to a blanket mandate for the bank to finance projects rejected by the private sector (which is essentially "Lemon Socialism" as described by Beldon Daniels).

The Espe proposal recommends use of guarantees, which, given the previous discussion, may be the best financial mechanism for use by a development bank. Rather than simply supplying debt capital and bearing all of the risks of a venture, the bank could simply agree to guarantee specific risk factors identified by their staff and accepted by the Governor and the Legislature. Having had these risks assumed by a third party which stands to benefit in more ways than simply strict return on investment, i.e. the State of Alaska, the private sector should then be willing to proceed with an otherwise feasible project. Such use of limited and targeted intervention, as conceived in your proposal, will leave most aspects of industrial expansion, such as project development, feasibility analysis, project selection, and financing, to the private sector where it properly belongs.

This is the situation with the gasline.

With respect to revenue bonding, we have already shown below that there are a host of state and local revenue bonding entities. Without compelling evidence of further unsatisfied needs, the development should leave revenue bonding to existing agencies.

One final point. The Espe proposal recommends financing large projects. Virtually all economic analysis to date points to small and rural business as suffering capital shortages, not large projects. We have contracted for a study of the capital shortage question, a kind of first broad cut at the development bank's task, with two economists experienced in the capital markets field. Their results should be available next month. Hopefully, their findings on the existence of and reasons for capital shortages in Alaska will help refine the debate on this subject.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 7, 1979

M E M O R A N D U M

TO: Representative Bill Miles
Co-Chairman
House Resources Committee

FROM: Milt Barker MB
Fiscal Analyst

SUBJECT: General & Permanent Fund Balance Projections

The attached projections are based on the following assumptions:

1. No gas line construction or gas production.
2. Sadlerochit production remains at approximately 1.2 million BPD through 1990.
3. No production other than Sadlerochit and currently producing Cook Inlet fields.
4. Oil price increases at the refinery as scheduled by OPEC with annual increases of 6.5% beginning in January 1980 thereafter.
5. 6.5% annual inflation in non-petroleum revenues and petroleum corporate income tax.
6. No lease bonus revenue.
7. Interest earned on permanent and general fund investments at 7%.
8. ~~No increase in illiquid general fund investments (Alaska loans) beyond $500 million.~~

MBB:pw
Attachments

31-01LH

GENERAL FUND AND PERMANENT FUND PROJECTED BALANCES

FISCAL YEAR	TOTAL REVENUE [1]	BUDGET APPROPRIATION [2]	TOTAL EXPENDITURE [3]	SURPLUS OR DEFICIT	END OF YEAR PERMANENT FUND BALANCE	END OF YEAR GENERAL FUND BALANCE	BUDGET CUTS OR ADDITIONAL REVENUE REQUIRED TO MAINTAIN GF BALANCE AT $500 MILLION
1979					128.9	578.5	
1980	1249.1	1030.0	1195.7	53.4	219.0	631.9	0.0
1981	1480.2	1184.5	1380.3	99.8	325.4	731.7	0.0
1982	1663.6	1362.2	1581.3	82.3	444.5	814.0	0.0
1983	1801.4	1566.5	1810.2	- 8.8	576.9	805.2	0.0
1984	1940.1	1801.5	2071.6	-131.5	723.7	673.7	0.0
1985	2080.6	2071.7	2312.6	-232.0	885.8	500.0	58.4
1986	2238.2	2382.5	2596.5	-358.3	1064.2	500.0	358.3
1987	2412.4	2739.8	2974.8	-562.5	1260.1	500.0	562.5
1988	2600.0	3150.8	3408.2	-808.3	1474.6	500.0	808.3
1989	2810.8	3623.4	3904.7	-1093.9	1709.0	500.0	1093.9
1990	3034.4	4166.9	4473.6	-1439.2	1964.6	500.0	1439.2

1. Unrestricted revenues, including 100% of royalties.
2. FY 80 figure is the Governor's general fund request; subsequent years reflect 15% annual compound increase.
3. Total expenditure is budget appropriation plus permanent fund, renewable resources fund, and native claims fund contributions.

1960 $
- 78 $
19%

10%

16%
5%

Prepared by:
Legislative Finance
February 7,1979

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

1

26-JAN-79

COMMENTS
NO GAS PRODUCTION
NO EXPORTS
6.5% INLFATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 10.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $500 MIL
1979										120.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	86.5	1481.3	1133.0	0.0	0.0	195.8	1328.8	152.5	364.7	784.3	0.0
1982	1559.9	110.0	1669.9	1246.3	0.0	0.0	219.1	1465.4	204.5	507.6	988.8	0.0
1983	1681.7	136.6	1818.3	1370.9	0.0	0.0	243.7	1614.6	203.7	666.5	1192.6	0.0
1984	1810.3	164.3	1974.6	1508.0	0.0	0.0	270.2	1778.2	196.4	842.7	1389.0	0.0
1985	1944.7	194.6	2139.3	1658.8	0.0	0.0	240.9	1899.8	239.6	1037.2	1628.5	0.0
1986	2089.8	229.5	2319.3	1824.7	0.0	0.0	214.1	2038.8	280.5	1251.2	1909.0	0.0
1987	2243.2	266.9	2510.1	2007.2	0.0	0.0	235.0	2242.2	267.9	1486.3	2176.9	0.0
1988	2407.8	305.0	2712.8	2207.9	0.0	0.0	257.4	2465.3	247.5	1743.7	2424.4	0.0
1989	2593.2	343.6	2936.8	2428.7	0.0	0.0	281.3	2710.0	226.8	2025.0	2651.2	0.0
1990	2788.6	382.2	3170.8	2671.6	0.0	0.0	306.7	2978.2	192.6	2331.7	2843.8	0.0

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

2

26-JAN-79

COMMENTS
NO GAS PRODUCTION
NO EXPORTS
6.5% INLFATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLEMENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERMANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $500 MIL
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	85.4	1480.2	1184.5	0.0	0.0	195.8	1380.3	99.8	364.7	731.7	0.0
1982	1559.9	103.7	1663.6	1362.2	0.0	0.0	219.1	1581.3	82.3	507.6	814.0	0.0
1983	1681.7	119.7	1801.4	1566.5	0.0	0.0	243.7	1810.2	-8.8	666.5	805.2	0.0
1984	1810.3	129.8	1940.1	1801.5	0.0	0.0	270.2	2071.6	-131.5	842.7	673.7	0.0
1985	1944.7	135.9	2080.6	2071.7	0.0	0.0	240.9	2312.6	-232.0	1037.2	500.0	58.4
1986	2089.8	148.4	2238.2	2362.5	0.0	0.0	214.1	2596.5	-358.3	1251.2	500.0	358.3
1987	2243.2	169.2	2412.4	2739.8	0.0	0.0	235.0	2974.8	-562.5	1486.3	500.0	562.5
1988	2407.8	192.2	2600.0	3150.8	0.0	0.0	257.4	3408.2	-808.3	1743.7	500.0	808.3
1989	2593.2	217.6	2810.8	3623.4	0.0	0.0	281.3	3904.7	-1093.9	2025.0	500.0	1093.9
1990	2788.6	245.8	3034.4	4166.9	0.0	0.0	306.7	4473.6	-1439.2	2331.7	500.0	1439.2

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

3

26-JAN-79

COMMENTS

NO GAS PRODUCTION
NO EXPORTS
6.5% INLFATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 20.00%

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR OF BAL OF $500 MIL
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	84.2	1479.0	1236.0	0.0	0.0	195.8	1431.8	47.2	364.7	679.1	0.0
1982	1559.9	97.2	1657.1	1483.2	0.0	0.0	219.1	1702.3	-45.2	507.6	633.9	0.0
1983	1681.7	105.7	1787.4	1779.8	0.0	0.0	243.7	2023.5	-236.1	666.5	500.0	102.2
1984	1810.3	117.7	1928.0	2135.8	0.0	0.0	270.2	2406.0	-477.9	842.7	500.0	477.9
1985	1944.7	136.7	2081.4	2563.0	0.0	0.0	240.9	2803.9	-722.5	1037.2	500.0	722.5
1986	2089.8	158.2	2248.0	3075.6	0.0	0.0	214.1	3289.6	-1041.7	1251.2	500.0	1041.7
1987	2243.2	182.5	2425.7	3690.7	0.0	0.0	235.0	3925.7	-1500.0	1486.3	500.0	1500.0
1988	2407.8	210.1	2617.9	4428.8	0.0	0.0	257.4	4686.2	-2068.4	1743.7	500.0	2068.4
1989	2593.2	241.3	2834.5	5314.6	0.0	0.0	281.3	5595.9	-2761.3	2025.0	500.0	2761.3
1990	2788.6	276.8	3065.4	6377.5	0.0	0.0	306.7	6684.2	-3618.8	2331.7	500.0	3618.8

Emil #18:30

TESTIMONY BEFORE THE HOUSE
SPECIAL PERMANENT FUND COMMITTEE

By Clark Gruening

March 30, 1979

Mr. Chairman, committee members, friends, and former colleagues, I understand that you're about to go into what's known as "mark-up" on the various Permanent Fund proposals before you. As I recall, mark-up takes place when you've heard every conceivable bit of advice as to what you ought to do, and now it's your turn to do what you think should be done. Having been through this exercise myself once or twice, I hope I can share with you some basic references I found helpful in sorting out all the information and issues.

The two basic references I find helpful are: first, Section 15, Article IX of the State Constitution creating the Alaska Permanent Fund and those major principles Alaskans have told us they wanted written into any permanent fund legislation.

Before reflecting further on those basic references, one preliminary question needs to be addressed. This question will undoubtedly arise among that group known as "the body at the other end of the hall." That is, does there need to be any action this session to establish in law more definite

management and investment guidelines. This question is sometimes phrased as, what's wrong with letting the Department of Revenue go on doing as it has been doing with the Permanent Fund money.

Why is it better that a comprehensive Permanent Fund management bill pass sooner than later? In the first place, the passage of time is not going to make the legislature's decision any easier. As the size of the Permanent Fund grows, so will the number of lobbying groups which seek special uses of the money. The pressure will grow in proportion to the size of the Permanent Fund.

We would do well to take a leaf from our own State Constitutional Convention, which in 1955 and 1956 worked under the advantage of writing the Constitution in the relatively uncharged political atmosphere. That is not to say that the Constitutional debates were not spirited, heated, and arduous. But in the main, those debates focused on matters of long-term policy and not short-term political expediency. The hard work of the many eminent Alaskans who were delegates to the Convention was viewed by some as an academic exercise since, at the time of their deliberations, statehood for Alaska was still a major uphill battle to be won in Congress. Yet the delegates took their jobs seriously and were able to produce, in a relatively unpressured atmosphere, a document that is widely admired as a model Constitution.

In regard to the Permanent Fund, I have heard the comment more than once that the legislature really doesn't need to make a more definite and clear statutory statement of Permanent Fund management structure and investment guidelines until the fund grows to a size in which it can "really do something."

I firmly believe we need better guidelines than those stated presently in A.S. 37.10.065--otherwise known as the interim management statute. I disagree with the statement in the Governor's letter of transmittal for the administration's Permanent Fund proposal that this statute is adequate for the management of the basic 25 percent. If you also believe that the interim management statute can be improved, the time to do it is <u>now</u> before the pressure is really upon the administration and the legislature for bills to meet competing demands for immediate disbursement of Permanent Fund money for this or that project.

What are, then, the critical elements, not now in law, that a Permanent Fund management bill should contain? This brings us back to those basic references I referred to. After the passage to the constitutional amendment in November of 1976, public hearings were held, questionnaires were sent out, and both the House and Senate committees working on Permanent Fund legislation received testimony of statements both on how the fund should be specifically invested, what

should be the basic management concept. Even if there appeared to be no consensus on what the specific Permanent Fund investments ought to be, there appear to me to be a clear view by Alaskans on those general principles under which the fund should be managed.

