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TO: HOMER NEWS, CHEECHAKO NEWS, PENNISULA CLARION

FROM: Representative Hugh Malone

Pouch V

Juneau, Alaska 99811

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THE ALASKA PERMANENT FUND

In 1976 Alaskan voters approved a constitutional amendment creating the Alaska Permanent Fund, to which at least 25% of all oil royalties and bonuses are dedicated. Since that time, as the fund has accrued revenue, the legislature and administration have grappled with the questions of how the fund shall be invested, what shall be done with the income from those investments, and whether increased contributions shall be made to the fund.

Currently, the fund is being managed by the Department of Revenue under an interim management policy which assures that it is invested conservatively in government and other high-grade securities. At present, the fund contains about \$350 million. Its investments earn an interest of just over 11% which flows into the general fund.

The House Special Committee on the Permanent Fund, of which I am now chairman, has, since 1976, held extensive public hearings and sought the expertise of numerous financial consultants. We have developed legislation which provides for secure investment of the fund's principal and management by an independent Permanent Fund Corporation which would be both insulated from politics yet accountable to the public through

legislative oversight. This approach - which treats the fund as a trust not to be risked, squandered, or used for the benefit of special interests - received the overwhelming support of the House last year. The bill also raised the contribution level to 50% from all new oil leases, and left the whole question of what to do with the fund's income open to be addressed by additional legislation.

On Jan. 29, the Senate took up the House Permanent Fund bill and voted not to concur, sending the legislation into a free conference committee whose six members - three from each body - will attempt to reach an agreement on how the Permanent should be managed. Although the Senate has not passed a Permanent Fund bill of its own, the proposal which has received the most attention on that side is that of Senator George Hohman (D-Bethel). It would create a massive loan machine guaranteed by the fund's earnings.

Aside from the management question, House members have begun this session to address two additional aspects of Permanent Fund legislation - additional contributions to the fund and the use of the income.

Representative Oral Freeman (D-Ketchikan) introduced HB 509, a bill to appropriate \$900 million to the Permanent Fund, at the beginning of the session. It passes the House on January 31 with an amendment making the appropriation contingent upon the passage of the House management legislation by the Senate. As a co-sponser of HB 509, I strongly

support this additional appropriation to the fund. The oil revenues currently being received by the state are in excess of what should be immediately spent, and depositing a portion of them in the Permanent Fund would be a wise and responsible move.

Although there are any number of possible uses of the income, one which is receiving serious consideration in the House is the idea of returning to Alaskans some portion of our oil wealth in the form of Permanent Fund dividends or credits. After all, the wealth belongs to us all. We must decide whether the income stream is better spent if it flows into government or if it flows to individuals for private decision-making. Later, as the oil revenues wind down, the fact that Alaskans have a personal interest in the maintenance of the Permanent Fund will help insure that any changes will receive adequate debate.

Although the voters made it clear in 1976 that they wanted a Permanent Fund which was permanent, expectations concerning the fund's role were unrealistically high. People came to believe that the fund could save oil money safely for the future, return benefits to Alaskans now, and diversify and expand the state's economy.

In reality, the amount of money being deposited into the fund is simply not enough to provide all things for all people. At the current contribution level, for every oil dollar which goes into the Permanent Fund, approximately seven oil dollars go into the general fund.

Alaska's loan programs 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 Iuss 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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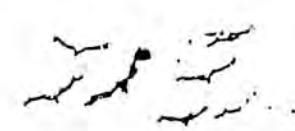
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Hohman Fund plan could spark public dissatisfaction

By LAURA ZAHN

Energy 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 legislation said today.

"I think the repercussions (from passage of the plan) will be expressed in the elections. I think a lot of people won't be coming back," said Bethel Democrat George Hohman, who chaired the Senate side of a 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 be-

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, "ben Alaska-grade investments in Alaska sets a double standard" through the result of a double standard.

Deputy Commissioner of Revenue Pete Bushre affirmed investment will result in a net loss after 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-

House leaders argued that the real estate market for income peaks and then falls with economic booms and busts and leaders argued the fund would follow such trends.

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 "broker points," instead of making the state look like a hoarder of billions of oil dollars, as 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 taken by a wealthy right-winger to bring down Russia refusing to eat her caviar. In 1956, there was an hysterical attempt to prevent Dmitri 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. The 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 the other leaned against the wall at PJ's Auto Works on Remond 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.



