

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

622 SCOMM18: HOUSE SPECIAL COMM. ON PERMANENT FUND 1978-80

^{TIMES} **Rival Firm Criticizes** **Sale Of Royalty Gas** ^{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 contracts 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 referred 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 liquefaction plant to prepare the fuel for tanker shipment south.

However, he said, "We also realize it will have no effect on the final decision with 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 Tran-

smision 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 advance notice.

Spokesman for the Organization for the Management of Alaska's Resources, a citizen's lobby formed to support the Alaska route, says 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.

The Anchorage Times

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Tuesday, October 5, 1976

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 well as for the benefit of voters.

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 com-

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.

pany—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. Man-hole 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

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From The Fairbanks
News-Miner

Times 8/28/76

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.

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 Tatt'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 Polsky. 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 analysis 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

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.

even think it true for the Department of Defense.

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 to-

tal 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 option 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 PETER

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 collegialship 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

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 Baynton Merrill Jr., Princeton University Press, 462 Pages, illustrated, \$16.50.

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.

Curse of that more than 50-year relationship and its healing close are constantly traced in a slender book,

Jefferson: A Revolutionary

Merrill D. Peterson, an adapter

delivered at Mercer

in 1975. Readers not

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Thomas Jefferson

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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 Greek; 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 Baynton 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 tremor shattered the great fireplace in which the Lewises were burning the fragments of their lives. Aftershocks, some of them also continued for months. Mr. Merrill's study of this grisly murder has background and aftermath of social history.

is that it would increase uncertain taxpayers. Even though they could be that the government would enact no legislation, and not leave tax rates at the taxpayers wouldn't know what the rates would be. That is a disadvantage.

Of course, that uncertainty would unrelieved loss if the system should out so that Congress always re-enact pre-existing taxes, or enacted the that would have been in force without zero-based system. But that seems likely. The advantage of having deliberations made about the level of tax is worth the loss of certainty, and taxpayers will think so if, as I believe, the come is lower taxes.

Expire Every Fourth Year

Nevertheless, there is no point to limiting the uncertainty. Therefore, I propose that tax rates should expire every 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 and the next year.

At the maximum he would know rates in the current year and the next years—assuming no unscheduled changes. Also, to avoid needless uncertainty, would apply the zero-based taxing principle only to the individual and corporate rates. Because of their dedication to funding contractual benefits under Social Security, the payroll taxes cannot be allowed to expire. The estate and gift taxes are related to especially long-run taxpayers' decisions and anyway don't enough revenue to be significant from standpoint of disciplining expenditures. The excise taxes are also trivial should be abolished. The same is true customs duties, with the further complication that they are governed by international trade agreements.

I suggested the idea of zero-based taxing at a hearing of a congressional committee recently. One member of the committee proposed going farther, and not reducing all tax rates to zero, but abolishing the entire tax code periodically. This would permit, or require, the Congress to rewrite the several thousand pages of definitions and explanations constitute the law. However, I do not think, at least on a quadrennial basis, though I do have lawyers in my family. The resulting confusion would be unbearable.

Mr. Stein is the A. Willis Robertson Professor of Economics at the University of Virginia, former chairman of the Council of Economic Advisers under Presidents Nixon and Ford and a member of the National Board of Contributors.

HEALTH MEDICINE

Alberta gives research a big shot in the arm

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 long-term economic or social benefits to Albertans. Miniely says that the health care programs not only meet this criterion, but also fit in with the Loughheed 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 technique for diagnosing breast cancer), radiation therapy (to determine dosage in deep x-ray treatments), and radiobiology (research to increase sensitivity of cancer patients to radiation therapy). Studies



Alberta's Miniely: 'brain power centre.'

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 experimental research."

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*

	January-June 1975		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 64 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

	January-June 1975		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

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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Lawmakers Would Shape Permanent Fund

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.

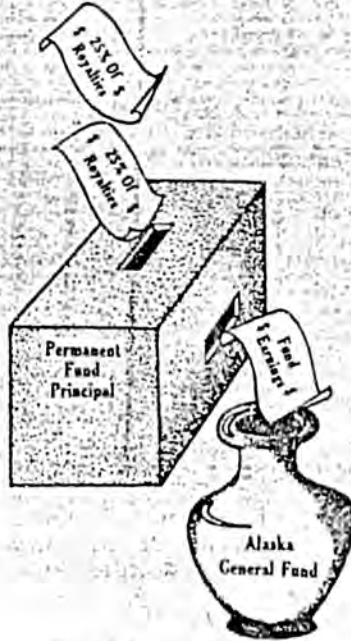
The legislature also will hold hearings, possibly next summer, in Anchorage and Fairbanks.

