

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECTS 86 / 2

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1 the basis of all kinds of analysis. That is incentives
2 don't work. You've seen you can tax the oil companies at a
3 high rate and they're sure interested in Beaufort sale, as
4 far as I could see.

5 I think the sound management of your government
6 and a willingness to deal much in the fashion as the
7 Japanese do and really a vigorous direct dealing between
8 government and business, that is, large government and
9 business, and a lot of support, again optimism, a lot of
10 the use of these resources to support large enterprise
11 within the State, which I think you're really starting to
12 do in a big way, all three of those.

13 MR. MEEKINS: There's been some research done for my
14 committee that small business is more profitable for not
15 only the State but for the people of the State in the long
16 run. I think it would be much better to utilize our wealth
17 for leverage in benefits to creation of small business
18 opportunities for just the average person than it is to get
19 these multinationals. Those people are going to come.
20 Whether we encourage them or not. I think we ought to help
21 out the smaller person that actually is living here,
22 whether he's a fisherman or a grocery store owner.

23 MR. DANIELS: I support all of that 100 percent. Just
24 to take a specific, take the bottom fish industry. The
25 thing that scares me. It is going to develop. There's no

1 question about that, the issue is who is going to develop
2 it. Is it going to be a Japanese-based industry, a
3 Seattle-based industry, or an Alaska-based industry, and
4 the State can have a great deal of influence on that. It
5 requires being very realistic about that. I see Albert
6 Asterbach in the back of the room.

7 The State has to be very realistic about that. It
8 is going to be a mixed development. It is going to be both
9 offshore and onshore, both large scale and small scale.

10 That means creating the Alaska Renewable Resource
11 Commission. It means creating an agriculture bank to
12 finance boats and offshore facilities. It means the new
13 proposal for an extended industrial development authority
14 which can do that with the banking system. And then it
15 means a very systematic development of infrastructure, not
16 on a log rolling basis or a pork barrel basis but in terms
17 of really where the State industry is going to go. The
18 state has the role of being the manager in collaboration
19 with the fishing industries.

20 THE MODERATOR: You ask for information on finance. I
21 think you've got a lot. Do you want to stop here? These
22 people are going to be around, except maybe Tom. You won't
23 be around.

24 MR. POMEROY: One piece of information might be useful.
25 I think we don't have as full an understanding as we should,

1 Russ, of the levels of revenue the State will get from the
2 several ownerships of oil that may be developed. The big
3 headlines have to do with develop on federal lands. Well,
4 we have three ownerships on land and then one on the water.
5 Could you just briefly indicate what levels of revenue we
6 get from those three sources?

7 MR. MEEKINS: You mean Prudhoe and --

8 MR. POMEROY: No. I meant this: If it's ours, if it's
9 our land, we get all the revenues, that is, all the taxes
10 and the royalties, et cetera. If it's on federal land, we
11 get less than that. If it's native, we get something
12 different.

13 MR. MEEKINS: For potential developments? The only one
14 we got, Prudhoe Bay is the one that we're talking about
15 here.

16 MR. POMEROY: Yes.

17 MR. MEEKINS: The Beaufort is unknown. Who knows what
18 we're going to get from the Beaufort. We got some State
19 land there, some federal land and some joint. So the
20 commissioner could tell you.

21 MR. NASKE: It's about 60 percent State, and the rest,
22 the 40 percent there's some dispute between the federal and
23 the State. And only ten percent federal.

24 MR. MEEKINS: We tried to pass a tax. I don't think
25 we're going to win that one.

1 MS. PALMQUIST: Is there quite a potential from Lower
2 Cook inland?

3 MR. MEEKINS: That's what they say. Also a potential
4 from Mataruska Valley.

5 MR. NASKE: The federal government now for years has
6 been drilling these big caverns in Louisiana or Texas and
7 pumping oil into it. It has a fiasco from every standpoint.
8 It might be well for Alaskn to say, "Here, we've got a
9 field which is in place, leave it in and pay us for keeping
10 it in the ground." Because, see, if all the construction
11 costs and uncertainties of shipping, it is there for a
12 rainy day.

13 MR. DANIELS: I'm one of those Lower 48'ers, right.
14 It's funny. Everything I've been responding to as a
15 Massachusetts person. I don't bleed for the Lower 48. I
16 think they're bleeding themselves to death. With the
17 subsidized energy policy, which encourages a misallocation.
18 Get on a freeway in any American city down there and see
19 all the single family people. Bill Spear had a great line
20 in his paper here, where he was defending an alternative.
21 He said what could be more ridiculous than moving a 40-pound
22 child three blocks in a three-ton automobile.

23 I think we want to get the price of oil up for
24 the benefit of the Lower 48 so they learn to conserve and
25 live within their means and pay that price to you. And I

1 think we can afford that.

2 MR. MERDES: Before you leave, I was in the Senate
3 when Governor Egan sent a bill down to take over the
4 Alyeska Pipeline. I voted against it. I think it was
5 ridiculous. I don't know if I would have now. We would have
6 had so much money we wouldn't know what to do with it. Now
7 it isn't as silly as it sounds. Because you have another
8 point of another oil pipeline. You have the gas pipeline.

9 So the question I'd like to ask any three of you,
10 you got to blow your mind and think big. Because learning
11 from history, what would you guys recommend to the Governor
12 and the legislature right now on whether or not the State
13 should have a personal financial interest in the oil line
14 and future oil pipelines? What's your answer, in light of
15 history?

16 MR. DANIELS: I have a strong position on that.

17 MR. MERDES: Go ahead. I'm very interested in this. I
18 think we made a mistake and should have taken an interest
19 in the Alyeska. I don't know what your position is.

20 MR. MEEKINS: I like the net profits as a way of
21 without taking the risk yourself and getting into what is
22 private enterprise, which is I think is a controversy
23 whether the State should get into this. Say you share in
24 the net profits. If I have 50, 60, 70 percent, we're
25 sitting pretty.

1 The gas pipeline, we should either not invest a
2 penny in it or we should be just like Exxon and get
3 ownership shares, management control and everything else
4 that any other corporation would get and play the hard ball.
5 And that's Belden's line. I couldn't agree more.

6 If we're going to go in 400, 500 million, we're
7 not going to do that just because we want a pipeline. Do
8 like the big boys do and get all the benefits. Because that
9 could do a lot of other things. It's either nothing or we
10 play the same hard ball that all the major corporations do
11 and get all the benefits.

12 MR. MERDES: I'm interested in you, Tom, and Belden.

13 MR. DANIELS: I'm going to wait for Tom and take the
14 third.

15 MR. WILLIAMS: I don't know whether we would say that
16 would be a super investment. The federal government is
17 regulating that. They changed the rules since 1941, and
18 very suddenly they have changed the rules on the producers.
19 And I think you would find that even though there may be
20 substantial pipeline profits being made with a \$6.20 tariff,
21 the possibility of a dollar a barrel refund on the billion
22 barrels that have moved through that pipeline is looming in
23 the backs of the minds of a lot of corporate owners. You
24 look at how the federal government has helped us so far and
25 you ask you whether you want for plunk lots and lots of

1 money where you're at their tender mercy.

2 MR. DANIELS: First of all, Russ and I are very, very
3 close on this. And Tom's comments I find very interesting.

4 Well, any time you can avoid dealing with the
5 Feds, do it. That's a fundamental rule.

6 I have a couple of quick observations. One, I am
7 really a net profit person in this business. I think that's
8 the way the Beaufort sale should be done. I feel very
9 strongly. I think there's a tremendous amount of wealth out
10 there in the Beaufort sale that the oil companies are being
11 very careful to keep under wraps because therefore they can
12 sell the leases for much less. I took a cab the other day
13 to the airport with a roughneck who had worked up there and
14 said that one of the wells came in, one of the test wells
15 came in at 40,000 barrels a day.

16 Now, I don't know whether that's true or not. But
17 you don't have to worry about that if you're in a net
18 profit position. Because you're going to get that. That is
19 playing hard ball. There's a variation. The British disease,
20 which is called lemon association, lemon, as in lemons,
21 which means that everybody else gets the oranges, and we
22 get the lemons.

23 That's the point with regard to the natural gas
24 pipeline. Natural gas is regulated in a very different
25 fashion from oil. And I don't know enough to say whether

1 the risks are less or greater than they are in the oil
2 pipeline. But you do know that the equity investors in
3 there on an after-tax basis by virtue of the regulated rate
4 should be receiving a 31 percent return on investment. And
5 what scares me to death is just what Russ said, which is
6 the way the State would get into the natural gas pipeline,
7 is a heads-you-win, tails-I-lose proposition, where you
8 come in and you guarantee the loan. So if it's a loser, you
9 pick up the pieces. And if you win, you lose the profits.

10 MR. WILLIAMS: I don't want to sound I'm in
11 disagreement with that. I don't want the impression to
12 linger.

13 I don't think that we bureaucrats are completely
14 stupid all of the time. We can be completely stupid a good
15 part of the time, but --

16 MR. MEEKINS: Law of average.

17 MR. WILLIAMS: Sooner or later we have to wake up. I
18 think a deal where you get somebody who comes in and says,
19 "I got a six billion dollar project. I want you to put in
20 \$500 million. I'm going to come up with one billion as
21 equity and finance the other four and a half as debt, and
22 I'm going to get a 100 percent tax credit, which is worth
23 600 million dollars," or says "I'm going to get 100 percent
24 of the accelerated depreciation benefits, which is worth
25 300 million dollars in the first-year tax benefits," he

1 says, "I get the first year interest writeoff." He gets a
2 deal like that, so in the first year, he gets a million
3 dollars back. He has the unmitigated gall to say, "How
4 would you like an equity position at nine percent?"

5 Dumb as we are, we recognize that as a bad deal.

6 MR. DANIELS: First of all, I don't accept that last
7 remark. I do feel the state's approach to the northwest is
8 quite crude.

9 I'd just like to quote to you the other day when
10 Mr. McMillan was testifying before Representative Young on
11 this issue in the house, he suggested that the State ought
12 to put in one-eighth of the equity investment because that
13 was what the royalty position was. And Representative Young
14 turned to Mr. McMillan and said, "Well, does that mean that
15 we share one-eighth in the profits?" And Mr. McMillan
16 responded, and I quote, "I'm sure that's negotiable."

17 THE MODERATOR: Thank you. Thank you very much.

18 That was a lot of information.

19 MS. PALMQUIST: Right.

20 THE MODERATOR: But I do agree sort of we're talking
21 about all this money we have and yet we're trying to
22 attract more money from outside. I understand what they're
23 saying. They're talking like bankers, and I think maybe
24 that's one of the decisions Alaskans have to make.
25 Basically they're saying be a bank, be a big lender, use

1 other people's money.

2 MR. REAVES: I think we should.

3 MS. PALMQUIST: Mr. Chairman, one thing that we did
4 not address was the dangers involved in whatever type of
5 controls we put on that permanent fund. Who controls the
6 funds? What's the setup going to be? We didn't address that
7 at all. How are you going to administer the fund? I use the
8 word "control," but maybe "administer" would be better.

9 MR. POMEROY: That's all pending in the legislature,
10 is it not?

11 MS. PALMQUIST: We didn't explore that with the
12 finance people.

13 THE MODERATOR: Tom, can you answer?

14 MR. SINGER: There's a law on the books right now,
15 which is referred to as an interim management law. It was
16 passed when the constitutional amendment passed, an
17 implementing law was passed by the legislature. And it has
18 the Commissioner of Revenue manage the fund in the same way,
19 virtually the same way as the state's general fund. So it's
20 on the books in blue chip investments, and things like that.

21 One of the very big issues in that session is
22 what should be a permanent management strategy. It's a
23 completely open question.

24 MR. POMEROY: It's a holding action now.

25 MR. SINGER: The administration has the bill for the

1 past three legislatures. And the house and senate have been
2 unable to agree for three sessions now, and there's hope
3 this session they will be able to agree.