BALTIMORE — President Carter has decided that the Soviet invasion of Afghanistan is the greatest threat to world peace since the Cuban missile crisis. And he has responded by suggesting that we not throw the discus in Moscow. This is a return to the quarantine strategy of the 1940s and the 1950s. I remember the Hungary Pledge taken by a wealthy right-winger to bring down Russia by refusing to eat her caviar. Earlier, there was an hysterical attempt to prevent Dimitri Shostakovich from coming to America. Back then, cultural exchange was attacked as the Moscow Olympic are now — any willingness to hear Russian music or watch Russian ballet would legitimize" the regime.

We also quarantined China, you remember — which slowed the Sino-Soviet break. The Chinese could have been wooed away earlier, if we had been willing to meet them at any level of concern for their people

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.

SB1 (last public version) - not safe investments -
allows stock purchases - FHA + FVA - housing
mortgages. (late house members, plugged on)

income - have used out exact. In fact,
no money made or use of money exact.
I want to get all the and spend what

to leverage money for loans, 12-15% the same
could be done for a very low and to
up the capital 10%.

stamp program participants -

852	con in
536	inc
35	trans
274	ag
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1677	
14,650	chad
5,850	yet
8,800	housing
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total loans	30,350
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.

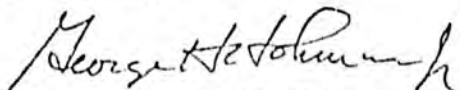
If you had bothered to read the bill or inquired of knowledgeable persons from both Houses, you would know that it is the income stream, (among others), of the fund which is at question. The Senate plan would place those derived revenues into the economics of the state, not export them to the brokerage 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 halled 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 "inviolate trust."

The House leadership favors a state loan program funded by the state treasury rather than the permanent fund.

Members of Commonwealth North, a group representing a range of business, labor and civic interests, recommended that the Legislature implement widespread tax relief before increasing contributions to the permanent fund or depositing an additional \$900 million into the fund, as proposed by the House.

Specifically, the group suggested repeal of the state's personal income tax, property taxes and business income taxes.

In addition, the group recommended:

—putting a lid on state and local government

spending;

—use of surplus state money for loans and for major capital construction, particularly for energy projects;

But while testimony from several persons urged use of the permanent fund for a state loan program, as the Senate bill proposes, Hammond told a press conference that he could not agree to such an approach.

"They (permanent fund earnings) should not be used to finance loan programs, in my view," Hammond said. "They should be done either to provide for the degree of tax relief that we can authorize or as well to provide something as an offset to an AGSOC."

"It seems to me a lot more sensible to invest monies that belong to all the people in some way to produce income and from that income provide a dividend dispersal," he said.

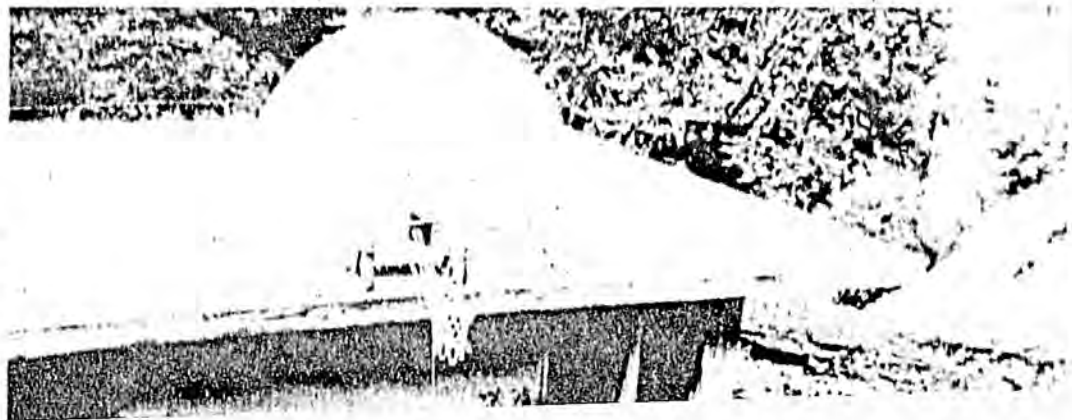
New York City poses form to fight criminals

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

Hourly 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-undecided 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 Conner 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 its refusal to release prisoners.