In my view the five main principles emerging from the Alaska public can be simply stated as follows:

First, the Permanent Fund should serve as a safe depository for mineral revenues and not used for current expenditures;

Second, the mineral revenues placed in the Permanent Fund (the principal of the fund) should stay there and not be dissipated by using it to pay for operations of state government or by investing it unwisely;

Third, where there are sound investments in Alaska the Permanent Fund should make them without duplicating financial services already available;

Fourth, money earned by the Permanent Fund investments (the earnings or income) should be used for the benefit of current and future Alaskans; and

Fifth, the day-to-day management of the Permanent Fund should be insulated from politics but the management should be accountable to the public in matters of policy and performance.

Some of these principles are in a large degree mandated by a plain reading of the constitutional amendment. In reviewing A.S. 37.10.065, it's obvious that no attempt was made to write these principles into the law. It should

be noted, however, that this statute was only intended as an interim measure passed on the heels of the amendment in order to authorize somebody to invest the first Permanent Fund money.

What is critically important now is that a definite statement of investment management goals be stated in law.

The present list of investments is limited to mostly so-called "money market instruments" which, by their nature, preclude a larger portion of Permanent Fund money from being invested in Alaska even though undoubtedly many investments can be safely made in Alaska.

Another major problem with the interim management statute is that it authorizes management by the Department of Revenue. A primary function of that Department is to ensure that sufficient revenue is available from the General Fund to meet on-going state expenditures. In other words, of necessity, the General Fund is of primary concern to the Commissioner of Revenue. This is as it should be since it is the General Fund which will continue to be the largest repository of public money and the sole source of revenue for operation of state government.

Without being critical of any person or policy of the Department of Revenue, I have no doubt that had the interim statute permitted the Commissioner of Revenue to

purchase state loans with Permanent Fund money that past and current General Fund cash crunches would have sorely tempted the Commissioner to sell the least liquid loans to the Permanent Fund in order to achieve liquidity for the on-going expense of government operations. The same conflict exists between General Fund and Permanent Fund management policies even within the limited list of investments currently allowed for the Permanent Fund. Even money market instruments, because they can grow relatively less liquid or less attractive with fluctuating interest rates, are subject to being traded off at a loss to the Permanent Fund.

It may be argued that there is an economy to be achieved by having all the funds managed under one roof. This proposition is yet to be persuasively demonstrated, but should this be viewed as a critical factor, it might be wiser to place all investments functions under a board such as Wisconsin's Investment Board for which investment functions have been clearly separated from revenue and taxation problems. Even though there is a split within the Department of Revenue by division between investments and revenue collection, I would submit that a headstrong Commissioner (and Alaska has seen a few of these) can easily overlook any separation of function so as to solve whatever political or financial problems may confront him.

Moreover, there's something to be said because of the special constitutional stature of the Permanent Fund for establishing a separate corporate identity for the Permanent Fund management. (as Under the House proposal of the last session of the Tenth Legislature and House Bill 281 now before you) the establishment of a separate corporate existence removed from the Department of Revenue should not mean any less accountability. Accountability is assured by continued oversight by the legislature through an appropriate committee or committees. The administration would continue to have oversight ~~power~~ through the appointment and removal power and budget review under the Executive Budget Act. It is interesting to note that the administration has no problem with management of 75 percent of the Permanent Fund by a separate corporation.

This brings us back to a very basic question. What are you going to ask this management structure to do? What guidelines are you going to give them for the investment of this public money? After considerable deliberation, the predecessor to this committee, the House Special Permanent Fund Committee in the Tenth Legislature determined that the guidelines should approximate those of a savings trust and that regardless of whatever long-term investment commitments

the fund may be called on to make in the future, that a large portion of permanent fund money should be in very liquid form of investment--that is to say that a large portion of the fund would be flexible and available for a totally new kind of investment in which savings may or may not be the primary emphasis.

By flexibility or liquidity, we meant the ability to change the form or thrust of the investment without discounting or taking a substantial loss on the investment you are "cashing in." Implicit in this statement is the possibility that the legislature may reasonably or unreasonably decide at some time in the future that the fund should be committed directly or indirectly (by equity investment or by guaranteeing or pledging) to some major project or series of projects within the Alaskan economy or to address an "economic emergency" by certain investments the legislature may designate by statute.

The necessity and wisdom, however, of stating in law a clear statutory charter for the savings trust is that when that time comes to change the major thrust of the Permanent Fund, it can only be done by amending the law by a bill requiring hearings and majority approval of each House as well as the approval of the Governor. There is, in my view, a far less likelihood of ill-advised or secret deals being cut for the disposal of permanent fund money under

the requirement of a passage of a bill rather than simply the decision of a compliant bureaucrat.

The statutory charter you are called upon to address would also provide for a flexibility which may or may not be the case under the "temporary" statutory provisions. Without further inquiry it is difficult to ascertain the true position of Permanent Fund from the Department of Revenue's monthly investment reports.

One extreme would have been to completely remove the policy decisions of the Permanent Fund managers from reach of any elected officials. This would have had the unfortunate result, however, of completely insulating the managers of the Permanent Fund from the general public or the need to respond to changes of public policy. This was the essence of the major criticism against the establishing a Permanent Fund in the first place. Nevertheless, I believe the provisions of House Bill 281 will prevent the Permanent Fund from becoming a headless monster. House Bill 281 appropriately balances the need for insulation from day-to-day politics with the need for responsiveness to changes in basic public policy.

There is, among all the legislative proposals now before you, a consensus that the trust concept should be the dominant theme of any final bill. In order to make this

theme more plain to the principal fund managers, there needs to be both a general statement as to investment standards (such as the prudent man rule) and list of eligible investments specified as appropriate in regard to risk level and return to the fund. The greatest danger of substantial erosion of the Permanent Fund principal is not (as suggested in a February 23, 1979 Permanent Fund policy memorandum of the Division of Policy Development and Planning) from a practice of making investments at less than market rates but rather from making investments entailing more than a reasonable risk. Generally, in the investment world the higher the risk, the higher the expected return. In a number of instances, however, we have seen the investment of public assets in investments which are highly risky and yet offer in the outset a very low return. Sometimes, these investments are justified on policy grounds as being necessary to diversify the economy or create jobs. Often, neither goal is achieved.

Both before and after the passage of the constitutional amendment establishing the Permanent Fund, elected officials, consultants, members of the general public all offered differing views to what the Permanent Fund could and should accomplish. I recall writing an article in which I enumerated various worthy things the Permanent Fund could d Principal

among these was the opportunity to use Permanent Fund money to diversify the economy and to replace absentee ownership of certain industries, particularly renewable resource industries, with Alaskan ownership. Now that I'm older and wiser, or at least older, I see the Permanent Fund cannot reasonably be expected to accomplish all our goals at once.

One reason for a modification in my view is that the fund didn't turn out to be as big a pot of gold as anticipated. Another factor was the realization that many of the "development banking" investments would be at risk levels generally incompatible with the concept of a savings trust. A solution we proposed was to commit the basic 25 percent mandated by the Constitution to a savings trust and to provide for an additional contribution over and above the 25 percent to an "Alaska Enterprise Investment Corporation." The purpose of this corporation, as in your House Bill 282, is to assist financially sound, small and medium scale productive private enterprises and community development projects in the State.

I urge you to act on bills which provide for clear and accountable management of the Permanent Fund and the Alaska Enterprise Investment Corporation. Whether or not capitalization for the enterprise function actually comes from an additional dedication from the Permanent Fund

or from the General Fund, I believe there needs to be an active entity in the area of development banking, designed to assist the economies of the varied communities and regions of the State in an original way which does more than merely replace sources of capital that otherwise would have been available. After the separate managements of the Permanent Fund and the enterprise function have had the opportunity to establish a track record, some joint participation by the two entities in "development banking" may be justified.

In the meantime, Permanent Fund management ought to be required by law to place a premium on safety and liquidity of investment so that when we see more clearly where the greatest potential of the fund for new investment opportunities lies, we can act.

Even though it now appears we cannot accomplish all our goals at once, over a period of time it is, in my view, possible to do most of those things originally envisioned for the Permanent Fund. Within the realm of a savings trust a number of current benefits still accrue to Alaskans:

1. Mineral wealth, otherwise destined for expenditure in the operating budget of state government is held available for future capital investment and improvement in the State;

2. Active capital investment in the State can be properly made under the savings trust concept;

3. The credit worthiness of the State for both general obligation bonds and revenue bonds is enhanced, thereby increasing the ability of the State to acquire new capital sources at lower cost;

4. The opportunity to participate in the diversification of the Alaska economy at a future time remains open; and

5. The Permanent Fund will continue to serve as a meaningful focus for the public to discuss State fiscal and economic policy.

There is a common awareness now that the income from the earnings of the Permanent Fund will never be sufficient to replace, in any significant amount, the revenue now required for state government. I'm still partial to the use of income proposal contained in House Bill 595 of the Tenth Legislature. That use of income proposal was designed to assist the development of low cost energy ~~projects~~ throughout the State.

If, however, this committee does not reach this conclusion as to the use of the income from the Permanent Fund, returning the income to the principal of the fund so that the impact of inflation on the corpus of the fund will be lessened is preferable to its present deposit in the General Fund.

To sum up, three points bear repetition. Whatever bill you finally agree on, provision ought to be made in the investment guidelines for liquidity of investment of the larger portion of the fund. Second, the statutes must provide for public accountability for the performance and policy of the fund's management. This, I believe, entails placing the management out from under the potential conflict situation within the Department of Revenue. Accountability also should include at a minimum, a meaningful reporting procedure and an active oversight function by the legislature. My last point is that the legislature has sufficient information to make a decision this session and I don't think there is any good reason for delaying a permanent fund bill.

#18:30

TO: Rep. Malone, Chairman
House Special Committee on the Permanent Fund

FROM: James B. Rhode, AA

SUBJECT: Major Proposals for the Permanent Fund

DATE: 22 February 1979

At your request, we have prepared a brief description of the major proposals for the use of the Permanent Fund, whether or not a bill was actually introduced.

(1) Administration, 1977 - An independent fund with no less than 40% held in a trust of investment grade securities, 30% for business development loans, and no more than 30% for community facilities.

(2) Administration, 1977 - Alaska, Inc. pays all earnings of the fund to our citizens on the basis of residency.

(3) Administration, 1979 - An independent fund with no less than 25% of royalty and related proceeds devoted to a trust, with additional contributions to the fund available for business development loans upon a showing that such loans are needed to fill a "capital gap" in the state.

(4) Administration, 1979 - One-half of fund earnings are to be paid to our citizens as tax credits and one-half are to go to the general fund. Before these distributions, the annual earnings are pledged to guarantee power debt.

(5) Administration, 1979 - A constitutional amendment increasing to 75% the contributions to the fund of royalty and related proceeds, plus 100% of mineral bonus bids, and all net income from lands, unless committed under Federal programs or for debt.

(6) House, 1978 - The bulk of the fund is held in a separate trust, but $100 million may be used by an Enterprise Fund for rural, small business loans. Fund earnings are returned to the fund if not called as guarantees of power debt.

(7) Hohman, 1978 - Creates a trust whose earnings are pledged to secure a multi-million dollar issue of debt for the use of the state's existing loan programs; these programs are to be consolidated and delinquencies to be collected by Revenue.

(8) Sumner, 1979 - Once the fund has reached $2 billion, every citizen as of July 1, 1981 may choose the investment of his pro-rata share from an eligible list prepared by the Commissioner of Revenue, to include a state managed trust, with all earnings to be retained by the citizen.

(9) Colletta, 1979 - Permits the fund to make secured loans to a General Stock Ownership Corporation (GSOC).

(10) Haugen, 1979 - Devotes the principal of the fund to power projects.

(11) Swanson, 1977 - Creates a trust whose earnings are to be used to develope renewable resource industries; any losses of principal are to be made up from earnings.

(12) Ray, 1977 - Devotes the principal of the fund to community capital projects.

(13) Northwest, 1978 - Commits the first $500 million of fund principal for the state's equity position in the gasline project.

(14) Hickel, 1978 - Devotes the fund to moving the capital and building the Susitna dam.

(15) Earth Resources, Co., 1979 - Pledges the earnings of the fund to secure debt for the construction of gas conditioning plants in Fairbanks.