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.

The proposed constitutional amendment specifies that at least 25 percent 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

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."

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 sight-seeing around Kanazawa on Sunday before returning to Tokyo on Monday.

He has had an audience with
E Emperor Hirohito and a busy round
with Prime Minister Take

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 conser-

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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 specifies 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 uncon-

stitutional.

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.

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.

Lanie Fleischer, a new committee member, said the committee should first decide the goals and objectives of the fund before considering its structure. She asked acting chairman Eric Wohlforth when another meeting could be set to decide goals.

Commissioner of Commerce and Economic Development Tony Motley said it would be presumptuous of the committee to set goals before the voters approve the fund.

(See Page 2, Col. 5)

Advisory Committee Mulls Permanent Fund Proposals

(Continued From Page 1)

The proposed constitutional amendment setting up the fund stipulates that the money is to be used for income - producing investments.

"If, the week after the election, the voters start hearing talk about social costs versus social benefits, they will think they have been had," Motley said.

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?

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 precedent 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 con-

stitutionally 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 reason 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 1976
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

By SUSAN ANDREWS
Times Staff Writer

Arch. Times
Oct. 14, 1976

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.

Lanie Fleischer, a new committee member, said the committee should first decide the goals and objectives of the fund before considering its structure. She asked acting chairman Eric Wohlforth when another meeting could be set to decide goals.

Commissioner of Commerce and Economic Development Tony Motley said it would be presumptuous of the committee to set goals before the voters approve the fund.

(See Page 2, Col. 5)

Advisory Committee Mulls Permanent Fund Proposals

(Continued From Page 1)

The proposed constitutional amendment setting up the fund stipulates that the money is to be used for income-producing investments.

"If, the week after the election, the voters start hearing talk about social costs versus social benefits, they will think they have been had," Motley said.

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.

Arco will drill exploratory well

is about eight miles south of Cape Yakutat, 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.

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 Renger." 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,

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.)

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 severance 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 troubled 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.

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 con-

stitutionally 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 reason for the state to panic about going into a bust and go explicitly into a program of spending designed to counter that," he said.

Meekins Says Hammond Wants Control Of Fund

TIMES
10/18/76

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 precedent 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."

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 Revenue 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 hear-

ings 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 di-

rected, then you don't need five or six consumer representatives on the operating board."

Permanent fund in '80: *News* it could be \$2 billion *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.

Cause For Concern

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.

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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.

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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 endorse 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 do 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 yester-

day'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 consensus 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.

Murkowski 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.

Clock 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 Revenue 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 hear-

ings 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 di-

rected, 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 administering 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



JIM EDENSO
Advises Committee

Francisco State College, now a university where he worked in finance. Hayaka is 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 includes 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 \$15 million in veterans' loans. He switched to the Revenue Department in August when it became ap-

parent the permanent fund was on the horizon.

Edenso, who is not married, said he now spends two or three days every other week in Anchorage, working on the permanent fund.

He has 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.



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 apple 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 qualify 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 eye 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.

Commercial 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

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 to...

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 Mobe 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

Thursday, November 4,



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 water needed 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 near-shore sub-tidal ecological studies, food habit studies, marine bird dis-

tribution 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 Ilimna 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 bottom," Flagg said. "We had good success with it."

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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 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 Multi-state 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 productivity."

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 pro-

duction.

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.

Regarding the severance tax, Lipton said his firm, Walter Levy Associates, did not endorse the per-barrel base which the legislature adopted. He said in the case of Cook Inlet oil production, the per-barrel clause has resulted in a rapidly-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

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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. Darr, 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 PACESSETTER, 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, actually 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 Fredon J., visited Rhode Island some time ago when two "test 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 Ocean Atlantic, a consortium of the drilling companies, which functions in the case of an oil spill like a fire department at sea. The equipment is pushed to sea, where plastic booms are used to contain the flowing oil while a suction device, looking like a giant vacuum cleaner, draws it into a separator. 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 test 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 ambitious plans for their new industry. The white clapboard former admiral's residence sitting empty on top of a small hill is intended for the local petroleum club. Two or three years down the road, they estimate, 2,000 oil workers will

be on scene and, at some point, Rhode Island even hopes that the oil production platforms will be built here.