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

On March 2, automatic 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.

• Unlike the men in New York or Massachusetts, the men in Alaska are lonelier than women. It could be because of a poor male-female ration in Anchorage, or because men have more isolated occupations. It could also stem from the state's high rate of divorce, and a situation where men remain here and women may not.

• Those in the Aleutians and Fairbanks are loneliest, while residents of Eagle River-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 other relatives when they had a problem.

These same things appear to be in a situation as adults. Their family is not as close to them as they would like to be. They are lonely because they have relatives nearby but they don't 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, people have fewer non-lonely people in their lives. Similarly, less satisfied with the number of friends, the quality of friendships, and with their social life in general.

To make mat

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 500-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 tax on the c

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 \$150. 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 a 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 behind push 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 bolt 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 the inside track. This keeps the door from sliding, but you 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 set forth by the State Conference of Families. The work of this body represents a balanced view of public opinion and reveals itself 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

SOUTHEAST ALASKA

The Capital City's Daily
THURSDAY, JANUARY

VOL. 74 NO. 22

House puts \$900 million

By LAURA ZAHN
Empire Staff Reporter

The state House of Representatives this morning voted overwhelmingly in favor of making what the sponsor said is the largest single appropriation in the state's history.

On a 38-2 vote, the body approved an amended HB 509, originally sponsored by Ketchikan Democrat Oral Freeman, which will put \$900 million of the state's oil-generated revenue into the Permanent Fund.

Before the bill reached the House floor, however, it was amended to stipulate that SB 161, which sets up a management structure for the fund, must be passed before the appropriation can be made.

Freeman's bill had 23 co-sponsors days after it was introduced Jan. 14. He praised the House Finance and Rules committees for moving it quickly and bringing it to a vote today.

In a long and emotional floor speech, after which Freeman received applause from his colleagues, he explained he picked the \$900 million figure as a symbolic tribute to the same amount legislators spent 10 years ago after the Prudhoe Bay bonanza.

"We did not blow that money," he said, calling those who say legislators wasted it "terribly unfair." The money was spent on fulfilling some of the the state's needs, as directed by constituents, he said.

"We now have another opportunity...Some of the state's needs have been taken care of, but not all of them. We can take care of all of the needs of this state and still have money left over," Freeman said about surplus oil money, which has been projected as high as \$4 billion.

Explaining that \$900 million was "a lot of money" — so much that it would stretch 113.4 miles in \$1 bills placed end to end — Freeman

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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.

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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

attending a meeting of the Turnagain Community Council rears-

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.

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

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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

ROBERT B. ATWOOD
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.



POLITICS TO

Refuse Not Hur

By A

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.

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 possibility of a second term in 1980, dling of the Wilmington 10 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 freed says Hunt "is squeezing tight and hoping it will. The preponderance of however, is that as far cal impact on Hunt is case does indeed seem away.

TURNER is touring speaking to raise more fense fund, but North seem to have had enough mington 10. The main r within the state Hunt h in countering the wi oppression 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-

Loans

By The Ass

At the same time Gov. ... ing a press conference he l ... tion tying the permanent f ... 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, representat ... dustry and members of Co ... the use of surplus state ... permanent fund and g ... interest loans and capit ... ing the state's economy.

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New Y form

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—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.

Hohoman's Q & A

QUESTIONS AND ANSWERS CONCERNING ALASKA'S PERMANENT FUND

Clippings
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

8.0-11.14 - 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 secured loans*

Summary of major differences regarding the investment of principal

at all
The major difference in the investment of the principal of the Permanent Fund between the House and Senate Bill is the allowance for investment of Permanent Fund moneys within the State. If the House proposal were adopted, most of the principal of the Permanent Fund money would be invested outside the State because the only category within the House proposal which is a viable means for investing in the Alaskan economy is the purchase of the Government guarantee portion of Small Business Administration and Farmers Home Administration loans. The Senate Bill allows for the same investments as the House Bill plus the purchase of Alaskan residential mortgages and commercial loans. These investments place Permanent Fund money into the Alaskan economy.