Alberta's Enviable Oil and Gas Net Egg

Continued From Page D1

tion and growth here, not to mention the careers of the fund's political overseers.

Fund Designed in 1976

The Heritage Fund was designed in 1976 by the conservative government of Premier Peter Lougheed with three goals and four divisions. The goals were to improve the quality of life for Alberta's 1.9 million citizens, to invest for expansion and diversification of a provincial economy once based largely on agriculture and to provide a source of income and possibly capital in the more distant future when the area's fossil fuel reserves, and thus government royalties, decline.

Each year, 30 percent of the royalties are transferred into the fund. The other 70 percent go to the General Government Revenue Fund where, among other things, the money has eliminated the need for any provincial sales, gasoline or estate taxes.

Unlike most other North American governments, Alberta's thus was able to plan a budget surplus of $768.5 million for this year with expenditures of $3.79 billion (Canadian).

An additional $1.5 billion will go into the Heritage Fund's four divisions. These are Capital Projects, Canada Investments, Alberta Investments and the surplus. With a ceiling of 20 percent of the fund, Capital Projects involves building facilities for recreation, education and irrigation as well as health care and medical research installations, which the government hopes to make into a major "industry" here.

15% of Fund Is on Loan

Canada Investments lends a maximum 15 percent of the fund to Canada's federal and provincial governments.

The Alberta Investments provision, probably the most important, is tied up largely in the debentures of the Alberta Housing Corporation and the Alberta Home Mortgage Corporation. It also holds a 10 percent share of the vast Syncrude oil sands recovery project plus more than $200 million of convertible debentures in Gulf Canada Ltd. and Canada-Cities Service, which it acquired when the government stepped in to rescue the Syncrude project.

The surplus portion of Heritage Fund, a little more than $2 billion, is invested in short-term securities, ranging from overnight to 12-month maturities. This money is put into a variety of bank, commercial finance and grain company paper as well as treasury bills.

Mervin Leitch, the provinical treasurer, has said the rule is to seek highly liquid marketable securities with the best interest and least risk possible, pending longer-term investment decisions for the money.



United Press International

Peter Lougheed

"We go for the short-term, conservative stuff," said Brent Harding, a treasury aide. "There are no investments in gold mines or moose pastures."

Legislature Exercises Control

The Capital Projects division is controlled by the Legislature, which currently has 75 seats, 69 of them controlled by Premier Lougheed's Progressive-Conservative Party. The other divisions are overseen by the 24-member provincial cabinet. The mechanics are carried out in Mr. Leitch's Treasury Department by an eight-member staff of traders, who also handle the short-term investment of the province's general revenues.

Treasury officials said their investments were returning 9 to 10 percent. The Heritage Fund's latest annual report, released last July, reported a weighted average yield of 8.6 percent.

But for this and a number of other reasons, the Heritage Fund has come under mounting criticism in recent weeks and months.

"They are way too conservative, almost timid," said one financial analyst, who like many others sees the need for an expanded professional staff to manage the rapidly growing fund.

But given Premier Lougheed's penchant for firm control of all things political and his anticipated call for elections in March, few expect any dramatic changes.

There have also been criticisms from other less-endowed provinces, such as Ontario, which maintain that Alberta has no need or right to siphon off further vast sums and potential investments from them for itself.

"As a Canadian," said Ed Broadbent, leader of the opposition New Democratic Party in Ottawa, "I find it disturbing that one part of the land is a miniature Saudi Arabia and in a position to simply compound its gains."

Loan to Nova Scotia

The loans to other provinces are a partial response to these charges; financially pressed Nova Scotia, for instance, saved a considerable underwriting cost and potential currency exchange losses on its direct $100 million loan from Alberta, but is paying standard commercial rates.

But the greatest difficulty, the Premier acknowledges, probably lies in the future. There are already divisions over how and when the money should be spent, not least from civil servants clamoring for wage increases. "Why are we saving it all?" one community leader asked: "let's spend it now on education. What better investment is there?"

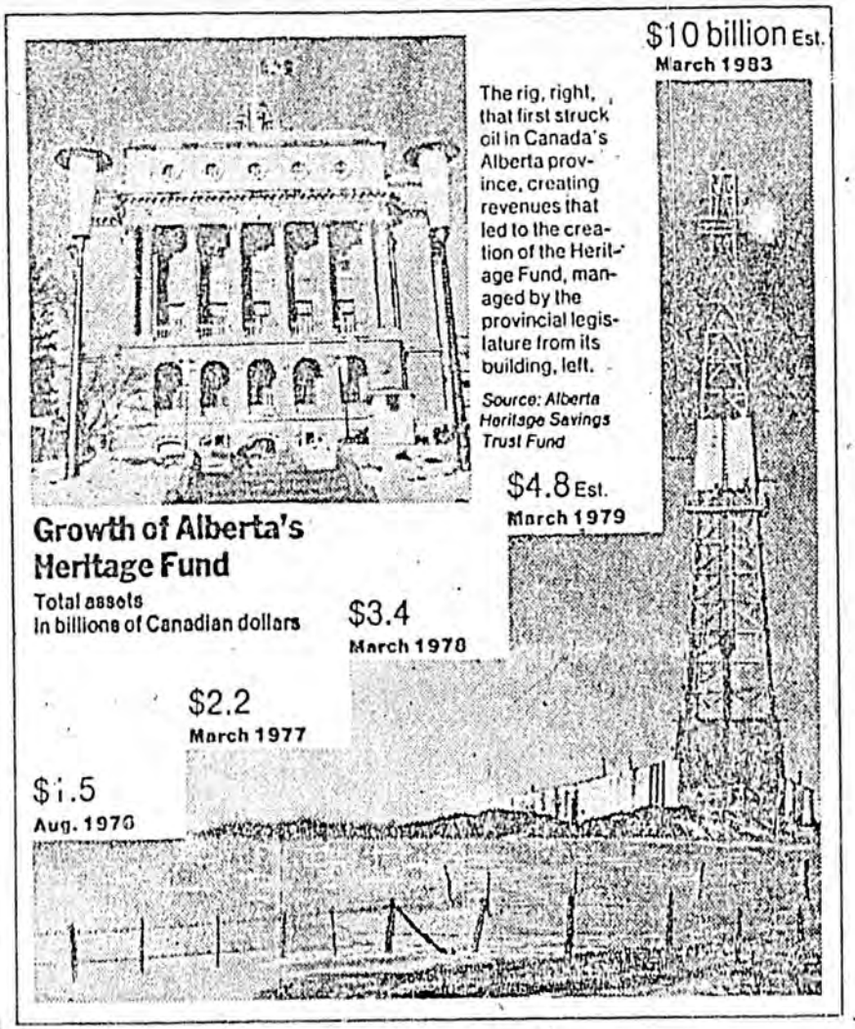
The government has done little with the fund to shape Alberta's economic diversification, one of the reasonsfor the fund's founding. But there are signs of change here. Mr. Lougheed has proposed a $100 million investment to expand terminal facilities in British Columbia to improve maritime export of Alberta's vital grains. And there appears to be less reluctance now to expand loans to corporations, boding some competition for banks, or to taking more equity positions. The province already owns Pacific Western Airlines, a regional carrier that it bought on the stock market in 1973.

This trend is fast raising fears of future injudicious spending and possible political favoritism — if not by the present administration, then perhaps by its successors.

"It is a fiscal rule," said a bank analyst, "that governments with money tend to create programs that stick around and haunt them later when the money is gone. Then all they can do is cut growth, not actual expenses."

Or as one Calgary oilman put it: "I'm worried about some yahoo candidate promising to repave everybody's street with that money if they'd just elect him. A lot of people would vote for that. I would."

Alberta's Enviable Oil Nest Egg



By ANDREW H. MALCOLM

Special to The New York Times

EDMONTON, Alberta — The rainbow ends here. And the pot of gold is the Alberta Heritage Savings Trust Fund.

Thanks to the oil and gas that lurk beneath these prairies and to the Arabs who raised their world value, the Province of Alberta now has about $4.5 billion it isn't quite sure what to do with. To handle this delightful problem, it has created a trust fund for the future, and into it goes 30 percent of the province's receipts in royalties from nonrenewable resources.

In the time it took to read this far, $1,400 more has poured into the fund. That is $166,666 an hour, or $4 million a day, or $1.5 billion a year, give or take $100 million or so.

"Them are big bucks," said one of the growing number of bankers, such as Citicorp and First Boston, who have opened or expanded their offices in Alberta.

To be sure, there are many other financial attractions in Alberta, a Texas-sized province that has Canada's most prosperous economy, smallest taxes and lowest unemployment. But the 30-month-old Heritage Fund has already created the largest money market west of Toronto and ignited regional jealousies and denunciations of Alberta's "blue-eyed Arabs."

How the fund is handled, or mishandled, in the coming years will significantly shape the future economic direc-

Continued on Page D5

TO-Lag
Jay Kirkpatrick

New York Times
1/15/75

Opinion 1977-27

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

SUBJECT: Permanent fund

TO:

FROM: Billy G. Berrier, Director
Division of Legal Services

You have requested my comments on the legal implications of the words "permanent" and "income producing" as used in the constitutional amendment authorizing the permanent fund on the legal standards and guides the legislature may wish to establish in legislation.

The relevant provision is Section 15, of Article IX which reads:

> "Section 15 ALASKA PERMANENT FUND. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law".

It is clear from the wording of the amendment itself and from the surrounding context that the concept is that a fund be created in which a portion of the mineral revenues of the state would be set aside in order to insure preservation for the future of that portion of the revenue. There can be no legitimate question that the objective is preservation of that portion as capital for the long term use of the state and its people and prevention of uses which are expedient in the short term but which would dissipate the capital of the fund. The paramount consideration must be the probable safety of the capital of the fund to be invested.

The term "permanent" as used three times in the body of the amendment and in the title of the fund would be read in the normal sense of that word since that reading is consistent with the context of the amendment, with the legislative and public discussion of the amendment, and with the understanding that the voters would be presumed to have in approving the amendment.

While the permanent fund is not a trust in the technical legal meaning of the term, the protection of capital required has substantial similarities to the requirements binding upon a trustee. This requirement is commonly referred to as the prudent-man rule. There have been numerous cases on this rule and many commentators have set out reasonable similar statements of the rule. A good statement is found in Scott on Trusts 3rd Ed in Sec. 227 (pages 1805 - 1806) which reads:

> "The only general rule which can be laid down as to investments is that the trustee is under a duty to make such investments as a prudent man would make of his own property having primarily in view the preservation of the estate and the amount and regularity of the income to be derived. In various forms this rule has been stated in innumerable cases. It involves three elements, namely care and skill and caution. The trustee must exercise a reasonable degree of care in selecting investments. He must exercise a reasonable degree of skill in making the selection. He must, in addition, exercise the caution which a prudent man would exercise where a primary consideration is the preservation of the funds invested."

This rule would seem to adequately set out the general parameters constitutionally required for permanent fund investments of principal. It would apply at two stages of the process. The legislature would be bound to apply it in exercising the duty to circumscribe and delineate investments required under the limitation in the constitution reading:

> "...the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investment. (emphasis added)

The managers of the fund are given no constitutional discretion under this clause. The discretion is lodged exclusively in the legislature; and, if the objectives of the permanent fund are to be attained, investments specifically designated by law as eligible for permanent fund investment must also meet the criteria of having as a primary consideration the preservation of the funds invested.

The legislation, however, would not be expected to detail the permissable investments. It would presumably designate specific investment catagories and create a management structure for the fund which would make the specific decisions as to which investments are to be made. Here again, the prudent-man rule would be applicable. In addition to designating specific catagories of investment, any legislation should also establish guidelines for the fund management which are consistent with the objective of the fund. The need for this arises because within a class which as a class meets the objectives of preservation of the funds invested, some specific investments would still not be made by a prudent man. Possibly this could be largely avoided by using an ultra restrictive approach to allowable catagories of investment but this approach would create or exacerbate other problems.

The primary difficulty with an ultra restrictive approach to allowable investments is that, as a matter of law, the problem of inflation would not be a factor in investment decisions. It can be reasonable assumed that inflation to some degree may be anticipated.