4 THE MODERATOR: Well, I think we've been told we have
5 so much surplus money. We've got so much set aside in a
6 permanent fund, like Alberta, and then we've got the
7 following surplus. How are we going to spend it?

8 I think Harry gave me that idea. Is that
9 basically what we're talking about?

10 MR. POMEROY: Not quite. It seems to me not quite how
11 we're going to spend it. I listened very carefully to what
12 Russ said. He didn't say it's how the 25 percent has to be
13 handled, but it seems to me he indicated that we did need
14 to build up a cushion there. And we didn't have a chance to
15 explore that very much.

16 MS. PALMQUIST: Jack said what we're looking at now is
17 the five percent permanent fund, the five percent renewable
18 source, and three and a half billion would be the fund.
19 You've got not one source of money, you've got several
20 sources of money? I got that from what you said.

21 THE MODERATOR: That's right.

22 MR. POMEROY: It should be understood 25 percent isn't
23 25 percent of all of the income from the sale of the oil.
24 It is 25 percent of about 50 percent. That is to say, it's
25 the royalties and the rents and those things.

1 But the severance tax, which we put on, and the
2 pipeline tax, that's related directly to the production of
3 oil and whether it's this much or this much. So actually
4 it's 12 and a half percent of the total of the monies that
5 we're talking about. And that should be borne in mind
6 whenever there is discussion as to whether we should save a
7 lot, or less than a lot.

8 MS. PALMQUIST: Well, the 25 percent of the royalty;
9 25 percent of the royalty income.

10 MR. POMEROY: It's 25 percent of the royalty income
11 and the rents, and certain other minor items.

12 MR. ECKHOLM: Could we kind of start to focus the
13 discussion. We've heard a lot of information. We would like
14 to start having recommendations from the group as to what
15 you want to do with our money. It's our money. No matte.
16 what the experts say, it ultimately rests on us on how to
17 spend it. So could we make recommendations on it.

18 MR. SCHIRMER: Can I toss out as maybe one of the
19 things we might be able to agree on is whether we would
20 recommend, as Russ Meekins said, a rainy-day fund, an
21 amount of money to try and be kept available not in the
22 permanent fund but in case of disaster.

23 THE MODERATOR: I think he said a six-month rainy-day
24 fund.

25 MS. SCHIRMER: Yes. A rainy-day fund equivalent to six

1 months of the cost of running the State.

2 MR. PILLIFANT: What would a rainy day fund be used for?
3 What would a rainy day be?

4 MR. ECKHOLM: If the oil pipeline were shut down.

5 MS. SHROYER: Or maybe results like Wednesday from our
6 last storm in the southwest.

7 MR. PILLIFANT: You get into a real -- somebody would
8 have to decide what the rainy was, if it's just the
9 pipeline or if it's the big wind like out in Parma.

10 MS. SPARCK: Mr. Chairman, I feel like I'm the only
11 nonfinancier in this room. I'm hearing that the State has
12 surplus money. What is to be done with it is the question,
13 and how.

14 And from what they were talking, there are
15 financiers, or whatever you call them, and then there are
16 concerns from the state's citizens. These concerns I feel
17 that we should talk about, and these concerns should guide
18 the financiers, or whatever they're called.

19 THE MODERATOR: Go ahead.

20 MS. SPARCK: I feel that we should start talking about
21 some concerns.

22 THE MODERATOR: What kind of concerns?

23 MS. SPARCK: Like education, is one; health is one.

24 THE MODERATOR: They were talking investments, weren't
25 they? Get your money invested so you could make more money

1 or protect it so you don't lose it. You're talking about
2 something else, maybe?

3 MS. SPARCK: Maybe I am.

4 THE MODERATOR: I think you are. Go ahead. I don't
5 want to shut you off.

6 MS. SPARCK: That's what I'm concerned. Are we going to
7 talk about how to spend it and how to set up the whole
8 financial setup? Is that what we're talking about?

9 MR. ECKHOLM: As I understand it, there are choices
10 that we have to make which are. We can increase government
11 services if there is a perceived need. But what are the
12 needs?

13 THE MODERATOR: Harriet, go ahead.

14 MS. SCHIRMER: I'd like to maybe -- you have trouble
15 with finances, too. But I think when you're looking at your
16 funds and I'm looking at mine, I have to be able to see
17 what there is and then I have to be able to think now do I
18 want to spend it out this year, or do I want to put some of
19 it away into some kind of an investment next year, so I
20 will have something that I can use in case next year I'm
21 sick and unable to work.

22 And I think what I'm envisioning at this point is
23 maybe thinking about that kind of division, and then when
24 we decide how much we are going to have to spend on the
25 things that we need, then we sit down.

1 MR. MOORE: My name is Martin more.

2 I'd like the idea of establishing a permanent
3 fund with the funds that are received, that we are going to
4 be receiving from the oil on other revenues that are coming
5 to the State, provided that the permanent fund be what is
6 called the permanent fund. Because the financial world at
7 times loses monies, but if I am assured that certain funds
8 that are put into the permanent fund are put in like, for
9 instance, A-bonds, triple-A-bonds, and double-A-bonds and
10 things that will be secured that the permanent will be a
11 permanent fund.

12 Do you know what I'm saying?

13 So that the monies that are derived from the
14 permanent fund would be sufficient enough to provide some
15 of the needs as employment. I think that the monies that
16 are derived should be used to create employment and
17 employment will, when it rolls and rolls over again, will
18 support the economy and whatever we're talking about, or
19 within the State.

20 So my idea is to come up, this body come up with
21 a recommendation to support the permanent fund. That's my
22 recommendation.

23 THE MODERATOR: Support the permanent fund at the
24 level it is now, the 25 percent of royalties? Or more?

25 MR. MOORE: Whatever the most appropriate formula

1 would be to satisfy some of the needs in education,
2 employment, et cetera. But the idea of getting a permanent
3 fund would, I think -- we have enough funds to establish
4 the permanent fund and keep the fund there and the funds
5 will keep making money to support the other programs.

6 THE MODERATOR: Rosemary?

7 MS. PORTER: Well, as I understood, then, we have
8 already established the nest egg. We have the permanent
9 fund. Now, that's going to live forever and hopefully it's
10 going to be wisely invested and we're not going to be
11 losing five percent on it. It should be earning 15 percent
12 or more on it. And that will provide additional ongoing
13 income that we can use.

14 Now, assuming that we've got the permanent fund
15 with all this billion dollars in it sitting there growing
16 every year, earning money, and assuming that we continue
17 pumping oil for another 20 years, that's going to be
18 growing. That's what we have. That's the nest egg for when
19 we retire, in a manner of speaking, when the oil dries up
20 and we don't have any more, that's what we've got left over.
21 And it's earning money.

22 Then Russ was talking about a rainy-day fund.
23 That's in case we have some kind of a disaster, the oil
24 stops flowing and we need money to operate the government,
25 the general fund for a year. That sounds totally reasonable

1 to me, so that we don't have to have an act of Congress to
2 get into the fund. We've got a rainy-day fund so we're
3 pretty much protected.

4 So it appears to me what we're looking at are the
5 monies. The economist says the three things we should be
6 investing in is human services, investing in people. To me
7 that means jobs, training, whatever; public works. One of
8 the economists talked about an airport in Hoonah. And he
9 also mentioned small businesses that create additional
10 revenues for the State are very good, they help the economy
11 of the State, create jobs and all of that.

12 So it seems to me that those might be the areas
13 we're looking at. We're looking at I don't know how many
14 billions of dollars for the next ten years. So we might
15 start looking at the kinds of things that we'd like to do
16 with the surplus money.

17 We're already established our savings account. In
18 fact, we're talking about maybe two savings accounts. So
19 let's look at what we're going to do with the rest of that
20 money.

21 Now, are we going to invest it, as one of the
22 economists suggested, instead of using the money to put
23 into bottom fishing and all of that? I honestly don't know.
24 I'm not an economist. I'm not dealing in high finance. It
25 sounded very reasonable to me. Borrowing money here for a

1 lower price and investing our money and making 15 percent
2 sounds totally reasonable.

3 So we're left with the couple of billion dollars
4 to put into the State, into the people. It seems to me that
5 we ought to begin looking at those kinds of things. Where
6 would we put a couple billion dollars?

7 And if we're going to do that, everyone says
8 you're going to be left with a white elephant. When the
9 money dries up, you create huge institutions, huge
10 expensive educational systems. Are we going to be able to
11 afford them when we don't have the billions of dollars
12 anymore?

13 MS. SIMONDS: Some of our money should be spent in
14 trying to develop things that will finance us after this
15 decade when the oil revenues might be a lot less. So we
16 should think in terms of things that will bring financial
17 security beyond the future.

18 One part of the money should stand for that.

19 MR. SEIFERT: I want to reason this out and get
20 something straight which is not straight in my mind about
21 the permanent fund. I think it's clear we've been asked to
22 recommend whether the permanent fund remain the same or be
23 more. From my point of view, it's kind of exclusive from
24 other revenues.

25 Because if you look at what the permanent fund

1 does, it takes money, invests it at at high percentage rate
2 of interest, but that rate of interest is very, very close
3 to the present rate of inflation. Even if it's 15 percent,
4 it's still very close. And the net gain on the permanent
5 fund isn't going to be a hell of a lot. It's just going to
6 get sort of put in there and kind of idle along. And there
7 will be maybe one or two percent accumulation on an annual
8 basis if we retain the present rate of inflation, which it
9 seems we're destined to do.

10 So I think the question becomes one of do you
11 just simply set that money aside and it just kind of idles
12 there, and what percentage that should be. And exclusive
13 from that, there is a large additional amount of money
14 which you have the option to invest, I think, more wisely,
15 to be perfectly frank.

16 I think this lady's suggestion is the total
17 nature of the focus we have to get on. What are we going to
18 do when it's all gone?

19 I suggest we -- personally I would move that we
20 maintain the permanent fund at the present level, since it
21 seems as though it is not going to be any more than a
22 simple stashing away of funds which we have presently no
23 better use for.

24 MS. SHROYER: I keep hearing people say what are we
25 going to do when the money is all gone. What I think wet

1 ought to do right now is to ensure that we have all that
2 money 10, 15 20 years from now. We've got \$3.5 billion. We
3 can invest it. Surely there are expenditures that need it.
4 When we have more expenditures 20 years from now, we have
5 another \$3.5 billion as we do now that came from the
6 original money we have now.

7 MS. PORTER: One thing that has always bothered me
8 about the permanent fund -- it's been a sore point in my
9 life. Is that it appears to me that sometimes the State is
10 kind of like a family, where you say to your children, "No,
11 dearest, we're not going to eat this year. We're going to
12 save that money for next year." Well, next year we're all
13 going to be dead.

14 There are programs -- I'm serious. There are
15 programs in this State that go unfunded. In Anchorage, you
16 have one of the worst social problems with battered and
17 abused children in a whole area that is just almost totally
18 not funded. You've got 350 -- I don't know how many cases
19 your social workers are working with now.

20 No place to put up the kids. We're losing all of
21 those children. We're losing a valuable resource. But we're
22 saving a lot of money. We've got a lot of money in the bank,
23 but we're losing kids. We're wasting a lot of people away
24 on alcoholism and drug abuse, but we got a lot of money in
25 the bank. We may not have education, but we've got a lot of

1 the money in the bank. What the hell are we going to do
2 with it?

3 If we keep the permanent fund, I say fine, maybe
4 it's not going to hurt me. But I say let's put it back
5 where we need it. We have not begun to address those
6 problems in this state. I mean, all you have to do is walk
7 out on the street here and you see a lot of those problems.
8 And I think we ought to be looking at some of those areas
9 and correcting. They may not be ongoing problems. We're
10 always going to have the social problems. But if we put a
11 lot of energy in and some bucks into it now, we might be
12 able to save some of the children. We might not have to
13 have such big jails in 10 or 20 years.