(Investment of Earnings from the Permanent Fund

The House proposal does not make any provision for the investment of earnings and leaves this to the discretion of future legislators. The Senate Bill however, sets out a comprehensive investment policy which is briefly outlined as follows:

(A) Bonding Program - Under the Senate Bill proposal the earnings from the Permanent Fund would be paid into an unallocated reserve account. One half of this unallocated reserve account would be used to guarantee revenue bonds from various tax exempt municipalities, boroughs, and other entities throughout the State in order to make the bonds from these various areas marketable. The end result of this program would be an increase of the earnings of the Fund by leveraging the amounts to create a market outside Alaska for the purchase of the bonds. In this manner, for every million of Alaska dollars earned from the Permanent Fund, the State could guarantee and make marketable 10 million dollars (outside money) in bonds. It is projected that the earnings from the Fund would be sufficient to guarantee and make marketable all of the future bond needs for the State of Alaska to enable Alaskan communities to meet capital expenses in excess of the rate currently provided for through the current method of funding capital improvement projects. It is the intent of the Senate to use these bonds to create funding for the development of renewable resources in order to prevent investment from outside investors such as foreign countries. In this manner Alaskans will own and develop Alaska's renewable resources such as fish, timber, and agriculture.

(B) Revenue from Bonds - Bond revenues would be paid back to the Alaska loan programs fund which would provide revenue for all loan programs within the State. Consequently, all loans would be administered by one agency. The Senate Bill would increase the limits which presently exist in the area of student, residential and other loan areas to more realistically reflect current costs.

Q. Under the bonding program, would the State of Alaska be required to purchase bonds?

A. Only in rare instances. ^{no - always.} For municipalities of less than 5,000 people, the Commissioner of the Department of Revenue would have to submit a competitive bid in order to create a market for these bonds. If no other person were to bid, the State would end up becoming the purchaser of these. However, there is very little risk to the State as these bonds, in order to be issued by the various municipalities would have been subject to local laws requiring voter approval. As such, the voters in the area where the bond would be issued would be the guarantors of the note. Also, if the municipality were to default, the Commissioner of the Department of Revenue would have the authority to deduct the delinquent amount from the States revenue sharing money earmarked for the municipality.

Q. Why is it important to determine the investment of the earned income from the Permanent Fund now, rather than at a future time?

A. The Alaskan economy is currently in a state of crisis, particularly in the area of small businesses. Therefore, it is imperative that the legislature act this session, to aid the small businessmen throughout Alaska. The adoption of SB 1 would create moneys for small businesses at low interest affordable rates which could be used not only to help out existing small businesses, but to generate new businesses particularly in the area of renewable resources. Moreover, the Senate plan has been carefully thought out and drafted to insure maximum utilization of income earned for the Fund. There is no need to wait for a future date to spend the earnings from the Fund.

Q. Why has it been so difficult for the House and Senate to agree on the management and investment of the Permanent Fund?

A. Probably, because of differences in political philosophy and a composite of misunderstandings in regard to the differences between the two Bills. It is the goal of every legislator whether he be a Representative or Senator to do the utmost to benefit Alaska. With this goal in mind, it would seem inescapable that SB 1 would be the most advantageous to Alaskans for the reasons outlined in this questionnaire. However, differing views and ideas are certainly encouraged and all thoughts in regard to the Permanent Fund and its investment should be analyzed before laying the foundations which will ultimately affect the future of Alaska. It would be beneficial to the legislature for persons to become informed and provide information in regard to the management and investment of the Permanent Fund. Positive feedback in the form of letters, telegrams, and participation in the upcoming video conferences is encouraged in order to get as much public input as possible. It is in this manner that the legislature can fulfill its mandate to act in the best interest of all Alaskans.

Friday
dry

J. Tobin

Alaska's Legislature routinely gives out the millions — or is it billions? It doesn't make much of an impression on a hundred grand, and a little bit of it's no easy task to come by, it takes home a weekly paycheck for an honest hour's work. And it's to be a small businessman trying to get an investment, to manufacture a service to customers — and to get a few jobs for working men

if you happen to be a high school buck manufacturing and selling rights. Or ice scrapers. Or Christmas. Or T-shirts. Or desk-top book-coupage for sale. Or making pen-erating the concession stands for

RED out by now that this is. It represents next year's rent program, which this year's participants always call it) has the money it needs to finance next year's banquet. At that gala dinner after the members of the various clubs and members of the various clubs other to salute this year's work — or success, and to pay tribute to the way that the world of private business is bathed in red ink, as well as

and one worth devoting some time to (as participants always call it) has the money it needs to finance next year's banquet. At that gala dinner after the members of the various clubs and members of the various clubs other to salute this year's work — or success, and to pay tribute to the way that the world of private business is bathed in red ink, as well as

Businessmen plead for loans

Associated Press

Juneau — Wearing badges proclaiming they are the "indignant survivors," 18 men and women in business pleaded with — and sometimes threatened — legislators to appropriate more money for low-cost loans.