The argument has been made that inflation can realistically be anticipated to occur, that if principal is not increased in an amount to compensate for inflation the real value of the principal will decline even though the nominal value is maintained and that the duty of a prudent investor is to maintain the real value of the principal. Therefore, failure to account for inflation in investment policy violates the prudent-man rule of investment. I have found no authority to support this argument as a legal requirement. Factually, the argument would fall here. The constitutional amendment makes a clear distinction between principal which is permanent and income which is subject to expenditure by the normal appropriation process unless the legislature directs otherwise. At the time the amendment was adopted, inflation had occurred at an extremely high rate in the immediate past so it must be assumed that both the legislature and the public were conscious of inflationary effect. It would therefore, to support this argument, require assuming that investments which would have a capital appreciation, entirely apart from income earned, which is at least equal to inflation are the only permissable investments. This does not seem reasonable.

The argument that inflation must be taken into account does not seem valid here but that does not mean that inflation may not, or even that it should not, be taken into account. There is no reason that legislation establishing the management of the permanent fund and the disposition of fund income should not address this problem directly. I have suggested earlier that the legislation needs to establish standards for investments to avoid having to specify only ultra restrictive investments. The legislation could also require that the possible effects of inflation be a consideration in investment decisions made by the fund managers.

The term "income-producing" as used in the amendment presents serious conceptual difficulties. In context, this could simply be a restatement of the normal duty to make productive investments. In relation to trusts this has been stated:

> "It is the duty of a trustee to preserve the trust property and make it productive. It is ordinarily his duty to invest trust funds in such a way as to receive an income without improperly risking the loss of principal." (Scott on Trusts 227 p. 1805)

However, as stated earlier, the permanent fund is not a trust in the technical legal sense. Simply carrying over the trustee's duty could be misleading.

The term "income-producing" is not a term of art and has no fixed legal meaning differing from the conventional meaning of the term. It is possible that a court would hold that the term implies that maximum income consistent with safety of principal must be the exclusive criteria for investment. This would be consistent with trust law but it appears that the amendment contemplates broader considerations as well. It would appear more likely that other considerations, such as the effect particular investments would have on furthering public purposes other than maximization of income, could also be given weight. Some examples of other public purposes are providing jobs, improvement of the Alaskan economy and economic diversification.

It is clear that production of income is a necessary goal of each investment; it is probably that maximization of income consistent with safety of principal must be a major goal, ; but it appears unlikely that a court would hold that this must be the exclusive goal of permanent fund investment policy.

While the investment of the permanent fund differs from investment of state treasury surplus funds in several respects including the specific requirement of income producing investment of permanent fund principal, both have as major goals protection of principal and production of income. It is interesting to note that state treasury surplus fund investment specifies policy goals additional to the primary goals. On this point AS 37.10.075(f) provides:

> (f) Investment policy shall be formulated by the commissioner of revenue who shall be advised by a committee appointed by the governor which shall contain representation from the legislature. In formulating investment policy they shall consider maximum income and safety as governed by the prudent-man rule and the benefit to the private and public sectors of the economy in terms of increased housing and commercial credit, stimulated business activity, increased employment, support of the market for state and local bonds, increased public revenue together with the possible inflationary effect of the investment, and (h) and (i) of this section.

The question of what the term means as a matter of law will almost certainly be decided by the courts on a case by case basis. The questions involved are complex and change over time. In reasonably similar instances, the courts have refused to provide a general definition. For example the Alaska court in dealing with the term "capital improvements" as used in the Alaska Consitution said:

> "We believe it would be unwise for this court to attempt to provide an abstract definition of "capital improvements." We have concluded that it is beyond human ability to permanently circumscribe with mere words at a given point in time a concept which though limiting in aspect, is otherwise intended to provide a broad, permanent and continuing authority for municipalities to finance present as well as unforeseeable future needs." (Juneau v. Hixon 373 P2d 743 (Alaska 1962))

While it is my opinion the courts will be liberal in sustaining the reasonable expectations of the legislature and the fund managers, they are unlikely to allow investments which cannot reasonably be anticipated to produce maximum current income consistent with safety of principal modified by application of other permissable public policy considerations. It appears certain that investments which cannot reasonably be anticipated to produce direct income would not be allowed.

BGB:jpd

LONG RANGE GENERAL FUND REVENUE FORECAST
(In Millions of Current Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
GENERAL FUND PETROLEUM REVENUE							
Oil & Gas Severance Tax (Net of EDIC)	165.5	172.1	270.1	537.6	616.2	689.2	752.5
Petroleum Property Tax	161.0	166.0	171.0	176.0	181.0	186.0	191.0
Petroleum Corporation Income Tax	166.0	160.0	160.0	160.0	160.0	160.0	160.0
Oil & Gas Royalties (Gross)	297.5	360.2	467.3	647.9	747.9	849.7	943.0
Bonus Sales	0	0	0	0	0	0	0
Mineral - Petroleum Lease Rentals (Gross)	2.7	2.3	2.3	2.3	2.3	2.3	2.3
Federal Shared Mineral - Petroleum Rents & Royalties (Gross)	1.1	1.1	1.5	1.5	1.5	1.5	1.5
TOTAL GENERAL FUND PETROLEUM REVENUE (GROSS)	793.8	861.7	1,072.2	1,525.3	1,708.9	1,888.7	2,050.3
GENERAL FUND NON-PETROLEUM REVENUE							
Taxes							
Individual Income Tax	130.0	145.0	168.0	208.9	257.3	310.3	368.8
Corporation Income Tax	37.0	39.0	36.5	41.9	47.4	53.0	58.7
Business License Tax	22.0	3.8	3.1	3.3	3.4	3.6	3.8
Alcoholic Beverage & Cigarette Excise Tax	9.2	9.3	9.4	9.6	9.8	9.9	10.0
Fuel Taxes	27.8	29.3	30.0	30.8	31.4	32.0	32.4
School Tax	2.4	2.5	2.6	2.6	2.6	2.7	2.7
Other Taxes	24.6	26.2	32.2	30.5	35.0	36.7	41.8
TOTAL TAXES	253.0	255.1	281.8	327.6	387.2	448.2	518.2
LICENSES & PERMITS	20.2	20.1	21.2	22.1	23.2	24.2	25.3
FEDERAL SHARED NON-PETROLEUM REVENUE	3.4	3.5	3.5	3.5	3.5	3.5	3.5
INTEREST REVENUE (FROM GF & PF)	42.0	45.0	60.4	68.1	78.7	91.0	104.9
OTHER SALES & USE REVENUE	3.1	5.5	5.7	5.9	6.1	6.3	6.5
FACILITIES RELATED CHARGES	23.6	27.6	30.8	32.6	34.3	36.1	37.8
SERVICE RELATED CHARGES	4.5	3.4	3.6	3.8	4.0	4.1	4.2
MISCELLANEOUS REVENUE	3.9	3.9	3.9	3.9	3.9	3.9	3.9
TOTAL GENERAL FUND NON-PETROLEUM REVENUE	353.7	364.1	410.9	467.5	540.9	617.3	704.3
TOTAL GENERAL FUND REVENUE (GROSS)	1,147.5	1,225.8	1,483.1	1,992.8	2,249.8	2,506.0	2,754.6
Less State Native Land Claim Payment	41.6	50.8	68.5	96.8	112.8	104.3	0
Less Permanent Fund Contribution	75.2	90.7	117.8	162.9	187.9	213.4	236.7
TOTAL GENERAL FUND REVENUE (NET)	1,030.7	1,084.3	1,296.8	1,733.1	1,949.1	2,188.3	2,517.9

Prepared by the Department of Revenue, Research
February 1979

PROJECTED PERMANENT FUND BALANCES AND EARNINGS (1)

Fiscal Year	Permanent Fund Balance	Earnings @7% on Average Permanent Fund Balance	Permanent Fund Balance if Earnings @7% Retained in Fund
1978	54.5		
1979	128.9	6.4	135.3
1980	219.0	12.2	238.0
1981	325.4	19.0	364.8
1982	444.5	26.9	513.6
1983	576.9	35.7	686.6
1984	723.7	45.5	886.6
1985	885.8	56.3	1117.4
1986	1064.2	68.2	1380.2
1987	1260.1	81.3	1679.5
1988	1474.6	95.7	2019.9
1990	1964.6	128.6	2835.5

FOOTNOTE: (1) Assumes no gas line, no lease bonuses, no new fields produced. Sadlerochit produced at 1.16 mm BPD thru 1990, 6.5% annual increase in oil prices.

PREPARED BY: LEGISLATIVE FINANC
March 8, 1979

ALLOCATIONS OF PROJECTED OIL & GAS ROYALTIES
($ millions)

Fiscal Year	Oil & Gas Royalty 1/	Permanent Fund 25%	Renewable Resources 2/ Development Fund 2-1/2%	Renewable Resources 2/ Investment Fund 2-1/2%	Reserve for Energy Facilities 5%	Reserve for Capital Outlay 25%	Native 3/ Claims 16%	Mental Health Trust 1-1/2%	University Trust 1-1/2%	Public School Fund 1/2%	Unallocated Balance
79	297.6	74.4	7.4	7.4	14.9	74.4	47.6	4.5	1.5	1.5	63.9
80	360.3	90.1	9.0	9.0	18.0	90.1	57.6	5.4	1.8	1.8	77.5
81	425.7	106.4	10.6	10.6	21.3	106.4	68.1	6.4	2.1	2.1	91.6
82	476.4	119.1	11.9	11.9	23.8	119.1	76.2	7.1	2.4	2.4	102.4
83	529.7	132.4	13.2	13.2	26.5	132.4	84.7	7.9	2.6	2.6	113.9
84	587.3	146.8	14.7	14.7	29.4	146.8	94.0	8.8	2.9	2.9	126.3
85	648.1	162.0	16.2	16.2	32.4	162.0	46.6	9.7	3.2	3.2	196.6
86	713.6	178.4	17.8	17.8	35.7	178.4		10.7	3.6	3.6	267.5
87	783.4	195.8	19.6	19.6	39.2	195.8		11.7	3.9	3.9	293.7
88	858.1	214.5	21.4	21.4	42.9	214.5		12.9	4.3	4.3	321.7
89	937.6	234.4	23.4	23.4	46.8	234.4		14.0	4.7	4.7	351.5
90	1022.3	255.5	25.5	25.5	51.1	255.5		15.3	5.1	5.1	383.3
TOTAL CONTRIBUTIONS:		1909.8	190.7	190.7	382.0	1909.8	474.8	114.4	38.1	38.1	2389.9
FY 78 BALANCE:		54.5					25.2				
FY 90 BALANCE:		1964.3					500.0				

FOOTNOTES:
1. Based on assumptions of no gas line, Sadlerochit production at 1.16 million barrels per day, 6.5% annual increase in oil prices, and no new fields produced, and no lease bonuses.
2. Allocations to both Renewable Resources Funds cease when the Investment Fund reaches $250,000,000.
3. Payments cease when $500,000,000 has been paid.

PREPARED BY:

LEGISLATIVE FINANCE
March 8, 1979

House Special Committee on the Permanent Fund

Proposed Schedule as of 6 March 1979

Agenda	Meetings		
Discussion of Schedule Review of Revenue Estimates Review of Alberta Heritage Fund Analysis of "Capital Gap" Issue	Tuesday 6 March 4:30 p.m.	Thursday 8 March 4:30 p.m.	Saturday (as needed)
Administration Testimony Analysis of Administration and 1978 House Proposals	Tuesday 13 March 4:30 p.m.	Thursday 15 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 162 (Haugen); Other Proposals from the Committee Testimony on HB 280 (Sumner) Analysis of Sumner Proposal	Tuesday 20 March 4:30 p.m.	Thursday 22 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 279 (Hohman) Analysis of Hohman Proposal	Tuesday 27 March 4:30 p.m.	Thursday 29 March 4:30 p.m.	Saturday (as needed)
Further Testimony as Required Committee Mark-up	Tuesday 3 April 4:30 p.m.	Thursday 5 April 4:30 p.m.	Saturday (as needed)
	Tuesday 10 April 4:30 p.m.	Thursday 12 April 4:30 p.m.	Saturday (as needed)

NOTE: This schedule is subject to change as the result of schedule conflicts by consultants, and by direction of the Committee. This schedule may also be altered by additional referrals.