14 MR. PILLIFANT: I guess all I wanted to say is by
15 having to have a permanent fund, it kind of shows we don't
16 have much faith in our abilities to invest our money,
17 because we apparently expect everything to go down the
18 drain if we have to put something back and save it. I mean,
19 it's as though we're saying that we can't invest it and get
20 any money back. So we expect for all that money to just go
21 down the tube. Well, it will if we invest in social
22 programs only.

23 This lady down here I think is talking about
24 investing in Alaskans: Alaskan businesses, getting back our
25 money from those investments.

1 And I think that's where it's at, whether we
2 invest or keep that 25 percent or 50 percent or whatever.
3 But I think a minimal amount, because I think we're smarter
4 than that. I mean, I hope we are. And that's what we're
5 about here, I think, are we not?

6 Mk. NASKE: Isn't it basically so that we have to
7 create different economies based on renewable resources?
8 because if oil is a one-shot deal, I mean, Prudhoe Bay, and
9 there is no other field of comparable sizes come along.
10 It's nice to spend it all on education and social programs
11 and so on.

12 But basically right now it's something like maybe
13 60, 70 percent of revenues that derive from oil, one single
14 source that will be gone within 30 years or so, at best.

15 So we have to look at renewable resources, build
16 a different economy than the one we have right now. You
17 know, we have to look at -- we have to invest in
18 fisheries in a big scale, on a large scale, and we have to
19 invest in timber, perhaps, and perhaps in agriculture as
20 well. But we have to invest in renewable resources because
21 the oil and the minerals, they will be gone within the
22 foreseeable future.

23 And then, even with the permanent fund, that
24 money would be sucked up very quickly, with just paying for
25 ongoing programs. And the interest that we earn on that is

1 so negligible, really, that the interest alone would pay
2 for very little. We would have to dip into the substance of
3 it.

4 So we have to think of building an alternate
5 economic system from the one that we have now.

6 MR. PADDOCK: I'm inclined to agree with Rosie. I think
7 Alaska finds itself in very much the same position as Alie
8 did in Wonderland where she was in that place where you
9 have to run just as fast as you can to stay where you were.
10 That's like our society today. Some of our problems that
11 are public, health, social are accelerating. I agree they
12 can't be ignored.

13 In response to those who want to save the total
14 amount, I sort of feel like they must be firm believers in
15 the approach that anticipation is far better than
16 realization. They might not be so wrong always, but I think
17 it's time that we realized a few things, instead of put
18 things away totally in anticipation of how much better
19 things might be some other day.

20 MS. RAY: I'm Joan Ray. And I would never go along
21 with that idea, like saving the total amount. But I did
22 like Russ' rainy-day concept, and I believe it would be a
23 very prudent thing for us to consider in that, the way I
24 understood, it would be a fund that would be there in case
25 something were to happen to the state's money, that it

1 stopped coming in, some sort of national disaster. Any of
2 the State disasters are taken care of by another disaster
3 fund. But something where our money flow would actually
4 stop, that there would be money there for us to continue on
5 with the functions of the State government while we got our
6 act together in getting going again.

7 But I would see the savings, the rainy-day fund,
8 as quite a prudent first step. And I don't know what the
9 percentage would be, what amount. That would be the kind
10 of money that we're talking about that we have to spend.
11 But to consider that as a first step and then go from there
12 in looking at the other three areas which Mr. Daniels broke
13 out.

14 THE MODERATOR: What rainy days do you have in mind?

15 MS. RAY: The way I understood Russ' concept was that
16 if something were to happen to the funds coming into the
17 State, something happening with the resource lines, with
18 the money, the income that we have, and whether or not that
19 would be some sort of disaster or a drying up of the
20 resources. Something like that.

21 MR. POMEROY: Jack, I think it would be better if we
22 didn't talk about a rainy-day fund, because it isn't a rain
23 we have to worry about, it's a drought we have to worry
24 about. Implicit in all we've heard about financing is that
25 sooner or later the level of oil production is going down.

1 It's going down to the point where we won't be able with
2 our normal taxes to meet our outgo.

3 I have no quarrel whatever with those who talk
4 about unmet needs. I think that we are so fortunate, by
5 courtesy of the Arab nations, to be in a situation that's
6 beyond just keeping up with inflation. And Russ referred to
7 that here.

8 So, where we have some leeway to do something we
9 should do with our money toward a time of drought, and
10 still do some of these other things -- and from all of the
11 discussions that I've had as a member of the growth policy
12 council with people around the State I find people do want
13 to see improvement in services to people and some of the
14 things that are talking about helping the villagers get
15 along with their individual independent living. All of the
16 things that we talk about.

17 But we must face the fact that it would be a
18 worse gamble than going to Nevada and making a bet there to
19 assume that, when Prudhoe Bay is finished, we're going to
20 have enough more from our land to equal that and cover our
21 budget. We started in 1969 spending the money, the 900
22 million we got. And we got up to spending twice as much
23 dollars in real money - not inflated money, real money - as
24 we spent, - we've gotten up to spending twice as much per
25 capita as we spent before we got the 900 million. I don't

1 doubt we will spend some more than that.

2 But the situation that exists now - may I finish,
3 please - the situation that exists now is that a billion
4 dollar budget -- now I'm talking, you've got to be careful
5 about what dollars you use, because you talk about a larger
6 figure and you're talking about federal money. But our
7 money, State money, we're spending a little over 250
8 million dollars a year, and oil is spending the rest of it,
9 750 million of a 50 billion dollar budget. And that's what
10 we get from the sale of oil.

11 I don't think it makes a difference to us as to
12 whether it's the permanent fund or just money, except the
13 permanent fund by constitution can't be dissipated. It can
14 be loaned out at one percent interest. There's nothing that
15 says you have to get the very highest or do the very best.
16 It seems what we're faced with here is try to take a look
17 at what it would be prudent for us to do in trying to damp
18 down a little bit the rate at which we're increasing our
19 spending in the State. It's almost ten percent a year now,
20 which means that instead of being a 1,200,000,000, in eight
21 years or so at ten percent, what is it? It's 2,400,000,000;
22 something like that.

23 At the same time we look at dealing with some of
24 the needs we have, and then see what we think we should
25 shoot at as money that we do retain, and think of the

1 dollar as being a medium of exchange.

2 We have been told by our experts that that isn't
3 value, that isn't assets. We can use it, we can invest it
4 here, we can invest it in anything we want to invest it in,
5 but retain enough so that, when the flow of revenue does go
6 down, that we'll have enough revenue from all of these
7 assets so that we won't face disastrous increases in taxes.

8 THE MODERATOR: Marty?

9 MR. MOORE: I'm not a financial expert or anything of
10 that sort, but I'd like to talk in the terms of my
11 experience. I know that we received the 900 million dollars
12 for the State of Alaska, and I know the native people
13 received some money.

14 I was one of the committee investment members for
15 my corporation, and we received in one day 24 million
16 dollars. Well, our task was to protect that money from
17 being spent. Our task was to get that money to earn money.
18 That was our appointment.

19 So we did it. And we made nine percent here, we
20 made eight and a half percent here, we made six percent
21 there. But the average return was seven percent for the 24
22 million dollars when we finally invested the whole dollars
23 in.

24 Well, as an experience, I was happy that we had
25 that 24 million, and I know that we were making money. We

1 were not losing any money.

2 But, you know, as soon as you put it into the
3 hands of the political people, one being myself, board
4 member, the money just went down the tube. Everybody just
5 wanted to spend it. Now the 24 million dollars is gone.
6 Instead of having profits, you know what we're having?
7 We're having deficits; deficits. Every year, deficit.

8 That's the reason why I like to protect that
9 permanent fund in there so that we could live off its
10 interest and perhaps help some of the business people make
11 their money. I think we will make a big mistake if we don't
12 put a control.

13 If we don't have a control in that money, the
14 legislature will spend it. Or anybody with political thing,
15 they don't have to have any reason to spend it, just have
16 enough political pressure, and there you go. I want to get
17 re elected, so I'm going to have to spend money here. We
18 have to have control over that money and that permanent
19 fund will support us.

20 That's just my statement.

21 MS. PORTER: I'm afraid we're going to have to get the
22 economists back here to talk to them about the loan
23 programs that they were talking about. Getting outside
24 money to fund things like the bottom fish industry, or
25 fishing industry anywhere, herring, salmon, or bottom fish,

1 to develop that industry. And use surplus money. They're
2 talking about setting up some kind of fishing committee.

3 MR. ECKHOLM: There are a number of existing programs.
4 I think I've heard Mr. Daniels speak of before, like the
5 Alaska Industrial Development Authority. There's a fishing
6 farm bank that was set up for specifically fisheries and
7 agricultural development. I think that they're not talking
8 about creating new institutions but sticking enough money
9 in those institutions so that they're able to invest in
10 money coming back in.

11 MS. PORTER: So assuming that that area is taken care
12 of, I don't know whether people would grab it, just take
13 the bucks and put it into developing onshore processes
14 which are desperately needed if we're going to be into the
15 bottom fish industry, whether they want to put a couple
16 million dollars into several hundred people who want to go
17 into bottom fishing in the State, so that we can control
18 that wealth. That wealth is going to make the State wealthy
19 even when the oil runs out; the bottom fish are still going
20 to be there. That is a tremendous, tremendous resource that I
21 guess is going to be addressed properly. I certainly hope
22 it is going to be addressed properly.

23 But if that's the case, if there is a way of
24 funding that industry without using the surplus money and
25 the agriculture industry without using the surplus money,

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1 what are we going to do with the surplus money if we have
2 set aside a permanent fund. We've got the loan
3 organizations that are going help do the bottom fish thing.
4 Then what are we going to do with that surplus money?

5 MR. PILLIFANT: I guess I just don't understand why
6 should we invest it outside and get our interest come back
7 here, invest in our own people? Why can't we take the money
8 and invest it in people and let them pay the money back so
9 we can build industry up here? I don't understand the
10 difference.

11 In other words, it kind of sounded like they were
12 saying we'd make more money by investing outside, taking
13 the money that we got off of our investments outside, and
14 then investing in business inside the State. Right?

15 But if we loan our money, what we have over to
16 the fishermen or to the small businessman or to whoever
17 needs a loan, we have young people in this State who are
18 wanting to go into business, for instance. There's no money
19 for them to borrow. Can't we trust our people, loan them
20 the money, charge them interest on it, put the money back
21 in? We have our own fund statewide going. I personally
22 would like to see that happen. And I think our economy
23 would boom, our own people would be getting the money, and
24 it would be just revolving here within the State.

25 Unless they think that maybe getting it outside

1 it would help the south too.

2 MR. NASKE: They didn't say that. You misunderstood.

3 MR. PILLIFANT: Explain to me exactly what they mean.

4 MR. NASKE: What he said is the monies, the oil monies
5 that are coming in, or some of them, at least, are to be
6 used as leverage, that they're invested on a worldwide
7 scale and that then would become a major banking
8 institution, as it were, and that the money that is here
9 will attract outside monies, that outside people would lend
10 us the money, which then can be invested in Alaskan affairs.
11 All this would double --

12 MR. PILLIFANT: Why do we need it lent to us, if we
13 have it?

14 MR. NASKE: Because we're making more on the
15 international money markets. We're multiplying the money we
16 have, and attracting investors into Alaska.

17 MR. PILLIFANT: You don't think if we start growing
18 with our own money people aren't going to invest?

19 MR. NASKE: We would grow on that schedule that Belden
20 proposed.

21 MR. PILLIFANT: But we won't grow if we loan ourselves
22 our own money?

23 MR. NASKE: No, not anywhere near, as I understand him.

24 MR. ECKHOLM: It's sort of like buying a house for
25 cash or putting down \$10,000, instead of using \$50,000 of

1 the bank's money.