But potential obstacles loom. For one thing, while the oil companies maintain that they have chosen Davisville because it is the most readily usable facility, at 12 hours from the coast, it is too far for a per-

manent supply point. For another, Rhode Island faces competition from its neighbors — nearby New Bedford, Mass., for example, is sending local workers to the Gulf Coast training in oil production. And from the onset, most of the oilmen plan to use Atlantic City as the terminus for the airborne flow 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 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

465-3711, 465-3799

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 undoubtedly 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 Tillon 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

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.

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.

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 and 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-Anchorage, and Frank Ferguson, D-

Kotzebue, absent. Reps. Mike Beirne, R-Anchorage, and Pappy Moss, D-Delta Junction, were absent in the House.

Passage of Sen. Mike Colletta's, R-Anchorage, tax plan marks the culmination 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 overwhelmingly 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 adamantly 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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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 than 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 the 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.

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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 unavoidable 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.

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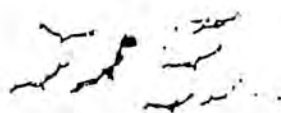
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Hohman Fund plan could spark public dissatisfaction

By LAURA ZAHN

Enterprise Staff Reporter

Public dissatisfaction over the Alaska permanent fund management plan passed this week by the Legislature will show up in the November election, a key figure in four years of work on the fund 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 three 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 se-

cond committee adopted a plan close to the House investment philosophy. Hohman described 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 investments be made, and that the fund's principal, estimated to grow to \$1.7 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,"

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 originally 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.

And then they (the lawmakers) approved (the plan) and hurt to the back. Hohman said.

"There is a limit to how much we can handle," 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

money, according to Hohman. Then Alaska gets a "double whammy" through the result of a "double whammy," he said. The first is a decrease in the cost of borrowing, and the second is 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-

ees, not doing so. Hohman said Alaska-grade investments in Alaska are a "double whammy" through the result of a "double whammy," he said. The first is a decrease in the cost of borrowing, and the second is inflation.

Additionally, it would be politically unwieldy to foreclose on constituents if they could not meet payments.

National money markets, on the other hand, would help accumulate federal "brownie points," instead of making the state look like a hoarder of billions of oil dollars, the House argued. Investing Outside would also help avoid a large migration to the state.

Continued on Page 3

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



We can't

BALTIMORE — Pres Carter has decided that Soviet invasion of Afghanistan is the greatest threat to peace since the Cuban crisis. And he has responded suggesting that we not discuss in Moscow. This return to the quarantine policy of the 1940s and the 1950s, remember the Hungary Plot taken by a wealthy right-winger to bring down Russia, refusing to eat her caviar. Well, there was an hysterical attempt to prevent D. Shostakovich from coming to America. Back then, cultural exchange was attacked as 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. Chinese could have been won away earlier, if we had been willing to meet them at a level of concern for their people.

Citizens'

NEW YORK — One of them stared out the window and other leaned against the wall at PJ's Auto Works on Rembrandt Avenue in Canarsie, Brooklyn. They were talking about Salvatore Desarno, from down the block, who was arrested and charged with shooting a

properly or improperly — with free-spending waste of 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.



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Citizens' answer

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 ex. 10)

what details? never been a bill since SS - always
a new draft which is not available to public.

\$ SBI (last public version) - not safe investments -
allows stock purchases - FHA + FVA - housing
mortgages. (late have mentioned ph. sked on.)

income - have used it as a gift. In fact,
no money made in use of income exact
shown to get all this. not equal value.

to leverage money for loans, 12.5% to 10%
could be used for anything else and then
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example of participants -

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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 it's 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.

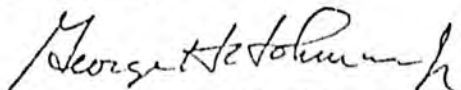
If you had bothered to read the bill or inquired of knowledgeable persons from both Houses, you would know that it is the income stream, (among others), of the fund which is at question. The Senate plan would place those derived revenues into the economics of the state, not export them to the brokerage houses of New York to be lent back to Alaskans, with additional charges for handling, of course.

Letter to the Editor
February 5, 1980
Page 2

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,



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 halted 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 Hohnan, 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, Hohnan 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

"inviolable 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 hammered 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. Bill Ray, L-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, Hohman, 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 telling a press conference he likely would veto legislation tying the permanent fund earnings to a state loan program, several Anchorage residents were advising lawmakers to do just that.

