90 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

NATIVE CORPORATION DRILLING CONTRACTS

Native Corporations	Contracting Companies
Arctic Slope Regional Corp.	Standard Oil Union-Amoco Texaco
NANA Regional Corp.	Standard Oil
Calista Corp.	Shell
Bristol Bay Native Corp.	Phillips
Koniag, Inc.	Standard Oil
Doyon, Ltd.	Louisiana Land and Exploration Champlin Asland
Ahtna, Inc.	Amoco
Chugach Natives, Inc.	Phillips

Another bright star in Alaska's future is the expansion of the petrochemical industry. Current world economic conditions which are not conducive to the construction of petrochemical plants in Alaska can be expected to change in a more favorable direction over time. Of immediate significance, however, is the fact that the State of Alaska owns the oil and gas at Prudhoe Bay and will be receiving a 12½% royalty. Probably the State of Alaska will take this royalty in kind, sell it to those firms that agree to process the gas in some way in Alaska, and thereby strongly influence expansion of a petrochemical industry in Alaska.

State Government

Another major factor raising Alaska's economy onto a new pleteau will be the tenfold increase of revenue to the State of Alaska by the mid-1980's from the 1970 level.

When the North Slope is in full production, the mineral royalties, right-of-way leases, and production taxes will generate substantial revenue to the State. The greatly increased State expenditures will be important not only as ends in themselves by creating employment directly and indirectly, but, to the extent that they are devoted to public works projects such as highways, ports, schools, etc., they will induce additional economic development. For example, expansion of transportation systems in Alaska's interior region might make certain proposed mineral ventures feasible.

Hardrock Mining

Although, Alaska's mining industry has been relatively dormant except for extraction of gold, sand and gravel, and a few minor operations, many projects are waiting in the wings to be developed. There is the proposed Lost River fluorite mine to the Seward Peninsula, which contains an estimated one-third of the world's supply of fluorite; there is Mitsubishi's iron ore deposit at Klukwan near Haines; Marcona's iron deposit at Snettisham near Juneau; Newmont Mining's nickle deposit at Glacier Bay; the U.S. Borax molybdenum deposit near Ketchikan; Kennecott's huge copper deposit near Bornite, and many, many others.

One of the most exciting mineral potentials is the Beluga coal deposit across Cook Inlet from Anchorage. The sub-bituminous coal there is very low in sulphur content. The estimated 2.4 billion tons of coal at Beluga contain an energy equivalent 25% greater than that of the crude oil at Prudhoe Bay.

Currently, U.S. Borax is pursuing development of its rich molybdenum deposit near Ketchikan.

Despite Alaska's immense latent mineral potential, currently the annual hardrock mineral production of Alaska is less than one-twentieth as great as that of the average western state.

Construction

The primary beneficiary of the enormous increase in State expenditures and the necessary expansion of Alaska's infrastructure will be the construction industry. The upsurge of construction projects is already about to commence. In November Alaskans will vote on bond issues totalling nearly $250 million.

Further, investments by Native corporations and greatly expanded oil and gas exploration and development will generate large projects, all of which auger well for the construction industry.

Visitor Industry

Alaska's visitor industry is expected to continue its soaring growth. Indeed, in just the past five years, the number of visitors to Alaska has more than doubled.

Alaska will continue to receive considerable national attention as a result of its dominant position in the nation's quest for energy. As a result, Alaska can look forward to receiving an increasing share of the burgeoning flow of travelers throughout the country. The state Division of Tourism predicts that in ten years more than one million tourists will be visiting Alaska annually -- triple the current level.

Another boost to Alaska's visitor industry is the establishment of the Anchorage Convention/Visitors Bureau. The objective of this organization is to attract to Anchorage some of the more than 47,000 conventions held annually in the United States. Additionally, Alaska's Native corporations are investing in visitor facilities to accommodate a greater flow of tourists to Alaska.

Finally, a virtually untapped market for Alaska's tourist industry are the Japanese. At the height of Japanese visitations to Alaska prior to the imposition of exchange controls, 10,000 Japanese visited Alaska annually. At the same time more than 200,000 Japanese were visiting Hawaii. Alaska, with its spaciousness and splendor, two criteria high on the list of Japanese tourists, has a strong competitive advantage in attracting this important market.