2 MR. PILLIFANT: Normally I would have some of the money
3 back that I would be able to use for other things. In other
4 words, if I had \$20,000, I invested 10,000 in the house,
5 borrowed the rest from the bank, I'd still have 10,000 that
6 I'd be using for something else. And I could see that
7 benefit. But otherwise --

8 MS. SHROYER: It's the same idea.

9 MR. PEQUERO: I don't see how can we think in the idea
10 of making more money by investing outside when the greatest
11 unemployment rate is right here in Alaska. And when all the
12 social problems that we try to resolve with money are
13 created exactly because of the unemployment rate.

14 Then it really don't make sense. Here we are
15 pumping the money in social programs which are not going to
16 be solved with that money, and then over there trying to
17 take other money and put it outside, while the problem is
18 over here, on whether the working population is happy.

19 The project I came here, I was more interested in
20 the extension of the Alaska railroad from Alaska to Canada
21 to the contiguous Lower 48. I think that it's the best
22 project that we can buy.

23 First, because it's a project that it will pay
24 itself; second, because it will bring down the cost of
25 living in Alaska, which is mainly transportation, higher

1 than in the Lower 48; third, there is no use to open up the
2 land if there is not a means to mine it, to make what you
3 are going to mine outside.

4 Then the whole question that we should be dealing
5 here, if we want to have money forever is to open up the
6 land. And in opening up the land, you have to create
7 railroad. And I think we should be dealing here more with
8 projects that will create a permanent work force and not in
9 how we are going to invest the money just to make more
10 money. That's the function of a bank.

11 But the function of government, it is not the
12 function of a bank. It is not the function of a business
13 person.

14 Therefore, I think that the project that we --
15 the money should be invested in projects. And I propose
16 that we endorse the extension of the railroad from here to
17 Canada, to the contiguous Lower 48 as one of this group.

18 MS. SIMONDS: There's an article by David Rose, a long
19 term investment and funds leveraging in our white papers.
20 And I think that will help, if you read that will help a
21 little more of what they're talking about.

22 Now, as far as getting -- we do need capital.
23 Sure we'll have three and a half billion dollars but to
24 extend a railroad could well cost several billion.

25 MR. PEQUERO: No.

1 MS. SIMONDS: Anyway, I'm sorry, it could cost a lot.
2 And then if we want to have transportation developed over
3 the State, that would cost a lot of money. If we go into
4 hydroelectric, it's going to cost a lot more than the
5 billions that we have.

6 So, part of that has to be to secure loans and to
7 deal with the getting capital from outside.

8 And I think that's all part of this leveraging
9 and why we are involved with even talking about outsiders
10 because the capital to do those things will have to come
11 outside to help us along as we're developing.

12 MS. RAY: I would like to just bring forth a concrete
13 example of something in the fisheries area and where I
14 believe that we could well spend some of this money.

15 And I've been spending the past year on a sea
16 food processing plant for a native corporation who wants it
17 built in their village. In the Alaska Industrial
18 Development Board, we were able to use that board as a
19 window in which to obtain some bonding money and we are
20 also able to get up to a maximum of 500,000 per project, is
21 what their particular guidelines are. So we're going to get
22 500,000 from the State on an approximately seven million
23 dollar job.

24 But our problem is we're having a lot of trouble
25 getting the financing for this within the banking community.

1 There isn't the money available. And it is very, very
2 difficult and we are being forced to look at Japanese
3 markets for getting this plant going, and the village is
4 most desirous of it happening.

5 But it's just up to the 500,000 that we were able
6 to get from the State. And I wish that, if we did have the
7 excess money that we're talking about, that there could be
8 more areas for this kind of development.

9 MS. PORTER: Obviously, with the surplus monies that
10 we have, not just one thing should be considered. As the
11 economists said, there are several areas. We're looking at
12 shoestring, whether they're business incentives or out and
13 out loans, some enhancement to keep small businesses and
14 increase small businesses in the State.

15 Another area is the whole area of public works,
16 where the bucks are not wasted. It does create jobs.
17 They're not jobs forever.

18 But there are several areas that I think we
19 should be looking at. Maybe the living under a
20 misapprehension that we have to look at just one thing.

21 I think we can look at many areas. We do have a
22 lot of money to work with. There should be areas that we
23 should look at, not just simply one area. We do need to
24 create industry that is going to continue to produce
25 revenue that will support the State in the event the oil

1 ever does dry up.

2 And, as far as the \$500,000 loans, that's a very
3 unfortunate thing that the State is thinking so small when
4 we're looking at the fishing industry, because we're going
5 to lose it by thinking that small. We have to begin
6 thinking in millions of dollars, instead of hundreds of
7 thousands. That might be another thing that we might want
8 to address, pump more money into something like that.

9 THE MODERATOR: Are we ready for a coffee break? About
10 ten minutes.

11 (A recess was taken.)

12 THE MODERATOR: What we thought we'd try to do is maybe
13 Eric can try to summarize what he's heard and what kind of
14 issues have been raised and give some back to you what
15 maybe we've heard and then see where we want to go from
16 there.

17 What I've heard is that we got money; we want to
18 go from nonrenewable to renewable; we want to put some of
19 that money into social services, schools, et cetera, but
20 with a heavy emphasis on we want to invest it and get it
21 returned to us at a later date for future generations. In
22 other words, loan it.

23 I hear you people talking about a State being a
24 bank.

25 Does anyone have any problems about elected or

1 appointed officials making loan decisions with your money?

2 MR. MERDES: I do now, with the Commerce Department
3 and Veteran Affairs, and the federal government does with FHA
4 and SBA.

5 MS. RAY: We're talking about government departments,
6 whether it's renewable resources fund or whatever would be
7 actually handling the money. It wouldn't be like a
8 political football that we go through every session,
9 necessarily.

10 MR. ECKHOLM: The fact is we already are a bank, too.

11 MS. RAY: Pardon me?

12 MR. ECKHOLM: The fact is the loan programs, we
13 already are a bank, the second biggest bank in the State.

14 MS. SCHIRMER: Do people have confidence in our getting
15 the right people to manage these large amounts of money?

16 MS. SHROYER: I, for one, have a lot of confidence in
17 Alaska and putting that money into investments that would
18 become the best thing for Alaska. I have a lot of
19 confidence, yes.

20 MR. SEIFERT: I'd like to speak to that, too. I went
21 to a hearing on permanent fund administration. Another
22 gentleman got up and he said, "I really like the fact," he
23 made the analogy that financial experts and economists are
24 like analogous to a mechanic for your car. They're sort of
25 an mechanic for your bank. He says, "I really like having

1 that mechanic around, because when I have a problem that
2 requires special tools and special needs, I can go to him
3 and I can count on it. But I don't ask him where I should
4 drive my car. He's a mechanic, and he helps me for my needs."

5 But there is no analogy that says a fisherman or
6 a farmer doesn't make a good analyst. I think people have
7 an inherent sense, cross evidence of what's here, inherent
8 sense of what's going to make it and what isn't. I don't
9 think that's something to worry about it. I have a lot of
10 confidence in this.

11 MR. ECKHOLM: Let's sort of go around the room and
12 have you tell us where you want to drive the car, specific
13 recommendations of where you think the money ought to be
14 spent in terms of just one recommendation apiece. Martin?

15 MR. MOORE: Let some of the fund go into fishing
16 industry, or even bottom fishing industry, because much of
17 our renewable resources has supported the State for such a
18 long time, and we really don't have a control over the
19 market. And I think one of the wisest investments that
20 could benefit and have a little bit more control over our
21 renewable resources would be fishing industry.

22 And that would be one that I would suggest that
23 would be one of the areas of investment.

24 MR. ECKHOLM: Thank you.

25 MR. HARTLE: I think what we're doing now is

1 converting the energy that we own, the oil, into dollars.
2 And the value, as we all know, of the dollars is dropping,
3 inflation is whatever it is, tremendous. And the value of
4 the energy is increasing. So that I think that one thing
5 we can do with our money, energy converted into dollars, to
6 reconvert it into energy, because that's something that
7 will retain its value. And I think that we need to look for
8 that.

9 MR. ECKHOLM: You're talking about hydroelectric, wind?

10 MR. HARTLE: Sources that are not oil and that will
11 last beyond the oil years and that will not harm the
12 environment. I'm sure we're all concerned with that. And I
13 think that would be among the best investments for our
14 money.

15 MS. STRASSBURG: I think we should make this money
16 available to our local banking houses because certainly
17 they know the problems inherent in a locality, and they
18 know the people personally that they're going to be dealing
19 with, which is something that, much as we appreciate our
20 State loan programs, most of the time I think the local
21 banks can handle them better and they have a little bit
22 better handle on what people are going to do with it.

23 Now, the money would be deposited from the State
24 to the banks and the banks would then go by the rules and
25 regulations set up by the people in the Capitol, in the

1 legislature.

2 But I do think that the local people need to
3 disperse it, per se. I think they have a better knowledge
4 of the people involved.

5 MR. ECKHOLM: Thank you.

6 MS. RAY: Money now available for housing out in rural
7 areas at a low percentage rate, the beginnings of a really
8 good program there. But the housing, the loans that are
9 available for the urban house fires, I think we're in a
10 very difficult situation.

11 And I think that some involvement there is
12 appropriate.

13 MS. SIMONDS: Housing?

14 MS. RAY: Yes.

15 MR ECKHOLM: Has Rosie disappeared? Rosie, where are
16 you?

17 MS. PORTER: I've got a long list. Do you want me to
18 just say one thing?

19 MR. ECKHOLM: I wasn't soliciting.

20 MS. PORTER: One thing? I have 15.

21 MR. ECKHOLM: I think we should kind of limit
22 ourselves. Could you put all of your 15 into a broad
23 category?

24 MS. PORTER: No.

25 MR. PADDOCK: I've got a brought category. I agree

1 wholeheartedly with what Mrs. Strassburg said. I'm a
2 retired employee of the State of Alaska. As such, having
3 been a government watcher for the last 25 years, I think
4 what the State can do private enterprise can do better.

5 I agree that the thing that Alaska needs is to
6 further her own economy. I think that the big business
7 generally comes from little business growing up. And I
8 would like to see the opportunity for small businesses in
9 Alaska to grow up. And I like the idea of putting the money
10 into programs that are not necessarily administered by the
11 State, but the State program says that this money is going
12 to be utilized by local banks, local lending institutions.

13 These people know the risks of the individuals
14 applied to them better than any State program can. They
15 know the needs of their area. And I think if we're going to
16 have more fish processors, the logical way to do it is to
17 assist the local fisherman who may have aspired to be
18 entrepreneurs, to develop into that. I'd much prefer to see
19 that than to make it possible for some big outside
20 corporation to move in big overnight. They have problems
21 when they do that, because they don't know the local
22 problems like some of our leading people in the industry,
23 whether it's fishing, logging, farming, whatever it is.

24 I like your suggestion very, very much, Mrs.
25 Strassburg.

1 MR. ECKHOLM: Are you saying what Belden said, stay
2 away from big programs and go for small ones?

3 MR. PADDOCK: Yes. I agree with that. I think that by
4 starting small the process of survival of the fittest will
5 determine who is going to come out big.

6 I have nothing against small business turning
7 into big business; absolutely nothing against it. But I
8 hate to see the State backing big business because one
9 reason that I'm opposed to that is because it means, I
10 think, just by the law of supply, that there are a lot of
11 little people who are thereby precluded from ever growing
12 up into that big business.

13 I hate to see the State get into a program that's
14 in competition with private enterprise, especially small
15 private enterprise.

16 MR. ECKHOLM: Mr. Pomeroy?

17 MR. POMEROY: May I ask a question of what he means by
18 I hate to see the State get into competition with private
19 enterprise? What did you mean by that?

20 MR. PADDOCK: This may be a little uncomfortable, and
21 I'll apologize if it steps on anybody who is present. But
22 on the flight up from Juneau, for instance, I sat by a
23 friend of mine who has a little tour boat, he invested a
24 lot of money in it in Ketchikan. I don't know the details
25 on this, but he tells me that he's hurting because somebody

1 in the State made the decision that the State ferry system
2 is going to run the State ferries into the area in which he
3 operates and he feels that this has deprived him of much of
4 his local market.