ECONOMIC CONSIDERATIONS IN FSTABLISHMENT OF ALASKA'S PERMANENT FUND

by
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for
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I. INTRODUCTION

The following report was prepared under a contract between the State of Alaska Legislative Affairs Agency and the University of Alaska Institute of Social and Economic Research. Its object was to explore some of the fundamental economic questions involved in establishing the structure and policies for the permanent fund authorized by a 1976 amendment to the Alaska Constitution. Research for this report was devoted mainly to an initial exploration of the question to what extent capital markets serving Alaska are reasonably efficient, and consisted largely of unstructured and unsystematic interviews with businessmen on both sides of those markets --- officers of financial institutions and other investors and lenders, and corporate officers and entrepreneurs in Alaska industries or with Alaska interests.

In line with the contract between the Legislative Affairs Agency and ISER, the study and report were to be "...in the nature of a general reconnaisance, and need not involve the collection or processing of original quantitative data." Among the tasks of the study, however, was to prescribe "the analytical and policy issues" which deserve further investigation in depth. A number of the issues raised in this report do warrant collection and processing of original data. In line with the report's terms of reference, I have not proposed final conclusions on any of the six interrelated questions set out in the contract, but have only attempted to explore and define them sufficiently to propose how the Legislature might proceed with such investi-

gations, particularly some quantitative testing of the hypotheses offered here.

Uses of the Permanent Fund

Public officials, "experts" of various kinds and voters generally have envisioned several different purposes for an Alaska permanent fund. The constitutional amendment which authorized the fund reflects a consensus that at least one-fourth of Alaska's non-recurring mineral leasing revenue should be excluded from the regular stream of state spending. A corollary of this consensus is that the fund should be profitably invested to give state government a permanent stream of revenue independent of current mineral leasing income and independent of economic conditions in the state generally. Because state government spending is a large part of Alaska's economic base (and will grow proportionately larger as tax and royalty income from North Slope oil begins to flow), the spending of income from permanent fund investments and their respending in Alaska's private economy could have a stabilizing effect on employment and income in the state.

There is little doubt that the operation of the fund would have the effect of reducing the immediate fiscal impact of oil and gas income and a stretching out and smoothing of its long-term impact, however the fund is organized and whatever its investment strategy. But the size of these impacts will depend on how much of the permanent fund's capital is invested or lent in Alaska and on what terms. Given certain assumptions about

the size and structure of the state's economy, the revenues committed to the fund, the yields of the fund's investments and the disposition of income from those investments, we can forecast its effect on the shape of long-term growth of state product, personal income, employment and per capita income. Some elementary projections of this sort have already been made by ISER under the Man in the Arctic Program.

Beyond this, there is little agreement on the proper purposes or the long-term effects of permanent fund investment strategies, and there has been little examination of the economic fundamentals which determine whether these purposes can actually be achieved by an instrument by the fund, or what its actual effects (intended and unintended) are likely to be. Apart from the purpose of delaying and smoothing the fiscal impact of non-recurring mineral leasing revenue, other goals that have been suggested for the permanent fund are to accelerate the growth of the state's non-oil economy and at the same time to expand state government's non-oil tax base.

In pursuit of this end it is usually assumed, and there seems to be a near-consensus in the unofficial statement of legislators, that permanent fund moneys invested or lent in Alaska be confined to creditworthy projects and enterprises, and at market rates and terms. If capital markets in Alaska (and in the United States) are workably efficient, however --- and my investigation so far suggests that they are --- investment of permanent fund moneys in Alaska will have exactly the same effect on the state's economy as investing them outside Alaska.

(The quality of the fund's investment portfolio may, however, be affected by the choice.) That is, permanent fund money would tend to replace the same amount of money that otherwise would have been provided from private financial sources.

Unless it provides capital subsidies, permanent fund activity will not accelerate growth of non-oil industry and thereby diversify the state's economy. If capital markets are generally efficient, moreover, non-subsidized permanent fund outlays would not tend to smooth out Alaska's business cycle or the growth rate of employment and population, even if there were no other fundamental difficulties (treated in part IV of this report) in using state investment policy as a counter-cyclical tool. In the absence of capital subsidies, any attempt to disperse economic activity or to foster rural industries will also tend to be futile if the absence of growth in rural Alaska or in particular small communities is a result of factors other than the failure of financial institutions to bring enterprise and investors together on mutually acceptable terms. If poverty or stagnation is caused by deficiencies in natural resources, the skills or attitudes of the labor force, transportation, communications and energy costs, or an unsatisfactory institutional environment, the permanent fund cannot cure these ills, nor even mitigate them unless it is treated as a source of capital available for investments which will not meet market tests.

II. CAPITAL MARKET EFFICIENCY

Every proposed strategy for Alaska's permanent fund depends

upon stated or unstated assumptions about the "efficiency" of national or international capital markets. The proposition that Alaska as a whole, certain regions of Alaska, or certain Alaska industries suffer a chronic capital shortage which can be remedied by permanent fund investment strategy amounts to saying that existing capital markets do not, in fact, function efficiently.

By "efficiency" in the capital market, we mean the ability of loanable or investible funds to move readily in and out of Alaska, among industries and among different kinds of capital instruments of different term and risk (common stocks, bonds, loans, etc.) in response to the differences in anticipated yields.

The most important elements of capital market efficiency are mobility, cost and information. Legal limitations on the flow of loanable funds can clearly reduce capital market efficiency as defined here (though there may be good social reasons for the restrictions). An example of a legal restriction on the mobility of capital for social reasons, the federal government limits the rate of interest payable by banks and thrift institutions on savings deposits, in order to channel funds to, and reduce interest costs for, the residential mortgage market (but it also restricts the funds available to savings institutions). The fees of brokers, underwriters, lenders, and "finders" of venture capital, and taxes such as capital gains and stock transfer taxes also increase the cost of moving funds from one investment to another. A lack of competition can both erect barriers to capital mobility and increase transactions costs.

The element of capital market efficiency most often held to be deficient in Alaska is information. If funds are to move easily and at competitive rates of return from areas or industries with cash flow surpluses to those with excess demand for capital, entrepreneurs must know where equity and debt money is available and on what terms, and potential investors or lenders must have the means to appraise the earning capacity and risk of the ventures they are asked to underwrite.

Capital mobility, transactions costs and the adequacy of information are all a function of market size and diversity (which is in turn a function of market size). A region with large and diversified capital demands will attract a large number of financial institutions of different kinds, who will serve as intermediaries between entrepreneurs and investors or lenders. They will compete among one another for business, thereby lowering capital transactions costs to ultimate borrowers and lenders. And most critically, they will make it their business to understand the industries and kinds of enterprises they serve and their local and regional economies, thereby increasing market information necessary to evaluate individual ventures.

This issue has important implications for the permanent fund's investment strategy. If capital markets serving Alaska business are workably efficient, permanent fund moneys dedicated to Alaska investment will have no impact on the aggregate level of investment (and thereby the rate of economic growth), the industrial structure, or on the profitability of investment in Alaska, unless

these moneys are offered on subsidized terms. Loans from the permanent fund at market rates would simply displace private capital that would otherwise be available at the same rates. The only material result might be a reduction in the diversity--and thereby safety--of the permanent fund's own investment portfolio because it would be imprudently concentrated on Alaska issues and unduly sensitive to business fluctuations special to the state.

If, on the other hand, institutional barriers to capital movements, excessive fees or taxes on capital transactions, or inadequate information result in a shortage of capital for Alaska ventures at normal market terms, then it will indeed make a significant difference to Alaska's economy how much of the permanent fund is allocated to investment within the state. The conclusion that investment strategy would, in fact, make a difference need not necessarily carry with it the implication, however, that the difference would be great, or cost-effective or even in the right direction. To the extent there are demonstrated inefficiencies--barriers, costs or ignorance--in Alaska's capital markets, it may well be cheaper and more effective to remedy those problems directly rather than to offset them with permanent fund investments.

The paridigm (pattern of concepts and theories) of capitalistic finance presented in business school textbooks is one of efficient capital markets. Within the terms of this paradigm, it is very unlikely that Alaska could suffer a chronic capital shortage. Outside investors and lenders, in their search for

the highest rates of return consistent with a given degree of security, would make an effort to discover investment opportunities in the state, while entrepreneurs with Alaska interests would shop the world's capital markets for venturers or lenders of funds on appropriate terms. Whatever lack of information existed about capital sources, the particular industry, Alaska's institutions or business conditions, or regarding the particular firm could be remedied at a price, and at least for large ventures, that price would be relatively small compared to the funds involved. A variety of financial intermediaries and investment services would compete with one another to bring together borrower and lender or entrepreneur and investor, and to furnish either side with needed information. This competition would increase capital mobility and lower both transactions costs (the spread between the yield to lenders and the cost to borrowers, for example) and the cost of information.

Capital market efficiency is obviously a relative matter. The mobility of funds is seldom totally unfettered; there are almost always fees and taxes or other transactions costs; and information itself comes only at a price and is never perfect. The relevant questions here are to what extent and for what regions and industries in Alaska are capital markets significantly less efficient than elsewhere in the national economy and to what extent, if at all, can the investment strategy of the permanent fund remedy or offset these inefficiencies.

Alaskan Capital Markets

In my conversations with businessmen inside and outside of Alaska, it appeared that bankers and officers of financial institutions generally, officers of large corporations, successful real estate developers and the most successful entrepreneurs in contracting, tourism and fishing tended to "believe in" the efficient markets paradigm and conduct their businesses as if it were an accurate view of the world. It is true that several of them spoke of a national "capital shortage"; the reference is to the aggregate effect of high taxes and inflation, and few of the businessmen in these categories seem to believe that there is a shortage of investment or debt capital peculiar to Alaska or to their own industries. The officers of banks, finance companies and other money market institutions believe that their companies actively seek out investment opportunities in Alaska and consistently denied that they insisted on higher rates of return or greater security for Alaska issues. Two West Coast bankers active in Alaska stated a belief that it was probably easier to place large issues generated by their Alaska correspondents than comparable issues from California or Washington State because of the widespread confidence in Alaska's wealth and continued industrial growth. Two corporate officials made a similar observation, one of them alluding to the "glamor" of Alaska investment.

Officers of national or multinational corporations in petroleum, mining and fish processing indicated that for them, the procedures, problems and costs involved in the financing of Alaska

ventures were for all practical purposes identical with those for financing comparable ventures in the Lower 48 or in other politically stable advanced capitalist states. Their own sources were national and international, and their ability to raise funds rested in part on the overall strength and reputation of the company, and in part on their ability to communicate to potential investors and lenders the reasons (resource base, engineering cost estimates, market factors, etc.) why they themselves believed that the proposed Alaska investment was sound. One successful developer scoffed at the notion of an Alaska information gap: "Information, salesmanship--that's what business leadership, what you call entrepreneurship is all about. It's your job as a developer to get all the information your banker needs into his hands. Make him as confident about your project as you are yourself."

Many small businessmen including, it appears, most prospectors, inventors, independent merchants, and operators of hotel, restaurant and other tourist-related businesses outside of Anchorage, and some contractors do not, however, believe in the efficient markets paradigm. I heard many complaints about treatment by banks and finance companies and a feeling that "the system" is biased against small businessmen and against Alaskan enterprise. I heard anecdotes purporting to show that even Alaska banks favor outside-owned businesses. Many persons in this group expressed a hope that the permanent fund could correct this bias and make more funds available for ventures like their own. It was especially noteworthy to me

that most state and federal civil servants in the economic development or business assistance field expressed views more consistent with the capital shortage paradigm than with that of efficient markets and believed that government should provide more financial assistance to private industrial development in Alaska. Whether or not these sentiments express an accurate view of the way in which the economy and financial markets operate, it seems likely that it is a more representative view than the more sophisticated textbook, "big business" view of capital markets, and constitutes a substantial political constituency for an activist policy by the permanent fund's managers.