In general the long-run outlook for Alaska's visitor industry is extremely favorable.

Forest Products

Alaska's forest products industry looks bleak for the long-run. Not only has expansion been curtailed, but the very existence of the industry in Alaska is in jeopardy.

Ketchikan Pulp Company, in the face of severe federal waste water treatment regulations, has announced its intention to close its mill next year. Champion International, after nearly ten years of apparent endless litigation between the Sierra Club and the U.S. Forest Service, finally abandoned its plans for a huge wood processing complex at Berners Bay.

Further, the Forest Service has adopted the policy of limiting future timber contracts to ten years rather than 55 years. This means an absence of wood volumes sufficient to support large operations, and, therefore, any future developments will be limited to relatively small mills.

Despite these extremely adverse events, the basic facts remain that strong economic advance and growing affluence in Japan, combined with substantial population growth in the State of Alaska, are going to place heavy demands on our timber resources. At the same time, we are currently cutting only about one-third of the state's total annual allowable cut. Accordingly, there is considerable room for expansion of this industry.

It is likely that the Native corporations, with their keen interest in creating jobs in their respective regions, will be the key element in any future growth of Alaska's forest products industry.

Fishing

The long-run outlook for Alaska's fishing industry is optimistic as the industry diversifies and its business management techniques become increasingly sophisticated. The major long-range potential for Alaska's fishing industry may very well be with bottom fish. Increasing demand from Japan, rapidly rising world prices, and improving market acceptance throughout the United States are inducing more and more Alaska fishermen to harvest bottom fish.

Additionally, federal management of the shellfish and halibut fisheries is showing definite signs of effectiveness. Also State and federal aquaculture programs now suggest salmon harvests in the 1980's may approach 50 million fish. It seems reasonable to expect continued gradual growth of Alaska's fishing industry, accompanied, however, by the normal cyclical fluctuations resulting from biological and climatic factors. Again, Alaska's Native corporations will likely be a major force in the development of the state's fishing industry.

Nevertheless, a huge question mark hangs over the future of this industry concerning the uncertainty of whether or not countries will develop the wisdom and cooperation necessary for effective management of our fish resources to conserve adequate supplies for future generations.

Summary

To summarize the outlook for Alaska's basic industries, the three most rapidly growing industries in the 1980's will be petroleum, construction, and the visitor industry. By early in the next decade these industries will surpass the fishing industry in importance as a source of employment. The fishing industry is expected to grow moderately. The hardrock mining and forest products industries are likely to experience some growth but in slightly more erratic patterns and uncertain rates. Finally, agriculture remains a long shot.

In the public sector, state and local government will replace federal government as the dominant employer in the state.

Anchorage

Anchorage is currently, and will continue to be, the state's commercial and financial center. As a result, the growth of the Anchorage area will reflect the general economic development of Alaska.

In the early 1980's employment in Anchorage will break through the 100,000 mark -- a 50% increase over today's level. By 1985 the population of the Anchorage area is expected to be well over one-quarter million people.

Social Effects

Economic growth has always been accompanied by social costs.

But when looking at the complexion of Alaska's future economic growth, it is clear that the type of industrial expansion this state is about to experience will also contribute substantial social benefits.

In fact it can be asserted that, to the extent the petroleum industry will play the major role in Alaska's economic development, the social benefits accruing from continued growth will far outweigh the social costs.