5 In fact, it reduced the price of the commodity,
6 the price that he can charge for his commodity, because the
7 State set a level for tickets on the State ferry on this
8 tour trip that is at a level substantially below what he
9 feels he needs to charge.

10 I think this is an instance of the State being in
11 competition with private enterprise. I'm sure that there
12 are a number of excellent reasons for the State doing this.
13 but still, I wonder if those excellent reasons are really
14 adequate in a situation of this sort where --

15 MR. ECKHOLM: Excuse me, Mr. Paddock. Could you
16 make that into a recommendation, or could we move on,
17 because we are sort of short on time.

18 MR. PADDOCK: Did I respond, sir, to your question?

19 MR. POMEROY: Pretty well, yes, you did. And I can
20 pick it up from there.

21 MR. ECKHOLM: I'm sorry if I cut you off on that.

22 MR. PADDOCK: No. No. No. I don't feel like I was cut
23 off. But I was just trying to explain to make up for loose
24 ends, that perhaps you, sir, or Mrs. Strassburg would like
25 to assist in wording a recommendation.

1 MR. POMEROY: Well, are we not sort of in this kind of
2 a situation of there being an apprehension that in our
3 eagerness to promote enterprise, to make jobs, that we may
4 unnecessarily get into business that we need not get into.
5 And my own personal view is that, wherever it is avoidable
6 and we can further a good purpose of development or service
7 and use our private enterprise structure, that we should do
8 so rather than directly take jurisdiction ourselves. And
9 that is very close to the matter of who handles money.

10 We have an infrastructure, a financial
11 infrastructure that can perform the services of handling
12 money. I don't deny that there might be some special
13 condition that involved something otherwise because I'm not
14 knowledgeable enough to know about how we handle our money
15 that we get that's tax free. I don't know what limitations
16 there are. But in general, I concur with what has been said
17 here and what has been said here, and then I would extend
18 my remarks only this much to say that, with respect to the
19 money we have, it's a medium of exchange. These dollars
20 that we get, whether we will it or not, we're getting a
21 hell of a lot more than would be to our best advantage.

22 And so our purpose is to think as broadly as we
23 can as to how we may be able to farm that money and convert
24 it into investments of whatever will do best without a
25 concern about whether we have a business here in Alaska

1 that employs the unemployed.

2 Now, that may seem like a harsh thing to say, Mr.
3 Chairman, but it's not a harsh thing to say, because if the
4 requisite conditions are healed economically for a business
5 to live, it's going to live one way or another. That is, to
6 say, and it may be that we have money that comes in and
7 becomes an investment one way and another. But to sharpen
8 up the point, I would say that we're going to be money
9 managers that in the long run will give us the best return
10 for all of our people.

11 We have businesses that -- well, we have a
12 business that's going to cost a billion dollars and it
13 will only employ 60 people.

14 And would we want one that employed 6,000 people
15 and cost us in the treasury \$2,000 apiece.

16 So I mean simply to emphasize that our concern
17 has got to be good hard managers, because that's going to
18 be the best way to get the best return for the people. And
19 we use the infrastructure we have rather than trying to
20 replace it.

21 MS. SIMONDS: Belden said that. I agree that the banks
22 might be more competent to decide who should have those,
23 because the fatality of small business is fantastic. And
24 everyone thinks he's capable of running the business. Not
25 only that, the retail stores in Anchorage, they get loans.

1 They're all using borrowed money. Builders use borrowed
2 money.

3 I do think it should be done through the banks,
4 because the competency is very important to protect the
5 taxpayers' money.

6 MR. ECKHOLM: I don't think we should have too much
7 discussion about recommendations right now. I think we
8 should go through and make recommendations and then go back
9 and have discussions.

10 MR. MURDES: It bothers me what you say about big,
11 because that's a tough term to define. What constitutes big
12 and small.

13 I happen to have a little banking background. If
14 we're going to be putting millions of dollars in State
15 banks, there should be some strings attached. I agree they
16 administer better than the State does. But the point is,
17 for example, historically, we've been paying more interest
18 than anybody in the State. Our cost of living is higher.
19 The people of Alaska ought to be just like they benefitted
20 before this bonanza came up. We ought to attach low
21 interest rates on these loans and long term. Because if you
22 let the banks have the money, they're going to give it to
23 you at relatively short term, and at the market interest
24 rates. And they're going to get all the profits. They
25 should get a reasonable profit, but not the profit the

1 market is calling for right now, 14, 16 percent.

2 And, secondly, if you're going to give them the
3 money, I think you ought to also beef up some of your State
4 program. Like, for example, I am opposed to the State
5 veteran's program. I think that's a disgrace. We ought to
6 take a strong position on the reinstatement.

7 MR. ECKHOLM: Is that a recommendation?

8 MR. MERDES: You talk about small business, you can't
9 rent a farm for less than a million dollars. Now, is that a
10 small business or a big business? You got to be careful
11 what's small business and large business.

12 How about it, Jack?

13 MR. ECKHOLM: Excuse me. Would you recommend that we
14 reinstate the veterans loan?

15 MR. MERDES: I move it right now. Don't you agree?

16 MR. NASKE: I have two recommendations. One is that we
17 invest in an integrated transportation system in the State.
18 Take a hard look; is it really worthwhile to build more
19 roads, which are very expensive to keep up and so on.
20 Perhaps we might think of going back to barges and the
21 interior and various things.

22 And, secondly, that we invest more money than we
23 previously have done in the resource management. I think
24 in the areas of scientific research enforcement, the whole
25 spectrum of resource management I think has been really

1 starved in the past.

2 MS. SHROYER: I have two questions before I want to
3 think about a recommendation, and I'd like local bank
4 control of our loan programs, but I don't really understand
5 the banking system.

6 We have the federal reserve, which controls our
7 local banks and we have the FDIC corporation. Now, would
8 the federal people with that kind of control have control
9 over how we distribute the monies? Okay? I don't know. No,
10 they won't? Is that the answer?

11 MR. MERDES: The federal reserve supplies the money to
12 the federal bank system. They don't supply any money to the
13 State bank system in terms of control of it.

14 MR. REAVES: You disagree with Ed, he said that the
15 State gives money to banks. The State is prudent enough not
16 to give money to the banks. As a matter of course, the
17 banks bid for the money from the State.

18 MR. MURDES: We're talking about the future, now.

19 MR. REAVES: This is history.

20 MR. ECKHOLM: Excuse me. I think I would like to try
21 to get a list of recommendations and then we'll go back and
22 talk about them point by point and decide. Because there
23 are some things, like the State already does involve the
24 bank and money of the loan programs. But I'd like
25 recommendations first so we can get those all and go back.

1 Is that all right with the group, that we don't discuss
2 them point by point now?

3 MK. PADDOCK: You asked for a recommendation from me.
4 Did you get a recommendation out of this three-way
5 conversation that we had here?

6 If not, I would like to recommend that we
7 consider a program in the future whereby State monies are
8 made available to Alaskan banks under a program which will
9 ensure special benefits to Alaskan businesses. And I would
10 appreciate some help from Ed in putting some bones on that
11 skeleton to define Alaskan businesses.

12 I agree, a million dollar business is not a big
13 business anymore. When I say big business, I think in terms
14 of the fishing industry, largely. And Alaskan processors,
15 some of them just graduated out of the fish boat into a
16 small processing business. Maybe they've got a million
17 dollars, maybe it's two million, maybe it's three million,
18 but they are small businesses when you compare them with
19 the large Japanese trading companies or even the large
20 Japanese fishing companies. They are infinitesimal. That's
21 what I think of when I think of big businesses, or some
22 American businesses, Council & Cook, New England Fish
23 Company, a subsidiary of British Columbia Company, one of
24 the largest in the world.

25 Those are tremendous businesses, and they are

1 good and legitimate, and I would hope some day we would
2 have Alaskan-based businesses of similar size. But you've
3 got to start small.

4 MR. ECKHOLM: I'm passing out a paper from Mrs. Aleck,
5 who is here. Some of you have it already.

6 MS. RAY: I recommend that we establish a rainy-day
7 insurance fund.

8 MS. PORTER: I've narrowed it down to one.

9 MR. ECKHOLM: Rosie?

10 MS. PORTER: I would suggest that we pour some bucks
11 into public works, which would include alternate energy
12 development. That's like waters and harbors, hydroelectric,
13 waste, heat, airports, intercommunity roads; that kind of
14 thing.

15 MR. HARVEY SAMUELSON: I'd like to recommend that lump
16 sum liquidation of the amount due to the native fund be
17 paid by the State.

18 MR. ECKHOLM: Could you explain that a little bit for
19 us?

20 MR. HARVEY SAMUELSON: The royalty to be paid to the
21 Alaskan natives. And this way it would help the Alaska
22 economy inject quite a bit of money into the private sector.

23 MR. POMEROY: How much will you discount?

24 MR. HARVEY SAMUELSON: Pardon me?

25 MR. POMEROY: I said how much will you discount?

1 MR. HARVEY SAMUELSON: Nothing. I got the back-up
2 material.

3 MR. ECKHOLM: How much money are you talking about?

4 MR. HARVEY SAMUELSON: 400 million dollars.

5 MR. NASKE: There were two sources where the money came
6 from, the 962.5 million all together and 500 came from a
7 two percent overriding royalty from mineral leasing. And
8 this came out of State funds, you know. And the 462 have
9 been paid already or in the process over a certain number
10 of years. I don't know how it was handled. But it comes
11 from two sources: State participation for 500 million and
12 462.5 came out of the federal treasury.

13 MR. ECKHOLM: So it's a debt the State owes, and
14 you're succeeding the State accelerate its payment on that
15 debt?

16 MR. HARVEY SAMUELSON: Yes. I got material on the
17 whole works here.

18 MS. ALECK: From what period of time does that cover?

19 MR. NASKE: Until it's paid off.

20 MS. ALECK: From what period of time frame is it
21 covering, the accumulated amount now?

22 MR. HARVEY SAMUELSON: Until 85.

23 MS. ALECK: Beginning when?

24 MR. NASKE: 71.

25 MR. HARVEY SAMUELSON: This past year. State's share.

1 MS. SIMONDS: I'd like to recommend that the State from
2 an improved communications system to draw us all closer
3 together.

4 MR. POMEROY: Mr. Chairman, without a money man here
5 from the State to answer questions, I certainly wouldn't
6 feel qualified to vote on a thing like that. That's a lot
7 of money.

8 MR. ECKHOLM: That's maybe asking if we go back and
9 discuss it, if you do want to consider it, we'll talk about
10 it more this morning or this evening --

11 MR. POMEROY: I'm not expressing opposition, you
12 understand. I want to know.

13 MR. ECKHOLM: Yes, sir.

14 MR. HARTLE: I'd like to recommend that the State
15 invest in higher education and research. And that that can
16 pay its own way in a few years. There is a certain amount
17 of lead time until the pay back, but I'm sure it will,
18 training people to work in the State, basically.

19 MS. SHROYER: Vocational and trade schools.

20 MR. ECKHOLM: There has been a concept around for a
21 number of years that the State take the money and pass it
22 back to the citizens in some sort of form. The income tax,
23 all of those ideas seem to have a lot of play among the
24 government type people.

25 Is there anybody here who has any thinking along

1 those lines?

2 MS. SIMONDS: I protest that --

3 MR. ECKHOLM: Go ahead.

4 MS. SIMONDS: I protest AGSOG, because there's no
5 insurance that if the money is lost we will have to pay the
6 debt. If it was all profit, it would be fine. But we might
7 be liable for a debt.

8 MR. POMEROY: AGSOG is different. He's not speaking of
9 AGSOG.

10 MR. ECKHOLM: There are a number of different schemes
11 to distribute well.

12 MR. POMEROY: AGSOG is not our money. AGSOG is a
13 special type of corporation which I suggest be given quite
14 different treatment.