In preparing this report, I encountered several instances where entrepreneurs or corporate managers were working on financing a fisheries, mining or tourist venture, a shopping center or a residential subdivision. Those in this group who seem to accept the efficient markets paradigm regarded it as the essence of their own job as a developer or manager to assemble and integrate the necessary information on resources, markets, costs, economic and environmental regulation and to draft credible profit and loss projections and pro forma financial statements acceptable to their corporate boards or to outside investors or lenders.

A common situation among small and medium Alaska business enterprises seems to be a rate of growth (with sales increasing at 20 to 100 percent per year) that leads to a need for additional fixed and working capital far outstripping internally generated

cash flow. It is "obvious" to the owners and operators of these businesses that money borrowed to sustain this growth would earn a very good rate of return, but that there is never enough credit available. Businessmen in this situation seem to express two strikingly different attitudes toward their own "capital shortages." Those who operate by the efficient markets paradigm (and these seemed generally to be the most successful) expressed their problems objectively in terms of necessary cash flow and debt-equity ratios acceptable to lenders, while there were others who attributed their cash crunch to the institutional incapacity of financial institutions to serve their kind or business, or to the laziness, ignorance or malice of particular lenders.

It is clear that there are widely contrasting perceptions among Alaska businessmen and others about the adequacy of financial institutions and the supply of capital to Alaska ventures. Curiously, the distribution of these perceptions seems to be bimodal; that is, they cluster at one extreme or the other with only a scattering of individuals in the middle. Perceptions also seem to be highly correlated by industry and by size of enterprise. In general the bigger the firm, or the faster it is growing, the more satisfied its spokesmen are with existing capital markets. Without exception, representatives of large financial enterprises doing business in Alaska and of large national and multinational corporations spoke as if they believed in efficient markets and, without exception, they rejected the notion that lack of informa-

tion, high transactions costs or institutional barriers created a capital shortage in Alaska or in the industries with which they are connected or whose financial needs they serve.

On the other hand, hardly any local merchants, service industry operators or tourist business operators outside of Anchorage and Fairbanks, and hardly any entrepreneur or developer who was still trying to put together his first "big deal" (capitalized at $1 million or more), believed that financial institutions operated efficiently or fairly, and most of them felt that Alaskan enterprise was at a substantial disadvantage compared with firms in the same business elsewhere. As I mentioned before, almost every public official interviewed believed that there was an Alaska capital shortage that could, and should, be treated by application of government money. Anchorage and Fairbanks merchants, contractors and real estate developers seem to fall into both groups, as do operators of independent businesses connected with forestry, fisheries and mining.

The time and resources available for preparing this report did not make it possible to separate perceptions and ideology from reality. Each group's perceptions were supported with convincing anecdotes. Nevertheless, most of the correlations between attitude and situation were predictable, and the perceptions surely contain a measure of self-interest and self-justification. Officers of financial institutions who have the job of searching out and appraising investment opportunities are likely to believe

that their jobs are useful and effective, and they are unlikely to emphasize the problems of those kinds of enterprise that they do not serve (and which may not, in fact, be served well by any sector of the capital market). And it is not surprising that public officials feel that government financial and technical assistance (like economic regulation) is essential to a healthy business economy. But among businessmen, are the first group satisfied with the status quo because it served them well, or are those who accept, understand, and work easily within the status quo the people who are for that reason most likely to succeed as corporate managers and entrepreneurs?

My own provisional conclusions on the issue of capital market efficiency are as follows, but they are subject to modification on the basis of a quantitative study of attitudes and actual workings of the financial system in Alaska:

1. Investors and entrepreneurs, would-be lenders and would-be borrowers alike believe that the existing capital market institutions are adequate to finance large industrial or commercial developments in oil and gas, mining, petrochemicals, fisheries, timber, trade, and tourism anywhere in Alaska. I have found utterly no reason to doubt this consensus, and see no way in which the permanent fund could improve on the mobility of capital, transactions costs, or the information made available to investors by the sponsors themselves and through existing financial institutions.

It follows, therefore, that the permanent fund's investment activity in these areas will not significantly influence the profitability or growth of basic industry in Alaska unless loans are made at less than current market rates or under less secured terms (e.g., more highly leveraged, lower coverage rates, less collateral) than is customary. If the permanent fund invests in Alaska industrial ventures at market rates and terms, therefore, it will divert private capital elsewhere that would otherwise be attracted to the venture. In short, there is no need and no useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless there are grounds to subsidize that enterprise.

2. Despite the disagreement of those who do not believe in the efficient markets paradigm, the working and fixed capital requirments of residential and commercial real estate developers, contractors, retail and wholesale merchants and purveyors of services in Fairbanks and Anchorage are being served by existing banks, thrift institutions, finance companies, mortgage brokers and the like, in exactly the same way and at approximately the same rates and under the same conditions as in other communities throughout the nation.

Some businessmen will always have grievances against their bankers (and many Alaskan businessmen have some gruesome yet convincing tales to tell) or against the financial system gen-

erally. But Anchorage and Fairbanks banks do compete aggressively for business customers, and some of the "atrocity" stories can be attributed to understandable disagreements over the creditworthiness of a particular borrower or venture rather than a systematic failing of the system. Again, apart from any argument that a particular line of business or kind of investment ought to be subsidized, there seems to be no case for the permanent fund or one of its subsidiaries to enter the commercial capital markets in these communities. I am not certain at this point how well these needs are being served in other urban places in Alaska.

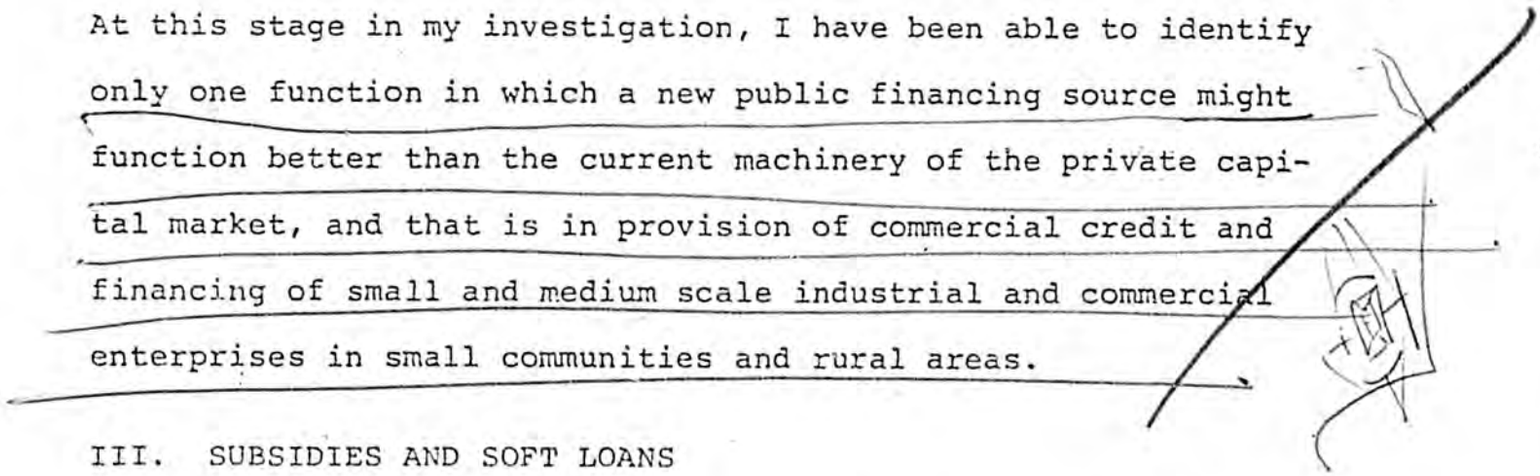
3. Several alternatives exist for financing the purchase or lease of standardized machinery used in business, including motor vehicles, construction equipment, aircraft, boats, electrical generators, compressors, machine tools and the like. Commercial banks, finance companies, credit unions, manufacturers and vendors all offer some kind of financing for this kind of chattel, and one or more of these forms of financing seems to be available to creditworthy borrowers in any Alaska industry or location. Higher servicing and collection costs do tend to limit borrowers in the more remote areas of Alaska to higher interest rate alternatives, but on balance this reflects not a failure of the market to reflect true costs but the opposite, it does not constitute a case for permenent fund involvement in the install-

ment credit business, unless there is also a case for a capital subsidy to rural enterprise generally.

4. The general feeling of local businessmen in small communities and rural areas of Alaska is that they face a genuine capital shortage and that they are at the mercy of one or two financial institutions that are indifferent to their aspirations or the facts of their business situation. There seems to be some merit to these complaints. Lending in small towns or the bush is exceptionally expensive, however; the cost of investigating and servicing small commercial, real estate and installment loans and lease purchase contracts and the like, and the costs of collection, foreclosure, repossession and resale can easily exceed the potential earnings from loan fees and interest. These excess cost burdens, together with unfamiliarity with local conditions, understandably make the statewide (Anchorage and Fairbanks) banks and other financial institutions reluctant to provide capital even for the larger locally-owned development, such as resorts, hotels, apartment houses, fish processing plants, etc., and where they do make loans they are willing to finance a smaller portion of total investment. In these cases, governmental participation or guarantees (EDA, SBA, Farmer's Home, Alaska Veterans loans, etc.) have often been essential to obtaining conventional private financing. This portion of the demand for capital in Alaska may then be a legitimate area for permanent fund activity.

In sumamry, it appears that most attempts of the permanent fund to serve as a development bank for Alaska would duplicate

functions that private financial institutions (backed up in many cases by other governmental assistance programs, e.g., FHA, Farmer's Home, VA, etc.) perform or are capable of performing adequately. At this stage in my investigation, I have been able to identify only one function in which a new public financing source might function better than the current machinery of the private capital market, and that is in provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas.



III. SUBSIDIES AND SOFT LOANS

Diversification of Alaska's economy is widely regarded as a desirable goal for state policy and as a proper purpose of permanent fund strategy. The benefits argued for such a policy are reduction of economic fluctuations and creation of a permanent employment, income and revenue base not dependent upon oil and gas or other exhaustible resources. The line of reasoning in the previous section of this report suggests that the existing concentration of Alaska economic activity by region tends to reflect real resource location and cost factors (such as transportation expense and small market scale) rather than capital market failures. It appears that a reduction of existing barriers to capital mobility and improving information flows would not necessarily accelerate the rate of development in Alaska fisheries, agriculture or tourist industries, for example, or in rural Alaska generally.

RICHER & POORER

MARGINAL VALUE

Making capital more readily available at lower rates to Alaska enterprise generally could be expected to increase investment in all sectors of the state's economy, but there is no reason to believe that it would influence the concentration of investment in the desired direction, that is, in favor of economic diversification or geographical dispersion (if the latter is indeed a desirable objective). Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event. If investment activity is already concentrated in oil and gas-related activity, fish processing and in Anchorage residential and commercial real estate development, that is probably where more abundant, cheaper capital would go. There is a strong confirmation of this proposition in the investment behavior of the rural-based regional and village corporations.

Making capital cheaper and easier to obtain will undoubtedly have one effect which may be regarded as counterproductive; business will be given an added incentive to substitute capital for labor and the state's economy will tend to become more capital intensive than it otherwise would be. If investment policy is to be in any way directed toward "job creation," it must be highly selective and not simply a matter of lowering capital costs across the board.

If the legislature deems it desirable to influence private investment in Alaska in the direction of greater economic diversification by means of permanent fund investments, it will have to authorize the fund's managers to make loans to the favored

types of venture on terms other than those of the private market. There is a serious question, however, how many new ventures will be made feasible simply by a reduction of interest rates on borrowed capital below customary rates. There is in fact good reason to believe that investment demand in new speculative industrial, agricultural or tourist-related development are relatively insensitive to interest cost. This is becuase private investors are not likely to commit their own equity to such ventures unless they have a prospect of recovering their total investment in five years or less. Such an outcome requires an annual cash flow equal to 30 to 50 percent on total investment, a situation in which two or three percentage points interest expense is seldom crucial. More important parameters are the standards for the creditworthiness of the venture and requirements for equity and collateral. In other words, it is likely to be more critical for a new venture in fish processing or tourism whether it can borrow three-fourths rather than two-thirds of its total requirements, than it is whether the interest rate on that loan is 9 or 12 percent.