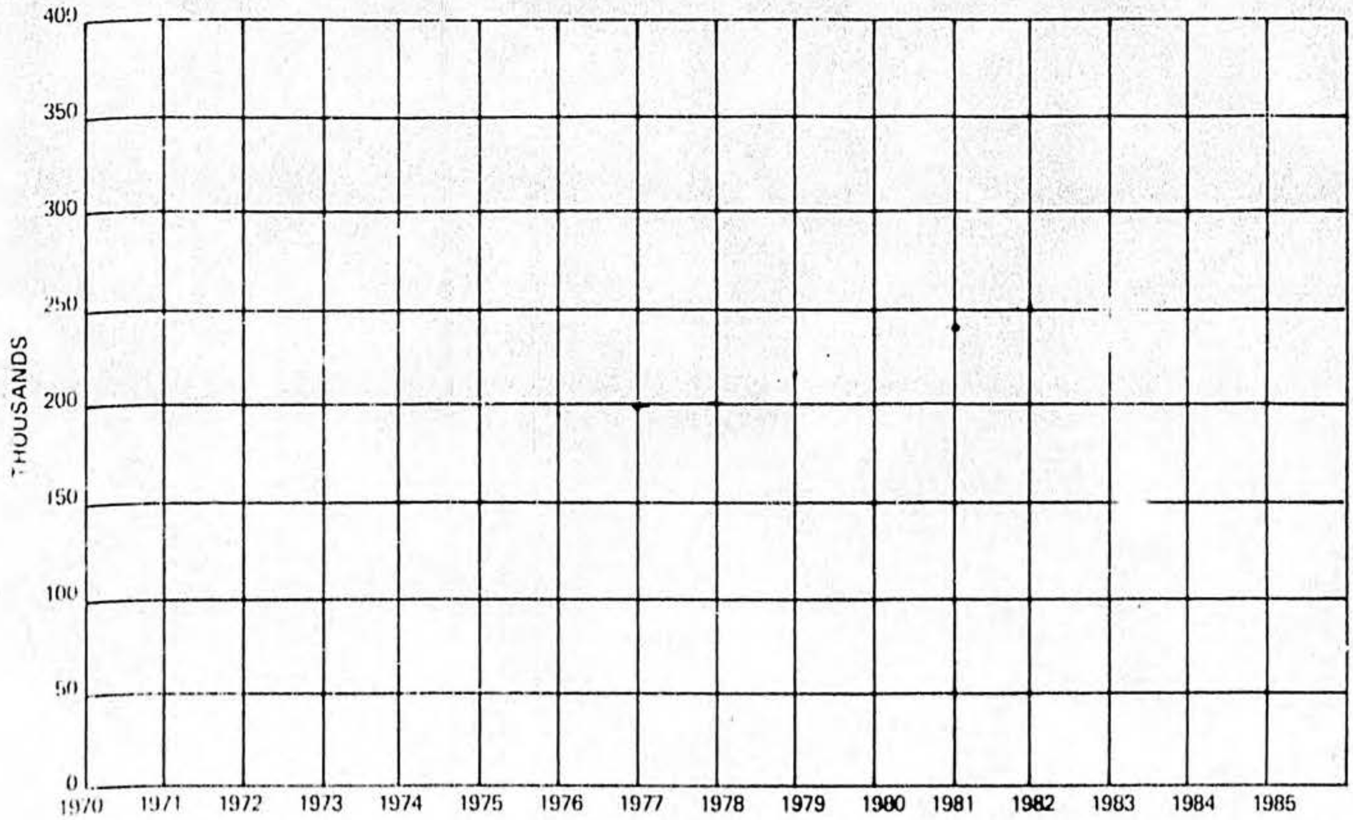
One social benefit will be a more stable structure to our economy. Heretofore Alaska's major industries have been highly labor intensive, highly seasonal, and highly subject to cyclical fluctuations. Now, however, certain areas in Alaska have the opportunity to break out of this pattern as a result of expansion by the extremely capital intensive petroleum industry.

Another social benefit from growth of the petroleum industry is the fact that in the long-run public revenues accruing from this private operation will increase to a far greater degree than the need for public services. For example, the 1,700 permanent workers required to operate the pipeline and produce North Slope oil implies a population increase of about 7,500, while at the same time revenue to the State of Alaska increases tenfold from pre-pipeline levels. With huge