15 MS. PORTER: It would be just like General Motors.

16 MS. SIMONDS: If the money is tax money that goes into
17 it. Mr. Nordstrum.

18 MR. NORDSTRUM: I'd like to recommend a tax credit for
19 the Alaskan homeowner of perhaps \$200 a year.

20 MR. MERDES: That's revenue sharing.

21 THE MODERATOR: Can I speak up, there? That's my kind
22 of bag, you know, going through revenue sharing, though. I
23 don't think it ought to go to the State back to the people.
24 I think it ought to go to the communities. They're the ones
25 that need real estate tax act.

1 MR. NORDSTRUM: As a homeowner, you bear all the
2 expenses of the community. You're the salt of the earth.
3 You'll probably have one or two cars. We can't hit it at
4 the pumps, except our lag time, but we still pay a pump
5 price. We're producing perhaps one-fifth of the oil, fuel,
6 consumed a day. So I think that if we can go a tax credit,
7 it's a direct return to Alaskans, rather than --

8 MR. ECKHOLM: Tax credit based on what? Energy use?
9 Personal property?

10 MR. NORDSTRUM: Energy use, whether it be electricity,
11 natural gas, oil, heat, coal.

12 MR. MERDES: There was something brought up along that
13 line. The idea of when people improve their home, you know
14 what the burrough does, don't you? I think just the
15 opposite. When people improve their home, they should get
16 their taxes reduced through revenue sharing. We thought
17 about that the last time, but nobody picked up on it. But
18 that's an incentive to beautify your community. And I
19 recommend that strongly.

20 MR. ECKHOLM: Do you want to put that into a
21 recommendation?

22 THE MODERATOR: He mentioned homeowners. That's what
23 triggered me. That would apply all over Alaska.

24 MR. NORDSTRUM: Year round. Throughout Alaska, a home
25 in Susitna, everywhere. But this is a direct return to

1 Alaskans.

2 MR. POMEROY: That's to help him in what way?

3 MR. NORDSTRUM: Well, energy tax credit that he gets a
4 direct --

5 MR. POMEROY: Suppose he's a renter?

6 MR. NORDSTRUM: Well, it could be at a scale, you know.
7 It's just like similar to paying the Alaskans having one
8 home exempt.

9 MR. POMEROY: But if he rents his home, you still
10 would give him a credit?

11 MR. NORDSTRUM: You could, but it would be scaled down
12 to a third of that to the homeowner. That is a proposal.

13 MR. ECKHOLM: Do we have any other areas? Jerry.

14 MR. MCCUTCHEN: I'd like to see a direct distribution
15 of the funds.

16 MR. ECKHOLM: How much of the funds? What funds?

17 MR. MCCUTCHEN: How much? How much have you got? Does
18 that answer your question? They tried to ask in a town
19 meeting, and Daniel Shore won't let him, and he tried to
20 probe the question out there in the audience, how much do
21 you want distributed. We can meet those programs and a
22 number of others fairly easily. So how much more did you
23 want?

24 MR. ECKHOLM: How much are you suggesting?

25 MR. MCCUTCHEN: I don't know. Maybe \$4,000 or \$5,000 at

1 the upper limit.

2 MR. ECKHOLM: Per person?

3 MR. McCUTCHEN: Per person. You can do it any way you
4 want to. I'll sit down and write it out between now and
5 tomorrow, if you like. I think the upper limit of \$4,000 or
6 \$5,000. I'm not much for giving the municipality money.
7 Because I think the municipality taxes ought to be there.
8 The saddest thing is the revenue sharing that's going on
9 now, because it's made our local governments inefficient.
10 One day we will have to come to grips with that. That's
11 going to be one great load. The money will have to go to
12 the citizen. If he feels like giving it to the municipality,
13 that's fine. That's up to him.

14 MR. POMEROY: On that point, I have no trouble with
15 the concept of that. And I would like to suggest that we
16 all think in these terms when we come to something like
17 this.

18 We're talking about a social purpose, actually.
19 We are the highest cost place in the United States for
20 living. And we pick at some of these problems, we pick at
21 these problems by conning Uncle Sam in selling some bonds
22 tax exempt and a few people get a few houses with a little
23 better interest rate, and this and this and this and this.

24 And whether you're distributing money or whether
25 you're trying to do something to help people have the cost

1 of houses less, and I'm not making a recommendation on that,
2 I'm simply pointing out that we're talking about a social
3 purpose that we're trying to serve for all the people as
4 equitably as possible.

5 MR. ECKHOLM: Are you making a recommendation? Are you
6 reaffirming?

7 MR. POMEROY: I'm saying that I concur in the
8 principle.

9 MR. HARTLE: I'd like to recommend against
10 distributing the state's wealth, excess revenues, whatever,
11 by a means of, for instance, repealing the income tax.
12 Because I think that that particular method is inequitable
13 in that it returns the most benefit to those who least need
14 the benefit, those who pay the most tax. And secondly, the
15 biggest windfall is the federal government, since they
16 would get the most money.

17 MR. PADDOCK: I'm glad that that subject was brought up.
18 I didn't want to bring it up myself because I've already
19 put in more than my two bits worth. But I think this group
20 ought to address themselves to the question that's very,
21 very current now in our society, about are we going to do
22 away with the State income tax.

23 And I don't think that the federal government is
24 the biggest recipient, because the biggest recipient would
25 be the nonresident who comes to Alaska and extracts money

1 from Alaska and would leave no money in Alaska if the
2 individual income tax were done away with.

3 I do think that this group could well go on
4 record in favor of some sort of tax credit system for
5 resident Alaskans and I think that might meet the
6 objections that you had and it might fall in very well with
7 what you're saying.

8 MR. HARTLE: It wouldn't meet the objection that it
9 would give the most benefit to the richest people who pay
10 the most taxes.

11 MR. ECKHOLM: Excuse me. Could we go on?

12 MS. SIMONDS: I'd like to see money and planning put
13 into rehabilitation of people in our correctional system so
14 that they aren't constantly recidivists.

15 MR. PADDOCK: That's a losing proposition.

16 MS. ALECK: We have one continually expanding resource
17 and that happens to be the growth of our State government.

18 MR. POMEROY: Resource or a liability?

19 MS. ALECK: I would like to see that \$100,000, which is
20 a very, very minor figure, invested in the capitol site
21 planning commission to provide an alternate plan based on
22 the mini-capitol concept, or just the necessary central
23 State government to be relocated from the present site in
24 Juneau to the site selected by the voters, mainly because
25 we are currently leasing one-third of many office spaces in

1 Juneau. The other one-third is being leased from OSHA, and
2 the State actually owns something less than a third. There
3 is no additional State-owned land in Juneau to expand. And
4 we are expanding at a tremendous rate.

5 I have listed some current capital expenditure
6 figures at the bottom, which this last fiscal year was over
7 17 million in State travel and per diem, the telephone bill
8 has increased now to 6.6 million for this last fiscal year,
9 and it is presently under an 87 percent interest rate
10 increase.

11 And with the additional square footage facilities
12 that will be required in the near future and the fact that
13 most of our leases are currently expiring, it is necessary
14 to implement.

15 MR. ECKHOLM: So what would be your specific
16 recommendation?

17 MS. ALECK: Well, my specific recommendation would be
18 to go ahead and allow at least the \$100,000 in order for
19 the capitol site planning committee to come up with an
20 intelligent, reasonable plan, which is what the people
21 wanted in the first place.

22 MR. POMEROY: Couldn't we have a list to read and take
23 this up tomorrow?

24 MR. ECKHOLM: We may be duplicating some of our
25 discussions when we get into resources and direct services.

1 We'll be coming up with these points and more specific and
2 better recommendations.

3 MS. SHROYER: I would just like to say one thing to
4 counter the last recommendation. I would rather see monies
5 put into ways of bringing our government down to a smaller
6 size, having services taking care of through maybe a
7 private sector and doing with what we have instead of
8 spending outrageous amount of money to move the capitol.

9 MS. ALECK: Well, if you can read the comparative cost
10 studies of capitol buildings remaining in Juneau, again,
11 the big factor is we're leasing private space. And if
12 there's any further construction, private land has to be
13 purchased before the construction can begin.

14 Okay. You retain the regional offices in Juneau,
15 you retain the regional offices in Fairbanks, as well as
16 Anchorage. The administrative cost that will be saved,
17 we're talking about big millions per annually, which five
18 years down the road you're going to be at least doubling,
19 will be more than enough to offset any bonding requirement.
20 And also don't forget the offset of the sale of land at the
21 site. We're talking about a gain rather than a loss in
22 financial expenditures.

23 MR. POMEROY: I haven't had a chance to read it. I
24 recommend if we could save time and do it tomorrow.

25 MR. ECKHOLM: Are there some people here who haven't

1 made recommendations that would like to make
2 recommendations?

3 MS. RICHCREEK: I would like to recommend tourism be
4 expanded such as in the way of advertising, et cetera.

5 MR. ECKHOLM: Advertising outside Alaska?

6 MR. PEQUERO: Outside.

7 MR. REAVES: I would like to make a recommendation
8 that -- I'm not very familiar with this industry, but I
9 think it should be supported. From what I understand, it
10 could be the largest industry we have in the State, and
11 this is the timber industry.

12 MS. SCHIRMER: I'd like to second that. We shouldn't
13 forget the timber and the agriculture business, the farming.

14 MR. ECKHOLM: You know, what you are all saying right
15 now is that, except for a little bit on education, there
16 have been no recommendations to increase government
17 services any. The bulk of the recommendations that you
18 people are saying to do with the money is to invest it in
19 the economy. Does that mean that you think we have enough
20 government services now, that the government is providing
21 the needs that government is supposed to provide and that
22 it's enough?

23 MS. STRASSBURG: If you invest in capital expenditures,
24 you have employment, you have less need for services.

25 MS. SIMONDS: Regional government is services. And

1 public works.

2 MR. ECKHOLM: Go ahead.

3 MR. MERDES: There's something that came up, in 1972,
4 when they gave the State oil to Sorrow, unconditionally.
5 They are paying less for the gas and less for the heating
6 oil, anywhere except Alaska. When they sell royalty oil to
7 anybody, people of Alaska, because it's their oil, they
8 ought to at least get lower price for heating oil, not
9 necessarily gasoline. If there is royalty given to anybody,
10 there are conditions that the people of Alaska get that
11 cheaper.

12 MR. PORTER: I just really wonder if we did this
13 exactly backwards. We have to go through yet a lot of the
14 issues that we've touched upon today. And one of them is
15 Direct Services.

16 MR. ECKHOLM: Right.

17 MR. PORTER: I do have a list of a number of things
18 here. But I really don't feel they're appropriate now. I
19 think after we go through all those other, transportation,
20 communications, direct services, energy, then I think our
21 recommendations are going to be how to spend the bucks;
22 honed down. So this might be kind of a practice run. We
23 might want to do it very quickly after we go through all
24 those other topics.

25 MR. ECKHOLM: We may not go back and finalize

1 these as recommendations, but I'll have it maybe drafted up
2 and typed up for things for you to work on and then towards
3 the end when we're working on Friday or Saturday, we'll go
4 back over things and have a lot more information.

5 MR. PORTER: Would you like the rest of my list?

6 MR. ECKHOLM: Let's do it, then.

7 MR. POMEROY: I have a specific recommendation.

8 Reference was made to the income tax. I recommend that we
9 oppose the repeal or reduction of the income tax. It's an
10 established --

11 MR. ECKHOLM: We have that one already.

12 MR. POMEROY: You've got it?

13 MR. ECKHOLM: Yes. Mr. Hartle recommended that.

14 MR. McCUTCHEN: The gentleman here who proposed the
15 reduction, I'd like to tack something on that opposition to
16 tax reduction. Senator Stevens has recommended we don't do
17 it at this time because of what's occurring on the national
18 scene. I think we ought to pay attention to what's
19 happening here. They're eyeballing everything we do here.
20 You can call it whatever you want to; anything.