The testimony came Thursday during the first of the statewide teleconferences scheduled by the House-Senate free conference committee on the permanent fund.

Legislators listened to nearly a dozen Anchorage businessmen, representatives of the fishing industry and members of Commonwealth North urge use of surplus state money — both from the permanent fund and general fund — for low interest loans and capital projects aimed at bolstering the state's economy.

"I'm afraid at this time if the permanent fund is 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 "involute 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.

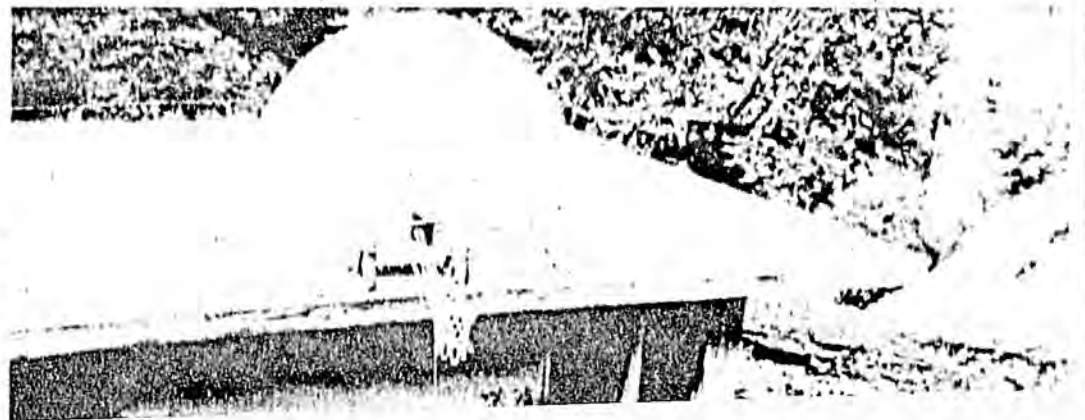
New York City possesses form to fight criminals

NEW YORK (AP) — Amid a plague of ugly crime — including what the mayor calls "an epidemic of gun violence" — New Yorkers are fighting back with old fashioned posse justice.

Rush-hour commuters in Grand Central Station cheered on Thursday as bystanders banded together 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-undidentified 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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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

And Connie 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

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 Bendsuz, 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 McFarlane daughter Stacey one of 71 striking city work farm

Fund

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.

Continued from page A-1

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 round between the government guerrillas ended over the guerrilla alleged political released in exchange hostages.

The guerrillas down their original prisoners to a "no list of 28. Last government said it its refusal to release

The last hostage by the guerrillas Ambassador Edg was turned loose could be with his seriously ill in Viet

On March 2, f matic hostages w

Lonely

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.

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• Those in the Aleutians and Fairbanks are loneliest, while residents of Eagle River-Chu-

where. On the average, people making less than \$5,000 are lonelier than those making \$50,000 or more.

• 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 by TV. Usually, I don't

childhood experience important in determining how lonely a person is. The most lonely they had a poor relationship with their mother. Neither spent much time with them when young, nor could they get along with their parents or when they had a problem.

These same lonely people appear to be in a similar situation as adults. Their family is not as close to them as they would like to be. They are less likely to have relatives nearby to help them when they need it.

When they are lonely, they want to talk to someone, but there is no one to turn to. They get very little support, if any, from their relatives and friends.

Not surprisingly, lonely people have fewer friends and are less satisfied with the quality of their relationships and with their social life in general.

To make matters

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 Tillon, 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 2.25% production tax and a state income 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 Merkins, 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 employees 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 stop-gap and favor a longer-term solution.

The matter isn't likely to be settled this year, but the stage is set for not 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 contributed 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 FRED HOWARD TOM BLUMENSHINE
Managing Editor Circulation Manager 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 inflation 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 major 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

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.

by supporting police efforts to suppress drug trafficking at such events.

Incidentally, crowd-control workers sometimes concentrate only on exits. They are satisfied when there are enough safe ways to leave the concert hall.

But entrance access is as important. When there aren't enough safe, properly manned entrances to an auditorium, you get dangerous crowd congestion as people are pushed into narrow restricted access ramps.

DEAR CHIEF — I am worried by the sliding glass door in my living room. What locking precautions can I take?

DEAR READER — A simple way to secure a sliding glass door is to drill a downward slanting hole through the two frames where they overlap. Simply insert a screw or pin through both.