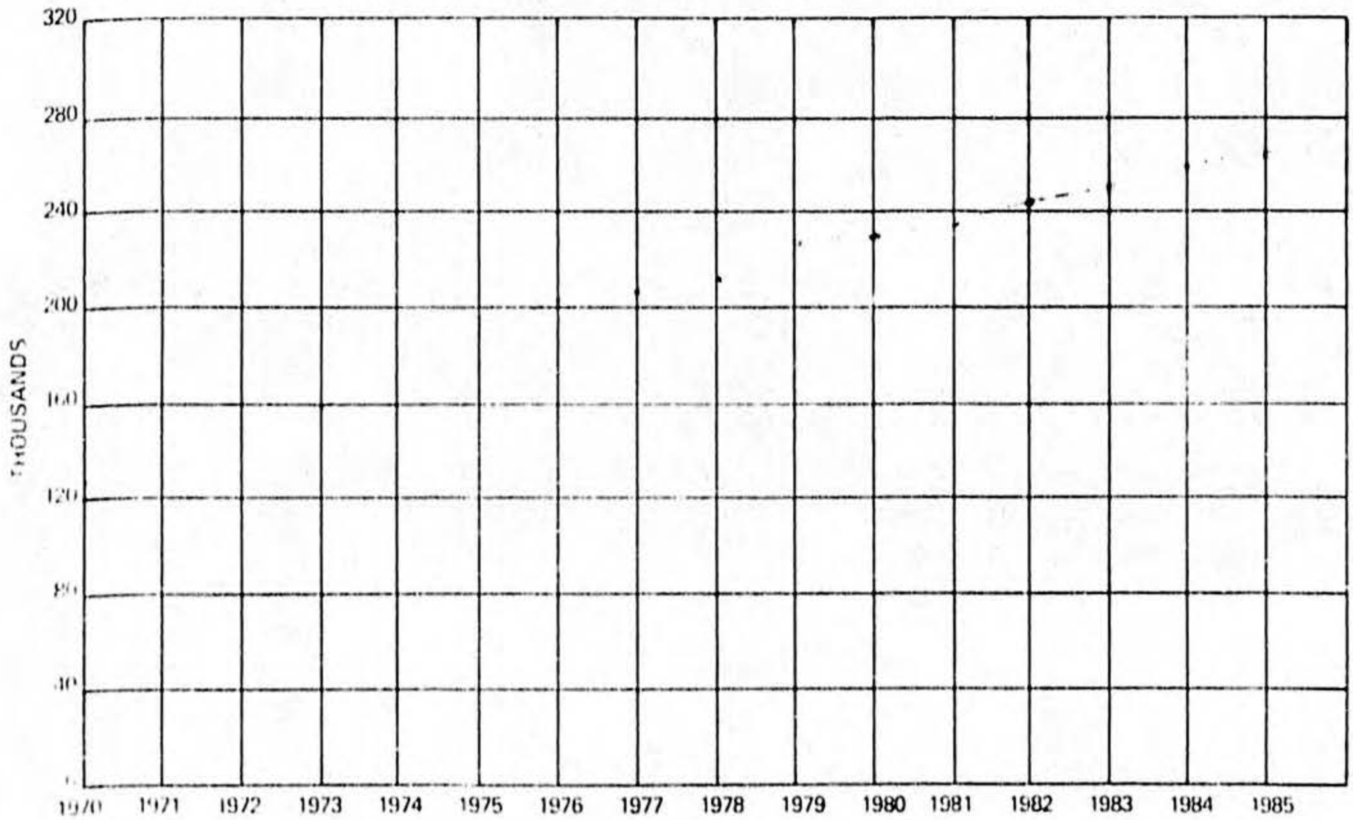
State revenues and few people, Alaska has an opportunity to enjoy relatively profuse public services without a commensurately great tax burden on local families and businesses.

Note: This discussion of the long-run outlook for Alaska's economy dwells solely on major anticipated events and general trends. It is not intended to be a comprehensive dissertation. Certainly, many factors not discussed herein may play a role in Alaska's economic future. Some of these include the proposed hydroelectric projects, the state capital move, and growth of Alaska's agriculture and handicraft industries.

ALASKA EMPLOYMENT FORECAST
(Excludes Uniformed Military)



ANCHORAGE POPULATION FORECAST



AlaskaPacificBank

Working Paper #4 October 13, 1976

POLICY IMPLICATIONS

Cyclicality: Alaska's economy is considerably less cyclical than normally believed. However, certain industries, i.e., forest products, fishing, and construction are more subject to cyclical fluctuations than normal. Therefore, economic development should seek more non-cyclical industries.

Seasonality: More jobs are needed in November, December, January, February, March, and April -- the "wintertime." Some new sources of substitute wintertime jobs should rank high to moderate in labor intensity. Future economic development should seek more counter-seasonal industries.