In this situation, subsidized loans by the permanent fund can without question have an influence on the shape and direction of economic growth in Alaska, and that influence will be greater the greater the proportion of permanent fund moneys devoted to the favored types of enterprise. The form the subsidy is likely to take to make it effective, however, will not be (and should not be) lower interest rates, but rather a

relaxation of lending standards to enhance the availability of funds. One danger here, even if the legislature deliberately authorizes the fund's managers to make such loans, is that the nature and the degree of actual subsidy may not begin to appear for many years, until it begins to show up as defaults on principal and interest payments. This danger will be aggravated if, as is often the case with governmental loan programs, there is not a rigorous policy of classifying problem loans and of promptly writing off those which are uncollectable. Banks and thrift institutions are required by law and regulation to do this, but even there the requirement is only very loosely implemented or enforced, because lending officers are reluctant to expose their own imprudence in making bad loans or to write down the capital position of their institutions.

In any event, there is sure to be some opportunity for the permanent fund to influence the sectoral and geographic direction of economic development in Alaska by manipulation of credit terms. The most aggressive (and in conventional terms, imprudent) lending policy cannot, however, create an industry where resources, markets, skilled labor and other requisites are missing, and the fund's managers should never become so "soft" as to finance enterprises whose promoters are not taking a substantial risk themselves, or which do not have convincing prospects of long-term viability.

The most relevant model of a development bank for Alaska is not the IBRD (the World Bank) or the regional development banks, but the International Development Agency, the World Bank's "soft

loan" subsidiary. If the permanent fund is to direct the shape of economic growth in Alaska, it will not be through normal commercial investments on normal commercial terms, but through a postponed or hidden subsidy in the form of higher loss rates in future years. This is not the appropriate place to judge the desirability or assess the ultimate beneficiaries of capital subsidies directed at changing the structure of Alaska's economy, but the Legislature may well wish to assure that those implicit subsidies are not totally hidden, by setting out (or requiring the fund's managers to set out) explicit and rigorous standards for the granting, servicing, classification and writeoff of soft loans, and by requiring a rigorous annual audit of the fund's loan quality.

There is another dimension to the capital subsidy issue which the Legislature should keep in mind as it authorizes any soft or subsidized loan program under the permanent fund. Granting credit at terms more liberal than the market will almost certainly make some enterprises viable that would not otherwise be so, but it is difficult to draw lending standards in such a way that other ventures which would be viable anyway do not recieve a windfall that serves no social purpose. This consideration suggests a policy that might be adopted toward the soft loan program --- that loans under this program be made at rates perceptibly <u>above</u> market rates (as is appropriate to the greater risk). If my earlier observation is correct that speculative investment in Alaska is more sensitive to the degree of leveraging permitted than to interest rates as such, higher interest rates would

screen out some of those enterprises which did not need assistance from the fund and would at the same time help build up a reserve for loan losses to offset the subsidy aspect of the program.

IV. COUNTER-CYCLICAL INVESTMENT

There are several possible concepts of the permanent fund as an economic stabilization device for Alaska. The one basic concept of the fund on which there is a near-consensus is that it is to be regarded as a savings account for a "rainy day." That is, Alaska's government is about to experience an extraordinary surge of income from oil and gas royalties that is not likely to be sustained. Since petroleum revenues will not only be the main source of general government income but will for some time be a principal support for the private economy and the main engine of economic growth, the permanent fund would be used to reduce the injection of income into the state's economy during the boom phase, and then the income from investing these revenues would be used to sustain state expenditures and their fiscal impacts after the boom has ended.

It has also been suggested that the permanent fund could help even out short-term business fluctuations in Alaska, or maintain long-term economic growth (as measured by the growth of state product, real personal income or employment) at some optimum rate. Such stabilization policies could in principle operate through varying appropriations to the permanent fund, working through the fiscal impacts of general fund expenditures;

through varying the permanent fund's rate of new lending in Alaska, working through the fiscal impact of investments supported by these loans; or with both appropriation and investment policy. The basic principle is simple: when the state'e economy was booming, larger appropriations would be made to the permanent fund (thereby reducing revenue available to the Legislature for general fund outlays) and/or a smaller proportion of permanent fund assets would be invested within Alaska. When the state was in a recession, the flows would be reversed: less revenue would be appropriated to the permanent fund and more to the regular capital and operating expenses of state government, and/or the permenent fund would inject more investment money into the Alaska economy (presumably by selling off non-Alaska investments in its portfolio).

There are, however, both conceptual and practical problems with using the permanent fund as a stabilizing device on any more sophisticated basis than is implied by the "savings account" notion. One of them has been identified previously --- to the extent that existing financial institutions make up a reasonably efficient capital market, the volume of unsubsidized loans or investment the fund makes in Alaska may not have a significant effect on economic activity in the state.

Even if there were significant capital market deficiencies which gave permanent fund outlays a real effect on aggregate investment in Alaska, or even if the fund had a policy of subsidizing Alaska business (thereby expanding the level of investment

beyond what it otherwise would be), it is still not obvious whether a policy of varying state expenditures or permanent fund investment in response to economic conditions would in fact reduce business fluctuations in the state, increase them or be on balance neutral. The crucial question here is the relationship between our ability to forecast economic conditions or recognize cyclical turning points, and the time it takes for a change in appropriations or in lending policy to show up in unemployment rates or rates of economic growth.

Some very gross economic changes, such as the buildup and decline of pipeline construction activity, obviously could be anticipated and their fiscal effects projected with some degree of confidence. But the Alyeska pipeline is likely to be historically unique in size and specific gravity in the state's economy. Future ups and downs are more likely to be the resultant of a number of smaller influences, many of which (general business confidence, for example) cannot be mapped out in advance and are difficult to quantify even retrospectively. If booms and recessions often cannot be recognized clearly until after they have been with us awhile, and their turning points recognized only after they have passed, it is also true that significant delays are inevitable between the recognition of a new trend, the fiscal action that is appropriate and the actual movement of new dollars into (or out of) the private economy. Depending upon the relative lengths of the various lags, attempts to stabilize Alaska's economy or smooth its growth rate might be successful, but it seems equally likely that state fiscal policy would zig when it

should be zagging, that the amplitude of the business cycle would thereby be increased, or even that the permanent fund's intervention could create oscillations in the state's economy where otherwise there would be none.

It is not obvious which of these outcomes would in fact result from an attempt to use the permanent fund as a stabilizing influence. The effect would depend in part on whether it was appropriations, lending or both which were being varied, and what economic indicators were being used to trigger policy changes. A business cycle model could be developed which would simulate the behavior of Alaska's economy under the influence of various decision rules.

Intuitively, I expect that such a model would show that the various lags in recognizing trends and implementing policy, and in the actual economic impact of that policy, would preclude using the permanent fund to offset economic fluctuations with a term of less than about three years. If the fund is to be useful as a stabilizing device, it will probably be only as an instrument to regulate growth rates in very gross terms and only in the very long run. If, for example, the social impacts of a continuing growth rate in employment below 2 percent per year or above 8 percent were determined to be unacceptable, the legislature might conceivably key permanent fund appropriations or investment policy to the average growth of employment in Alaska over the previous five years, with the understanding that no individual year's growth is ever likely to be on track because of the fund's policies, and that excessive growth in one year might be offset by

stagnation in another, or vice versa. It is likely, in other words, that long-term stability in growth rates might be achieved at the expense of greater instatiliby in the short run.

The practical problems in establishing a stabilization policy for the permanent fund are political and administrative. If permanent fund appropriations (and their complement, operating expenditures from the general fund) are to be varied, it is the Legislature which would have to vary them. While there would be little difficulty persuading the executive branch to propose and the Legislature to authorize increases in capital and operating expenses during a recession if money is readily available to be committed, it may be too much to expect a sharp reduction in outlays to offset an economic boom in the state, particularly when revenues and "needs" have both been increasing at exceptional rates precisely because of the boom. The fate of the state government's announced interest to "stockpile" public works projects until the end of the Alyeska construction boom should be instructive on this point. It is not clear, moreover, that the managers of the permanent fund would be immune from similar pressure with respect to their lending and investment policies, if they were granted the discretion to alter those policies according to economic conditions in the state.

V. PUBLIC ENTERPRISE

Another suggested use for permanent fund moneys is to finance public works projects. The works most often proposed are hydroelectric plants and fisheries improvements such as hatcheries and

habitat enhancement. These two examples are of course quite different; electrical generating facilities can be and usually are self-supporting from the sale of power. The principal reason for governmental investment in such facilities, ideology aside, is the exemption from federal taxes of the income of a public utility and of the interest it pays on its debt. This very consideration suggests that revenue bonds of the Alaska Power Authority or other governmentally owned utilities would not be an appropriate permanent fund investment, because the permanent fund (whose own income is tax exempt) could be expected to earn a higher rate of return from investments in taxable federal or corporate bonds than the Power Authority would have to pay in interest or its own tax-exempt bonds, assuming that the securities were equally rated. This consideration does not, however, necessarily foreclose the permanent fund from providing all or a part of the equity component of Power Authority capital (and in earning a rate of return appropriate to the risk taken by an equity investor), or from providing a guarnatee of Power Authority bonds, or from subsidizing electric power development.

The crucial characteristics of some public works, such as hatcheries and habitat improvement, is that they cannot be financed conventionally. Benefit-cost analysis may well show that the new benefits to society exceed the capital and operating outlays, but the burdens and the benefits may not fall on the same people, and it may be impractical (or impolitic) to collect a user charge from the beneficiaries. In the case of these fishery-related investments, however, costs could be allocated at

least roughly among the beneficiaries through a surcharge on fishing licenses, entry permits or raw fish taxes. If such capital improvements are not to be funded this way, however, they seem more appropriate subjects for general fund appropriations than as "investments" by the permanent fund.

VI. ISSUES FOR FURTHER INVESTIGATIONS

This report has identified a number of questions whose answers are crucial if the Legislature is to develop appropriate policies for operation of the permanent fund. At most, however, the author has been able to give only tentative answers to these questions. The following is a list of issues that warrant further investigation, together with some discussion of methods and sources.

1. Capital market structure, costs and efficiency. A survey is necessary of the number, size and aggregate Alaska activity (e.g., loans made, loans outstanding, loans being serviced) for various institutions in the financial market, with offices both inside and outside of Alaska. Questionnaires and interviews would be used to determine the relative weight of each of these institutions in financing different industries in Alaska and their policies regarding various types of Alaska business.

A survey is necessary to determine just what is the price of money in Alaska and how does this price (together with other credit conditions) differ from those elsewhere in the United States. A large body of aggregate data comparing Alaska conditions with those in other states is available in the commercial bank call reports; some information is available by major loan

categories (real estate, commercial and installment). The absolute level of these rates is less indicative than their relation to rates in other Western states and particularly the trend of any Alaska rate differential. Any differences in other loan terms (for example, requirements for compensating balances) would have to be based upon questionnaires or systematic interviews with lending officers.

Similar questions can appropriately be asked about differences in the rates and conditions for various categories of credit as between the urban centers of Alaska, and small communities and rural areas. The quickest approximation to an estimate of geographic differentials could be obtained by comparing loan statistics for the outlying branches of statewide banks with those of their urban offices. A hypothesis that deserves investigation is the proposition that retail credit markets are more competitive and more efficient than "wholesale" markets in Alaska. If this is the case, channelling the permanent fund's Alaska lending through existing financial institutions could result in large, unearned windfalls to the banking system without significantly benefitting Alaska borrowers. It would be instructive to see what happened to the "spread" between the interest cost of public deposits to Alaska banks and their interest earnings on real estate loans, for example, as a result of the Alaska preference provision in management of the state's North Slope bonus money. A similar question can be asked about the actual effect of the state's purchases of residential mortgages, after loan fees are taken into account.