This prevents a burglar from lifting the sliding door out of its tracks.

You should also drop a door-size broomstick on inside track. This keeps the door from sliding, but you can lift the broomstick easily.



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 plan.

of Alaska and in education in our state in supporting the tenets forth by the State Conference Families. The work of this board represents a balanced view of public opinion and reveals its to be consistent with the democratic spirit in which our society accomplishes change.

I strongly urge you to resist the attempts of a reactionary minority to prejudice you against this work, and I also urge you to support our delegates to the White House Conference of Families.

Your politics and mine differ somewhat, but the concern here is more ethical and philosophical than political. After watching you conduct in office over

T A **EMPIRE**

City's Daily Newspaper
Y, JANUARY 31, 1980

10 PAGES TODAY 25 CENTS

ion in Permanent Fund

Freeman 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 people 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 representative, declined the offer.

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 we don't

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 sufficiently assured that a feasibility study on building a gas liquids line, something separate from the gasline itself, would be undertaken. The committee in its report would have to have allocated funds for engineering, for a study of the feasibility and for a study of the quick line.

Gardiner also 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 we don't

A SOUTHEAST ALASKA

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The Capital City's Daily
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 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 refusal of moral and generations'

After Freeman said the benefit of Dillingham; Fairbanks, and later.

He first vowed to sock away \$500 million who have no state, older poverty-stricken surplus money. Randolph,



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Permanent fund showdown!

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

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

Continued

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.

Superior Court decisions in cases will go directly to the Supreme Court, bypassing the

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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 provi-

sions 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 . . . can wield . . .

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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 gasoline a top priority.

"No good ideas have been proposed yet," he said.

Here are the priorities House Democrats 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)

...now far can you get with that kind of plane? Not even to the next town."

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 including 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

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.

he gets terror

WILL HE'S UNIVERSE IN BO

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forum

"THROWING AWAY MONEY WAS THE PRICE NECESSARY TO GET THE GOOD BILLS" — CLEM TILLON

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government and their word, Ayatollah, waited long

Peter Ble

one bit of inaccurate information which I wish to note your readers. The December 1979 meeting on adoption Anchorage did not pass a resolution on limiting private actions. The matter was under discussion as resolutions were being approved, but a conclusion was never reached on the issue.

My apology to the participants at the meeting for the notes. — Julia 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

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Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Page 4

Thursday, March 9, 1978

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 Ju-

neau.

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 permanent 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.



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.

POLITICS TO

Refuse Not Hunt

By
A

to time already served case behind the state. criticism continues and ers' lawyers are pursuing all of which keep the in the national scene. As a presumed to have national ambitions, Hunt can't with his decision down to

But within North Carolina his likely immediate position a second term in 1980, dling of the Wilmington case has been a demonstration fully walking the middle worthy of Jimmy Carter. The prisoners' lawyer, J. of Charlotte, predictably the governor "has hurt cause his decision d anyone."

And Anne Sheppard one white defendant in has already been free says Hunt "is squeezing tight and hoping it will. The preponderance of however, is that as far cal impact on Hunt is co case does indeed seem away.

TURNER is touring speaking to raise money fund, but North seem to have had enough mington 10. The main r within the state Hunt h in countering the wi pression outside that t

Soviets Think Big

THE TRANS-ALASKA pipe- their propaganda and the term

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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 subdivision 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-

Loan

By The Ass

At the same time Gov. ing a press conference he tion tying the permanent loan program, several An advising lawmakers to do

The testimony came Thu five statewide teleconfer House-Senate free confer permanent fund.

Legislators listened to n businessmen, represental dustry and members of Co the use of surplus state permanent fund and g terest loans and capital ing the state's economy.

"I'm afraid at this tim isn't used for the fishing i

New form

NEW YORK (AP) — crime — including w epidemic of gun violer fighting back with old f

Rush-hour commuters cheered on Thursday together to grab a wall tackled a mugger and he

Earlier this week, a k into the arms of police to

Crime — both above been on the front page here in recent days.

—A man brandishing

Local in Al

By CRA
Empire

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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 additional 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

8.0 M.H. - with inflation
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 institution retains a $\frac{1}{2}$ interest in the mortgage; and for the purchase of Alaskan commercial secured loans if the offering financial institution retains at least a $\frac{1}{3}$ interest in the loan. *The second 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. ^{no - always} 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.