Diversification: The greatest dislocations in Alaska's economy appear in the lack of diversification. Whereas, for the U.S. as a whole, about one-third of the jobs come from the basic industries and one-fifth from government, in Alaska those proportions are reversed. But despite government's large participation in the labor force, it

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contributes only one-fifth of the Alaska gross product. Alaska is also out of balance in terms of regional productivity. Almost two-thirds of the gross state product come from southcentral Alaska alone.

Labor Intensity: Petroleum, which is capital intensive and supplies less than 3% of Alaska jobs, contributes about as much gross state product as government, which is highly labor intensive and accounts for about one-third of all the jobs in Alaska.

Outlook: (Short Range) The rate of economic growth is expected to pick up in 1978 or 1979, following a moderate lull. Therefore, no explicit, abnormal injection of public spending into the economy is needed for countercyclical purposes.

Outlook: (Long Range) The long range employment projections for Alaska assume continued, gradual expansion of the infrastructure.

The growth that will naturally occur will be highly capital intensive and therefore will not imply a commensurately great demand for public services.

AlaskaPacificBank

Working Paper #5 October 13, 1976

REGIONAL SUMMARY

As we have observed before, it is dangerous to make generalizations about Alaska's economy. Activity varies considerably from region to region. The southcentral and interior regions, which provide approximately three-fourths of Alaska's gross state product, have exhibited rather sluggish economic growth in 1976 relative to the past two years. On the other hand, the Arctic with its stepped up oil and gas exploration and development, western Alaska with its improved fishing industry, and southeastern Alaska with substantial production increases in the forest products industry are experiencing strong, healthy economic activity.

SOUTHCENTRAL

Anchorage, with about half of the population and nearly half of the jobs in Alaska, is exhibiting poorer retail sales when compared to 1975. Further, during the first quarter of the year the employment growth rate fell to half the rate of the same period last year. Reflecting the slowing population influx, Anchorage school enrollment during the first quarter was less than 1% greater than the first quarter of 1975.

The Anchorage housing market is considerably weaker this year than last. The low sales to listings ratio of homes selling above $70,000 implies a rather serious accumulation of inventory. Currently it takes approximately one week longer to sell a home this year than last. The value of residential building permits through the first seven months of the year are down 26% from the same period last year. Further weakening is anticipated next year.

Much of the growth from Anchorage is spreading north into the Matanuska Valley. Both permanent and residential land sales have been soaring at a pace similar to recent "land booms" in the southern United States. The Palmer Industrial Park will house a new acetylene and air separation plants for the production of oxygen in its gaseous and liquid form for distribution through Alaska.

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a $660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a $6 million barite grinding mill for drilling mud used in offshore oil and gas exploration. Also, in connection with anticipated OCS exploration in the Gulf of Alaska, the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

INTERIOR

The Fairbanks area has registered virtually no employment growth this year, and sellers of both consumer goods and business, industrial, and construction equipment report rather poor sales.

Similar to the Anchorage situation, the Fairbanks housing market appears to be loosening. There are approximately three times as many units available for rent this year as last year's annual average. Rapid price increases appear to have abated, with some price declines being reported.

Nevertheless, economic activity in the Fairbanks area remains strong. Work continues on the $120 million Chena River Flood Control project with a $1.4 million contract for levy construction let in April. Energy Company of Alaska broke ground in June for construction of the first phase of a refinery at North Pole. This job will not only create jobs, but will provide lower cost petroleum products to interior Alaska.

ARCTIC AND WESTERN

The arctic and western regions of Alaska are enjoying relatively strong economic activity this year. Development at Prudhoe Bay and oil and gas exploration in Pet 4, accompanied by investment activity of the Arctic Slope Regional Corporation, are contributing to a vigorous economy in the Alaska Arctic.

Similary, oil and gas exploration and construction projects of the NANA, Bering Straits, Calista, and Bristol Bay Native corporations, accompanied by another good return of salmon, suggests a relatively satisfactory year for western Alaska.

SOUTHEASTERN ALASKA

Higher prices for fish and timber products underlie a strong economy in southeastern Alaska this year. Offsetting somewhat the favorable prices, the return of salmon to southeastern Alaska is expected to be relatively poor, having not yet recovered from flood damage to spawning grounds and severe winters of a few years ago.

Both prices and output volumes are up considerably in the forest products industry, responding to healthy economic recovery in Japan.