21 But as long as the tax law is on the books, there,
22 if you were to distribute, say, \$5,000, you'd wipe out most
23 of the tax for most of the people and accomplish the same
24 thing. And if you don't go the other way in making a
25 distribution, you're going to find yourselves in a position

1 making a distribution based on social services. If not this
2 time, that's certainly going to be coming out of something
3 to subsidize the villagers, for pioneers and this kind of
4 thing. For those who are in the pioneer home, make a
5 distribution. They just turn around and put it back in the
6 same pocket now.

7 MR. PORTER: Are you talking about just a one-shot
8 deal, or for every year?

9 MR. McCUTCHEN: Every year, just like stock dividends
10 from the year. If you made it a one-shot operation, you
11 couldn't put length of residence involved.

12 MR. POMEROY: To the recorder, I should have said I
13 actually wanted to add something to the matter of the
14 income tax, that it would seem strange indeed for us to
15 reduce at all the approximately 25 percent we are paying,
16 as long as it seems to be woven through all of our
17 discussions, the need to save money for the future.
18 Something of that sort, I should like to see, if it's
19 consistent.

20 MR. ECKHOLM: In terms of timing and investment and
21 stuff, would you like to see investments made in businesses?
22 Say that if Alaskan businesses were allowed to borrow as
23 much money as they needed to, and as long as it was
24 reasonably sound, and that would then stimulate a strong
25 economic climate in that the State would attract probably a

1 fairly sharp population rise. Because jobs, people almost
2 directly follow jobs up to the State.

3 Would you want to go ahead with such a program
4 even though it would mean a probably significant population
5 increase?

6 MR. McCUTCHEN: Leaving what's reasonable and sound in
7 the definition of some politician's hand depends on how
8 much money transpires in campaign contributions. If you're
9 going to make a distribution of money or make money
10 available, make it for a target area that you want to do
11 something in, rather than bulk.

12 MR. ECKHOLM: So you're not just saying blanket drop a
13 whole bunch of money on problem areas. Which problem areas
14 are you talking about?

15 MR. McCUTCHEN: Oh, I would say bottom fishing is one.

16 MR. PADDOCK: Mr. Chairman, I think that the previous
17 discussion when we talked about following this through the
18 local bank pretty well adequately takes care of that.
19 Because most of our experience with bankers has been that
20 they're not in it for charity. And they're not going to
21 loan money to something that will not fly. If it will fill
22 a given felt need in the community, then the bankers will
23 look at it.

24 MR. ECKHOLM: Should the banks have to put some risk
25 into it themselves?

1 MR. PADDOCK: I'd defer to Ed Merdes on that. But I
2 agree with him wholeheartedly and with Mr. McCutchen, that
3 you should target on areas, that there's a broad basis of
4 agreement, that these areas need assistance.

5 MR. ECKHOLM: Then to focus this discussion, I've
6 heard bottom fish. Are there any other critical --

7 MR. MCCUTCHEN: As you go through the resources, like
8 shouldn't those occur as we go along, in tourism?

9 MR. ECKHOLM: Are there areas that you think are
10 overbuilt or overstimulated that shouldn't have money
11 poured into them at this time?

12 MR. PADDOCK: The bankers will tell us that.

13 MR. MCCUTCHEN: Right now, housing.

14 MR. PADDOCK: In certain areas.

15 MR. MCCUTCHEN: Like Anchorage. At this juncture, I
16 would just set loans up to bail the people out, but I
17 wouldn't go for any construction, because you can't sell
18 what you've got.

19 MS. SIMONDS: There are too many restaurants around
20 Anchorage.

21 MR. POMEROY: I wouldn't bail them out. It was a bad
22 deal.

23 MR. MCCUTCHEN: It was something that was known ahead
24 of time. Without getting into politics, it's something the
25 Hammond administration should have planned on and did not.

1 I'll drop it with that. I think you're going off saying
2 where you want to go with your money, rather than where you
3 don't want to go with your money.

4 MR. ECKHOLM: Would you want to weight it? Mr. Daniels
5 in his recommendation said weight the loans in rural areas.
6 Would you like to see preferences given to loans if they
7 were in rural rather than urban areas?

8 MS. SCHIRMER: What do you call rural and urban?

9 MR. ECKHOLM: What do I call it personally?

10 MS. SCHIRMER: A city of 5,000, is that rural or urban?

11 MR. ECKHOLM: In my mind, that's rural. That's my
12 personal opinion.

13 MR. PADDOCK: I think the federal government has
14 defined guidelines. It seems to me that Fairbanks just a
15 certain point here a year or two ago matured to the point
16 where it was urban.

17 THE MODERATOR: Below 50,000 is rural.

18 MR. ECKHOLM: Is anybody interested in making that a
19 recommendation, or not?

20 MR. PADDOCK: I'd like to debate on that.

21 MR. POMEROY: Unless we have a very specific idea of
22 the social purpose that we want to serve, I should say it
23 should be on the basis of economic feasibility and what it
24 contributes to the community.

25 MR. ECKHOLM: That might be very difficult to decide.

1 Because if you're talking about economic feasibility, that
2 would count out a lot of businesses because of the higher
3 cost of everything.

4 MR. PORTER: You mean the limit would have to be more?

5 MR. ECKHOLM: It's more economic to do anything in a
6 central area.

7 Let's move on.

8 MR. PADDOCK: Mr. Chairman, I think there should be
9 some thought given to that because I remember a few years
10 ago you could not get money in rural areas because the
11 banks had more potential to service, in this case,
12 specifically the Anchorage area than they could handle. So
13 a rural development was just totally out of the question.

14 I think these guidelines that Ed Merdes spoke of
15 would address that and say, "All right, for this period of
16 time, we want these monies spent to such a such and a
17 percent in rural, and you can spend X percent in urban
18 areas."

19 This is subject to change from time to time.
20 You're not going to have a healthy infrastructure in urban
21 areas unless you have a healthy support system based in the
22 urban centers.

23 MS. SCHIRMER: If you're going to get development of
24 ongoing economy in the rural areas, you're going to have to
25 kind of say to the banks, "Now, look, we'll give you this

1 but you've got to see to it that a fair share of it is used
2 outside of the rail belt." Or they will do what's natural
3 for them, which is to lend it in the rail belt.

4 MR. POMEROY: I need a question answered. We're
5 talking about investing money, we're talking about aiding
6 development. Is it implicit in that that we are either for
7 or against subsidies, that businesses must pay their way?
8 What about that?

9 MR. ECKHOLM: That's, I think, a very good question.
10 There are some figures that Belden Daniels -- we'll
11 discuss this later. Go ahead.

12 MR. MOORE: I think that there should be some special
13 policies how the money should be put in the rural villages.
14 For example, we have a co-op in Yucon Delta, where I am
15 from. And it took five years to develop a program to even
16 convince the federal government to at least give us a loan
17 to start the co-op. It took about \$671,000 to finally
18 convince them.

19 But the bank would never even give us that chance.

20 I wish this group of people here would at least
21 know that there's an opportunity, give us a little bit more
22 chance to develop the fishing industry that is probably now
23 in the Bering Sea area where there is nonemployment in
24 existence. I think that it would be a benefit for the whole
25 State if we could be able to borrow some money and make the

1 money turn a little bit more in the communities.

2 For example, we have five fishing fleets that
3 come in from Seattle. They take the money, and they take
4 the money back out. If we had a better opportunity, we
5 would probably have more companies or more employment right
6 in the local village there and the money would stay. That's
7 why I would strongly suggest that in this loaning programs
8 that these villages be given the opportunity to have loans
9 which are not available at the moment.

10 Many people even now cannot borrow any money even
11 to build their homes because we still have the problem of
12 whether you have title to your land or you have enough
13 property there. They're still in a working system. And I
14 don't know when we're going to get the final title to the
15 land in order to qualify for some of these small business
16 loans that are not available to us.

17 MR. PORTER: Martin has brought up an interesting
18 subject that we may want to talk about later, and that is
19 coordination of services, specifically loans. When you're
20 looking at rural development, loans for small business
21 sounds good, let's dump a bunch of money into the bush. But
22 without a small boat operator, as an example, the herring
23 industry is beginning to take off. We got a billion-dollar
24 industry. Almost half the boats were wrecked there a couple
25 of weeks ago. We need ports, we need docks, we need energy,

1 whether it's hydroelectric or whatever.

2 There needs to be a whole coordination, a whole
3 look at the economy and not just say, "Well, let's give
4 them some loans." But there needs to be some coordination.

5 MR. NASKE: There is a recommendation in the
6 transportation system, an integrated transportation system.

7 MR. ECKHOLM: You realize what we're doing here. We
8 almost spent seven billion out of the eight point five that
9 is sitting on Russ' desk right now. I think it's good, but
10 in order to be real about this thing, we're going to have
11 to start judiciously saying when and how much. I don't
12 think we should do it today, but I think we should start
13 thinking about it. And maybe focus everything and say, okay,
14 the three and a half billion dollars we've heard about
15 we're going to have next year once we get all the
16 recommendations, how much, maybe we'll divvie that up and
17 say how much goes to where and what, so we put some reality
18 into our recommendations.

19 THE MODERATOR: Let me add something here. I read my
20 notes from ten years ago last night by chance. And so much
21 of that ten years ago was devoted to shall we invest in
22 rural Alaska or in the cities. Incredible. That ran through
23 the whole thing.

24 Now, Marty and you have sort of begun to discuss
25 that. Do you give a preference, not a preference,

1 necessarily, but do you get money out into the bush and
2 rural development. I'm just wondering, is that no longer an
3 issue in the State?

4 MR. PORTER: Can I give you a classic? There are two
5 million fish in Bristol Bay that couldn't be sold because
6 they couldn't get it out. The runway is too short at
7 Dillingham. The planes cannot carry a full payload. They
8 can't get off the ground. There is no way to get the fish
9 out. Just wonderful fishing season, couldn't sell the fish.
10 We're going to experience that problem over and over again.
11 So it's not a matter of giving fisherman loans, giving them
12 boats, but it's the total picture in the rural area.

13 MR. MOORE: May I finish that story about the co-op?
14 At the moment, a couple of years ago, the fish didn't come
15 and it was a financial handicap for the co-op and the co-op
16 couldn't again borrow money to keep that going. We went to
17 Seattle, tried to convince the bank owners and they
18 wouldn't even look at it. It was fortunate that the Nenana
19 Corporation had \$250,000 that they loaned a regular
20 commercial interest rate and they survived. People are
21 hired there and it survived.

22 Without our aid, it would have gone bankrupt long
23 ago. That's why I think it's important to give us an
24 opportunity to give us commercial loans in that area.

25 MR. McCUTCHEN: Can I go in that thing? I keep sticking

1 my hand up and every time you nod to me, he answers.

2 Jack, I've got a question. In your operation out
3 there, what is it you can do in the rural areas having
4 those hot spots like Dutch Harbor where they need houses,
5 and there is no money for it? Can you do anything at all?

6 THE MODERATOR: We can make loans to low- and moderate-
7 income people. A person in Alaska has to have an income of
8 \$23,400 or less to get one of our houses. That's his Farmer's
9 Home Administration. We put about 30 million dollars into
10 rural Alaska last year in housing. The problem is you get
11 out into the bush in Alaska, or Nenana, they've got to have
12 public sewer and water, you see. You've got to put a person
13 in there that can afford the mortgage for a \$70,000 home
14 plus pay his taxes, insurance, get title insurance on his
15 land that he says he doesn't have title to. So, in effect,
16 fireman's home is not in Nenana.

17 MR. McCUTCHEN: You can't be effective. I think this is
18 one area, get a hot spot that's going, divert some funds,
19 and I agree with the lady there, that you have to look at
20 the whole system.