The group traveled to Juneau at their own expense to counter a week-long parade of consultants that a House-Senate free conference committee on the permanent fund heard this week. Most of the consultants, hired by the administration or the House, told conferees that the permanent fund earnings should probably not be used to finance state loan programs.

The citizens' delegation here Friday included some persons who had

been among an angry crowd that challenged Gov. Jay Hammond to get more loan money out last week in Anchorage.

Hammond on Friday announced the state will pump an additional \$75 million into low-interest business loans, and declared a three-month moratorium on foreclosures on state business loans.

(Related Story, A-1)

Angie Kruckenberg, owner of OK Lumber in Fairbanks, led off the testimony with an emotional plea for 8 percent interest loans, and concluded to a round of applause.

"Let this money be used for the small businesses in Alaska at low interest," she said. "Turn it over and make money for us and make us one

of the wealthiest countries in the world. We have the best people in the country here in Alaska, and they are ambitious. It makes me cry to see the billions of dollars going stateside to feather somebody else's nest."

Like many of the witnesses, she told the committee of her own financial problems, saying she and her husband came to Alaska in 1973, bought "nine acres of swamp" which they have filled in and created "probably one of the most updated lumber yards in Fairbanks."

She said they got into the lumber business to supply construction resulting from the trans-Alaska pipeline, but now are unable to purchase the necessary \$1.5 million to \$2 million inventory needed to survive. She

said a \$300,000 ceiling on personal loans is "peanuts."

"We want to put in a truss factory, but we had to spend everything we had to build a warehouse. What can you do with \$300,000 (which she has borrowed from the state) except build a warehouse that might sit empty?"

"We have people like myself who have ambitions, but we can't get the dollars to coincide with our equity," she complained, adding that her business is worth \$7 million but she can't borrow against it.

Pat Stephan of Anchorage said that instead of allowing the free enterprise system to work, the government is running people out of business.

(See LOANS, Page B-2)

Official enters plea of innocent

Associated Press

Juneau — Former state Department of Education transportation officer Greg Thies pleaded not guilty in Juneau Superior Court Friday to charges of embezzling public money.

Thies, 33, was arraigned on two charges of embezzling a total of \$40,571.24 in money that was to have gone to the Anchorage and Lower Yukon school districts.

Thies was secretly indicted by a Juneau grand jury on March 6.

He was fired from the Department of Education last July for un-



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

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Arch. Town

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

attending a meeting of the Turnagain Community Council reno-

March 5, 1980

The Alaska Permanent Fund and Management of Alaska's Wealth

This information is provided by Representative Hugh Malone, chairman of the House Special Committee on the Permanent Fund and a member of the free conference committee on the Permanent Fund.

The Alaska Permanent Fund was established by the voters in 1976 to receive at least 25% of all mineral royalties and bonuses. What this means in real terms is that approximately one out of every eight dollars which the state receives in oil revenues is deposited in the Permanent Fund. The fund currently contains about \$350 million and is earning interest of over 11%. It is being invested by the Department of Revenue under an interim management plan, and the earnings flow into the general fund. The legislature has yet to decide just how the Permanent Fund shall be invested and managed over the long-run. A free conference committee, of three House and three Senate members, is presently meeting in an attempt to reach agreement on Permanent Fund legislation.

Alaska today is in the unique position of having enough money to adequately provide governmental services; to construct needed capital projects; to eliminate the personal income tax, expand loan opportunities, and return a share of the oil wealth to Alaskans as dividends; and to save a portion of the wealth for the future. Although earnings of the Permanent Fund will never completely replace today's oil revenues, they can go a long way towards helping stabilize the Alaskan economy and reducing the need for personal income tax payments in the

future.