2. Demand for investment and for loanable funds. A sample survey and detailed case studies should be undertaken of the financial structure and the procedure of financing fish processing plants, hotels and other relevant investment projects in Alaska. The contrasts, if any, in structure, procedures, costs of capital for individual components of financing (interim construction, working capital, etc.) should be noted and the appropriate implications drawn. The importance of capital financing costs to overall project costs is an important element in judging the potential sensitivity of investment demand to interest rates.

The investment demand schedule for individual industries ought to be investigated. The question here is to what extent will a reduction in the interest rate to a particular group or for a particular purpose result in an increase in the level of investment. The question is difficult to answer generally because the shape of the curve relating investment outlays to interest rates will differ for each subcategory of investment and will be affected by a large number of other factors. Builders of national econometric models have spent much time trying to specify investment demand functions with only limited success, however. The data base modeling Alaska investment demand is very limited because there are almost no satisfactory statistics that can be used as indicators of investment activity, with the partial exception of residential construction. The more productive approach would be to model individual projects--even fictional projects--in the way the Delta barley project was analyzed.

3. Aggregate impacts of different policies toward permanent fund appropriations and investments. The percentage of eligible funds that should be channelled into the permanent fund is of central importance. Not only will the future growth of the state's economy be determined to some extent by the choice of eligible permanent fund investments, but perhaps more importantly, it will be determined by the amount of money remaining in the general fund for unrestricted use. Specifically, Department of Revenue analysis of state revenues presented in February, 1977, projected a permanent fund balance of $1.8 billion in 1985 based upon a 25 percent contribution rate. The same source projected a general fund balance in excess of $6 billion in the same year. Increases in spending above the historical pattern of state government expenditures would have a downward effect on the total remaining in the general fund, but the balance can be expected to remain substantial.

The possibility of such a large general fund balance requires that the choice of the percentage of oil revenue dedicated to the permanent fund reflect the expected impacts of the uses of the general fund balance as compared with the impacts of administration of that money through the permanent fund.

For example, one way to make use of the general fund balance would be to reduce the personal income tax. The ISER MAP analysis shows that this would indeed cause a significant reduction in the general fund balance. At the same time, it would have a highly stimulative effect on the private sector as the increase in

disposable income stimulated private sector demands. Employment and population would increase. Additional revenues would be generated, but these would not be sufficient to maintain constant per capita government expenditures. Either the level of services would have to decline or the general fund balance would be depleted more rapidly than initial calculations indicated, or both. If the permanent fund is to be a buffer against the depletion of the general fund, or is interpreted as a fund to benefit Alaskans, the expansion generated by the income tax could be the worst possible use of general fund money.

The growth implications of any constant percentage permanent fund contribution needs examination. Lumpy additions into the genera fund caused by lease sales on state lands may be accompanied by bursts in general fund spending activity by the state. This erratic behavior could result in uneven growth and its problems. A formula for permanent fund contributions, which minimizes fluctuations in the general fund, might be a more appropriate rule than a fixed percentage.

Projections of the state fiscal position are important in the formulation of permanent fund policy in another way. Knowledge of what is happening to the general fund can determine permanent fund objectives. A large general fund balance, for example, tends to reduce the force of the argument that certain industry should be stimulated because of the tax base it provides.

The MAP model can be of assistance in the formulation of permanent fund policy in this regard because it can be used to project "futures" under varying assumptions of general fund policy given a "neutral" permanent fund. The state model can be used for this purpose.

A related issue is what policy should be established with regard to disposition of interest from the permanent fund. It is important not only what uses should be made of permanent fund interest but to a certain extent, what should be the target interest rate considering the uses of the interest. That is, if the interest is not put to good use, there should be relatively little concern with a high interest rate.

The basic issue, however, is whether the interest should be returned to the general fund without strings, should remain in the permanent fund for some period, or should be distributed to Alaska individuals who, in a sense, become the owners of the permanent fund.

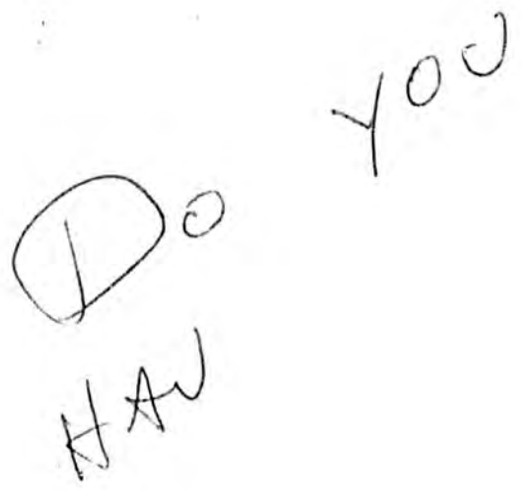
The implications of each alternative on the growth of the economy and its fiscal condition will be considerably different. Reinvestment in the fund would have minimum impact in the short run. Transfer to the general fund would result in increased expenditures on state and local government which would have a stimulating effect on the economy with the impetus on increase in public sector activity. A transfer payment directly to individuals under some form of Alaska, Inc., project would provide an economic increase with a private sector impetus.

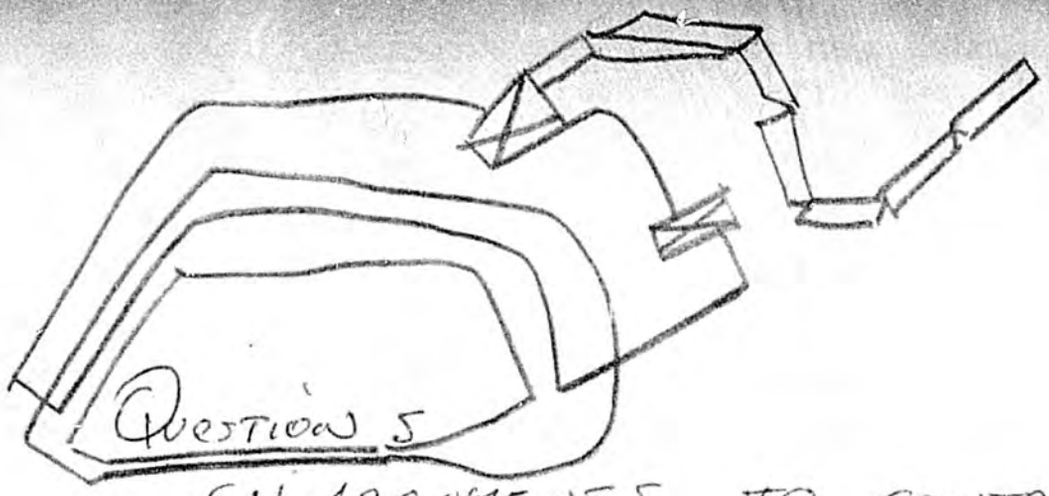
All of these kinds of expenditure programs can be analyzed with the MAP model framework. For this kind of analysis, which attempts to provide a picture of the relative impact of alternatives, specific program details are not necessary. The qualitative impacts would be the same regardless of whether a specific dividend amount were paid out as Alaska, Inc., payments or the available interest on the fund were distributed in that fashion. Here also, the state economic model can be used.

On the assumption that permanent fund investment will somehow be directed to the growth of certain industries, there is also a need for econometric simulations of the effects of expanding various Alaska industries on the state's economy as a whole, particularly on its employment and tax base.

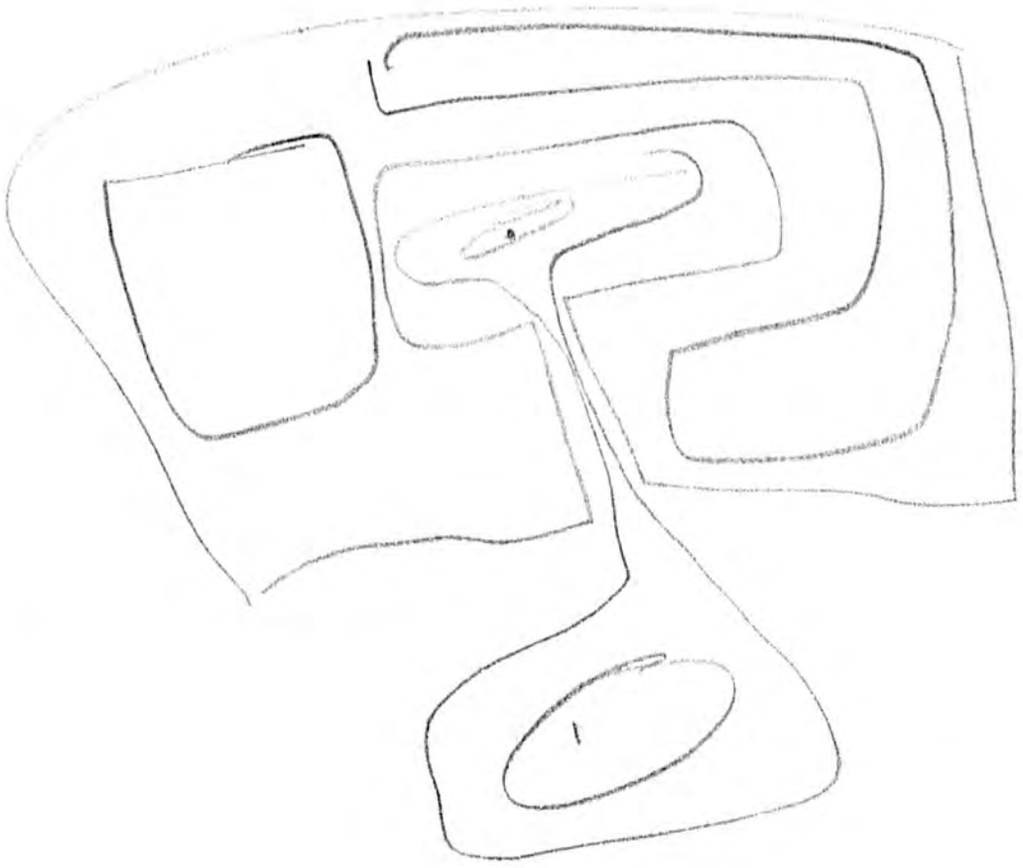
4. Performance of soft loan programs. There are a number of existing state loan programs directed to social and economic development objectives. In general, they have loaned money at lower than prevailing commercial interest rates (but not necessarily at less than the state's "opportunity cost" of money). The actual quality of these funds' portfolios is unknown, however, and the actual rate of subsidy taking into account prospective future loan losses cannot, therefore, be determined. A systematic study should be made of this issue and its implications explored for administration of any soft loan program under the permanent fund.

Similar studies would be useful with respect to federal loan programs such as EDA and SBA, particularly concerning their Alaska activities. The experience and performance of International Development Agency programs and subsidized loan programs of other nations and states would also suggest problems which might be expected from any Alaska soft loan program established under the permanent fund.





(1) ARGUMENTS TO CONTRARY
WHAT ARE THEY?



HISTORY OF
PROJECTED PERMANENT FUND BALANCES
25% Contribution Rate

Fiscal Year Projected	11-76 Dept. of Revenue "Revenue Journal"	7-6-77 Legislative Affairs Haggart Memo	9-22-77 Legislative Finance Barker Memo	11-17-77 Legislative Affairs Haggart Memo	2-6-78 Legislative Affairs Haggart Memo	12-19-78 Dept. of Revenue "Petroleum Production Revenue Forecast"	2-7-79 Legislative Finance Barker Memo	Actual
77	2.8	----	4.0	----	----	----	----	4.0
78	93.6	88.7	68.0	53.8	----	----	----	54.5
79	225.9	208.6	180.5	158.1	138.4	126.9	128.9	
80	411.0	349.1	312.4	281.0	235.2	217.1	219.0	
81	622.1	502.3	457.0	408.0	334.0	333.9	325.4	
82	868.2	668.7	615.0	539.2	434.7	495.9	444.5	
83	1167.1	855.5	795.3	675.7	542.4	682.8	576.9	
84	1509.5	1052.6	991.5	817.6	663.1	895.3	723.7	
85	1883.8	1265.3	1204.0	964.4	786.8	1131.0	885.8	
86			1432.7			1400.1	1064.2	
87			1678.6			1695.9	1260.1	
88			1942.5			2017.7	1474.6	
89			2225.3			2365.8	1709.0	
90			2528.0			2733.5	1964.6	

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