21 Here's what happened in Valdez. After the
22 earthquake, they built them a new town and they laid the
23 whole thing out, water, sewer, paved streets, buried power
24 lines, gave them a city hall, post office, grade school
25 building, high school building. And this was all paid for.

1 This is great.

2 So the thing was going to be fishing in Valdez,
3 and so the SBA came on along. I've gotten million dollars
4 out there so far. This is just the groundwork, okay. And
5 they go out and they get an SBA loan and they build a brand
6 new modern plant really built right. It gets down to the
7 last \$80,000 to put the equipment in to make the plant blow
8 and the SBA cuts the money off and says no way. And the
9 plant was finally used as a warehouse and burned up.

10 But this is the typical thing. It got shut off
11 because the reason is they lost that extra amount of money
12 for the equipment. The equipment was already aboard
13 railroad cars to be sent to Valdez. The reason is they
14 didn't have any operating capital, the corporation which
15 was going to be given to the City of Valdez. They couldn't
16 get anywhere.

17 Later on in Valdez, when the pipeline was under
18 way and they were tangled up in the court system, now you
19 have sewer, water, title, and everything you want to have,
20 through there was no housing money because the banks
21 wouldn't look because the thing wasn't under way. When the
22 time came for the housing in Valdez, then came the housing
23 and you had to do two things at one time. This is where the
24 State capital can go into and do ahead of time. When you
25 realize something is going to happen, you can go ahead and

1 prepare for it and do it. It should be an area where a bank
2 can't get into or some other kind of lending institution
3 can't get into, so it solves some kind of personal need.

4 MR. ECKHOLM: Let's wrap this thing up.

5 MS. RICHCREEK: I would like to add one other thing,
6 and that is the State come up with some lands for sale
7 where the people can buy the land to build a house. The
8 reason I'm saying this, out in the Glenn Allen Copper Basin
9 area it's owned by the University or the State of Alaska.
10 People wonder why it's one mile wide and ten miles long,
11 and that's the reason, because it belongs to one or the
12 other.

13 MS. ALECK: I wanted to add something on this bank
14 acting as a loaning agent for the State funds for personal
15 or business and so forth.

16 That if the State deposited funds in various
17 banks throughout the State, then they should also set down
18 the criteria as to how these loans should be handled,
19 perhaps even the interest rate. So, in other words, the
20 whole thing isn't up to the bank and they turn around and
21 say, "Oh, yeah, if you need our criteria, we'll loan it to
22 you at 14 percent," or who knows what. You are trying to
23 get the money into people's hands who need it halfway
24 reasonably. Acting more as an agent.

25 MS. SCHIRMER: I think it's more consent.

1 MR. ECKHOLM: You realize that by the f te taking
2 money and loaning it out at eight percent, if the going
3 rate is 18 percent, if that is money that is, say,
4 permanent fund money or other money, that you're losing
5 that money eventually, you're spending it. It won't be
6 returned to you. It's drawing down. So what you're spending
7 it for, you're not going to replenish the fund. What you're
8 spending it for is going to have to replenish the fund.

9 MS. ALECK: I'm not saying eight percent per se. Some
10 kind of a fair rate. This is enabling business and
11 construction all over the State.

12 MR. POMEROY: You said something earlier about we
13 might already have added up an awful lot of money than we
14 have to spend. I am assuming, personal assumption, that
15 we're talking about the kind of investments that are cost
16 effective, whether they're for private business or whether
17 they're for an infrastructure in a harbor. And my position
18 is going to be consistent. It's got to be cost effective.
19 It's got to be able to pay its own way, showing as well as
20 you can show with an investment.

21 MR. PORTER: One more thing, Mr. Chairman. Also to
22 keep in mind we're talking about the next ten years. We're
23 not talking about tomorrow or the next ten months.

24 MS. SIMONDS: There may be duplications on the list
25 that are in the office, too. Probably a lot of people are

1 asking for the same time type of things. So you can compare
2 them and cross off the list and have the same.

3 MR. PADDOCK: I was going to second Rosie's statement
4 that I think we're doing this wrong.

5 Will we be going back over this list again before
6 we get through this thing?

7 MR. ECKHOLM: I'm starting to feel now that we just
8 kind of started to warm up. We're starting to get to know
9 each other, we're getting at areas that are of broad
10 general concern. That are consistencies, and I don't think
11 there is time enough that we have information to go ahead
12 and specify things.

13 What do you want to do from here? Essentially
14 what we've got is we've got all day tomorrow, and that's
15 about it. And Saturday, they go in the general group and
16 this is what we decide on.

17 MR. PADDOCK: I think before we finish we ought to go
18 through this shopping list and do some prioritization. But
19 it might be a good idea to trot this list out now.

20 But certainly I think there should be some
21 reference back to it before we conclude because this lady
22 over here mentioned rehabilitation. I think we sort of
23 sailed by that, subject to Direct Services. Right at this
24 point, without having discussed it, I think we're all
25 looking at other things. We're looking at Christmas gifts

1 instead of the groceries. And certainly we don't want to
2 give this business of rehabilitation a short shrift.
3 However, I would hope that everybody will take in this --
4 is it tomorrow morning that George Hohman said we're
5 scheduled for this "Outward Bound"?

6 MR. ECKHOLM: What I'd like to do is what you're
7 saying: We don't come up with recommendations, and instead
8 of spending the day on one thing, try to compress into two
9 or three hours tomorrow at the end on recommendations, and
10 decide upon all of the recommendations at that time as a
11 group and we don't decide on anything right now until after
12 we've gone over the areas that we have looked at.

13 MR. POMEROY: Pardon me. But in connection with that,
14 we've certainly got to relate all we've said about what we
15 think about endowing ourselves to think of the future when
16 oil begins going down. Whatever we think about it, we've
17 got to say something about it.

18 THE MODERATOR: After our breakfast, we have Milton
19 Lipton coming in at 9:00. So we'll start off in the morning
20 with him.

21 We meet at 8:30?

22 MR. ECKHOLM: You have 8:30 a.m. It's an assembly.

23 (The's proceedings recessed at 6:00 P.M.)
24
25

#30:11

SCOMM

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LEGISLATIVE COUNCIL, STATE OF ALASKA

Conference on Alaska's Future Frontiers

Friday, December 7, 1979

Sheraton Anchorage Hotel

Anchorage, Alaska

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Reported by: Louise K. Mizota CSR

2
1 DELTA GROUP PROCEEDINGS

2 (December 7, 1979, 9:50 a.m.)

3
4 THE MODERATOR: I wasn't able to hear Mr. Fuller last
5 night. Can somebody tell me what they heard from him?

6 MR. HARTLE: I'm sure that everybody heard different
7 things. He spoke a long time and he was very impressive, to
8 me a very impressive speech, and I really enjoyed it.

9 And to me he said there's much to do; it can work
10 out great; be brave. That sums it up in three phrases for
11 me, anyway.

12 And don't take any assumptions that you haven't
13 investigated thoroughly first.

14 And he really had a way of just looking at things
15 totally logically and re-examining assumptions that we've
16 been making for years and years. And I found it very
17 impressive for that reason.

18 MS. STRASSBURG: Jack, to me, what his consensus was is
19 that whether you're an individual, a community, a state or
20 a nation, you can do anything you want to do, if you want
21 to do it bad enough. There's no limit to what we can do
22 regardless, and that all the resources are here, all over
23 the world, not just in Alaska.

24 But also he felt that Alaska is the keystone of
25 the entire world. It's the thing where everything meets. I

1 thought it was very -- like him, I think it was terrific.
2 I wouldn't have missed it for anything in the world. It's
3 just a great experience.

4 THE MODERATOR: Harold?

5 MR. POMEROY: This preliminary recommendations, I take
6 this to mean these are suggested recommendations. They are
7 not things that we preliminarily agreed upon as a group.

8 THE MODERATOR: Right. Those are just sort of the wish
9 list we did yesterday. You know, there's been no action
10 taken on them. I think they will be helpful to refer to.
11 Some of you will want to expand, some of you will want to
12 delete. Obviously there's an opportunity to add new ones.

13 MR. ECKHOLM: We didn't make them to give to anybody
14 else. It's just an in-house group.

15 THE MODERATOR: Following along on our procedure,
16 yesterday it was finance. This morning I gather it's going
17 to be natural resources, and this afternoon services. Is
18 that your understanding?

19 MR. ECKHOLM: Yes.

20 THE MODERATOR: We couldn't have picked a better man
21 to help us with resources, and Milton Lipton has been
22 involved with the State for at least ten years. He and
23 Walter Levi have been advising the Governor and the
24 Legislature about our resources, primarily oil and gas.
25 They're international authorities on oil and gas. He knows

1 as much as anyone in the State about oil and gas, so I've
2 asked Milton to speak for three to five minutes and then
3 open himself up to questions.

4 It's a pleasure to introduce him. He's a
5 world-wide authority, and he knows Alaska. Milton?

6 MR. LIPTON: Ladies and gentlemen, it's a pleasure to
7 be with you. You've got a limited amount of time to do an
8 awful lot of things. And the ideas that he recommendations
9 are going to have to be your ideas, not mine. But I did
10 accept from the Legislative Council, who were sponsoring
11 this conference, the invitation to write a paper. And I
12 believe that it's probably been reproduced and is in all of
13 your hands, although I doubt very much that many of you,
14 under the pressure of time and circumstances, have had a
15 chance to read it.

16 So what I would like to do for three to five
17 minutes and no more than that is to try to identify for you,
18 say, four selected issues of oil and gas policy.

19 I've selected these for your possible discussion
20 and consideration because they're the kind of issues, while
21 they matter very much to the State, more important than
22 that, they involve inevitably conflicting values among the
23 people and citizens of Alaska. That is to say, there's no
24 easy answer to the kind of questions I'm going to mention.

25 There are four of them, I said. The first one is

1 an obvious and straightforward one. And that has to do with
2 how intensively and how fast is the State of Alaska going
3 to push the exploration of State lands.

4 There's no question but that from outside in a
5 world where oil supplies are in imbalance, where the nation
6 is heavily dependent on imported oil and energy, where the
7 cost of energy is going up very, very rapidly, that there
8 will be great pressure upon you because of your resource
9 potential.

10 To develop and facilitate the exploration of your
11 resources as rapidly as possible, this will be the pressure
12 that comes from outside.

13 But I think that, from the standpoint of your own
14 internal circumstances, these may be conducive to a more
15 deliberate evaluation of competing interests among the
16 citizens of the State.

17 First of all, as the price of oil goes up, surely
18 it becomes more and more economical to explore even the
19 difficult areas of Alaska.

20 Secondly, since you're concerned not only with
21 finding and developing your resources but the effect upon
22 the environment, this margin of decision, the choice you
23 make between "do we develop our resources or do we protect
24 our environment," the margin of decision there has probably
25 become a more realistic one. That is to say, every barrel

1 of oil that you may chose to find and produce is worth so
2 much more that you could afford to spend a lot more on
3 environmental protection you might have been able to ten
4 years ago.

5 And, third, all of the environmental concomitants
6 of exploration and development of the coastal land
7 management, current versus deferred revenues, all of these
8 things that are troublesome and you're going to have to
9 debate, at least in the world ahead, the ten years in front
10 of you as compared to the ten years behind you, the debate
11 and the decision ought to be able to be carried on in a far
12 less pressurized atmosphere than heretofore, simply again
13 because of the increase in the value of your resources and
14 therefore the wider range of decisions that you have.

15 Now, the second area, the area of State revenues
16 from leasing and from taxation.

17 If you go back, look back over the past ten years,
18 decision after decision that had to be taken by the
19 administration in terms of recommendations, and decision
20 after decision that was taken by the legislature in terms
21 of leasing and tax policy, we're almost inevitably
22 constrained and almost inevitably dictated by budgetary
23 needs. That is to say, three years ago there was a
24 consideration "should there be a Beaufort lease sale" when
25 the State was facing a 500 million dollar budgetary deficit.