Q. What are the basic components of the House Permanent Fund bill (HCS for SB 161)?

A. The House bill focuses on the management of the Permanent Fund and addresses three major concerns-- safety of principal, accountability, and legislative oversight. The fund would be invested as a trust consisting of a wide variety of quality, high-grade investments. These investments have been described as "squeaky conservative." The House also decided that the fund, because of its fundamentally different goals, should not be invested by the same people who manage money for day-to-day use by the state-- the Department of Revenue-- but should be managed by a public corporation distinct from state government. The proposed Permanent Fund Corporation, with its own board of trustees, would be made accountable in several ways. The House bill also expands the powers and duties of the Legislative Budget and Audit Committee to oversee all lending and investment functions of the state, including those of the Permanent Fund Corporation.

Q. How much money would the House bill deposit into the Permanent Fund?

A. The House bill would raise the contribution level to the Permanent Fund from the current 25% to 50% of all bonuses, 25% of royalties from existing leases, and 50% of royalties from new leases. It's important to remember that 50% of bonuses and royalties actually means about 25% of all oil revenues, so that three-quarters of state revenues would still be going to the general fund for general governmental purposes.

Q. What would be the advantages of investing the Permanent Fund according to the House plan?

A. The Permanent Fund, if invested as an "inviolable trust," would be just as secure as possible and would return substantial earnings to Alaskans. Because the investments would be diversified and would not rise and fall with Alaska's economy, the earnings would be stable. In addition, the establishment of a secure trust would be a sign to the national financial community that Alaska is following a responsible fiscal policy. The passage of the House bill would not preclude aiding the state's economy in other ways as well. Loan programs, capital projects, tax repeals or refunds-- all these can be taken care of through the general fund.

Q. Under the House plan, what would happen to the fund's earnings?

A. The earnings would flow into the general fund, just as they do today. Future legislatures would still have the option of redirecting the earnings. Paying them as dividends to today's Alaskans is one idea.

Q. How does the Hohman bill (SB 1) differ from the House bill?

A. Senator Hohman's bill is an extremely long and complex one which deals only peripherally with the Permanent Fund. SB 1 provides for the elimination of existing loan programs and development authorities and the substitution of a new program combining all loan purposes. The loan program would be tied to the Permanent Fund by using the Permanent Fund earnings to guarantee revenue bonds to fund the loans. The Hohman bill also differs from the House bill in that its Permanent Fund investment list is much broader (and less secure), its contribu-

tion rate is set at 100% of bonuses and 25% of royalties, and the fund is managed by the Department of Revenue.

Q. What are the House objections to the Hohman bill?

A. The primary objection is that it is concerned much more with the state's loan programs than with the Permanent Fund, and that a free conference committee on the Permanent Fund is not the place to so drastically restructure the loan programs. SB 1 is extremely complex and, if implemented, would have far-reaching consequences for the state's economy and credit rating. Specific problems with the concept include 1) the earnings of the Permanent Fund are put at risk, 2) consolidation of the loan programs does not solve the existing problem of access to them, 3) the programs would receive automatic funding without legislative review, 4) there is no method of prioritization and the different loan programs could not be judged separately on their merits, and 4) municipalities would be encouraged to issue unrestricted debt.

Q. What does the House offer as an alternative to the loan program portion of SB 1?

A. The House Finance Committee is currently developing a package of loan bills which will address the needs of Alaskans for easily accessible and low-cost loans. Although the details are yet to be worked out, some consolidation will occur and loans will be made available for financing housing and businesses. Emphasis will be placed on ensuring that those people who most needs loans receive them. Interest rates will be reasonable. I feel confident that the House will pass comprehensive and responsible loan legislation within the

next several weeks. I might add that \$35 million a month in state funds is right now available for Alaskan mortgages through HCR 33, sponsored by the House Finance Committee this session.

Q. What does the state's financial picture look like for the next few years?

A. The latest financial projections are very impressive. With the Permanent Fund receiving just 25% of royalties and bonuses and with the earnings being distributed to the public, at the end of 1982 we should have about \$1.2 billion in the Permanent Fund and \$6.7 billion in the general fund. Since, at current growth and inflation rates, \$1.6 billion will be needed to meet the state budget, there will be over \$5 billion extra in the general fund to be appropriated for whatever purposes the legislature desires. While the opportunities for spending money within the state are vast, the legislature also bears an unprecedented responsibility to manage Alaska's new wealth wisely. Setting a portion of it aside in a secure Permanent Fund should be one step in responding to that responsibility.