On the other hand, the visitor industry in southeastern Alaska is reported to be registering a rather mediocre performance when compared to previous years' growth rates.

AlaskaPacificBank

Working Paper #7

December 16, 1976

ALASKA EMPLOYMENT SEASONALITY

In compliance with the State Investment Advisory Committee's request, attached are graphs depicting Alaska's employment seasonality by industry and region and a table with comparative cost of living information.

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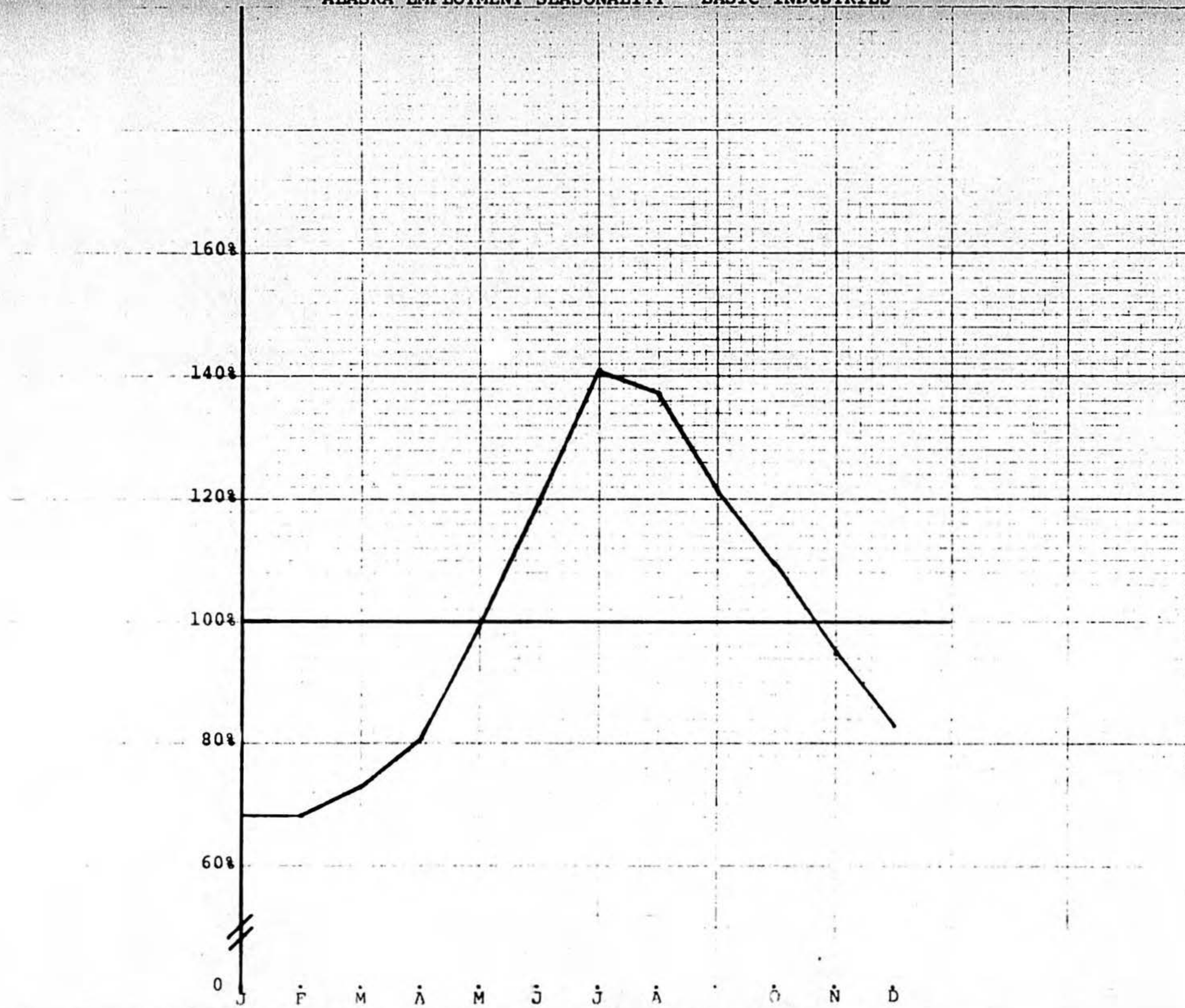
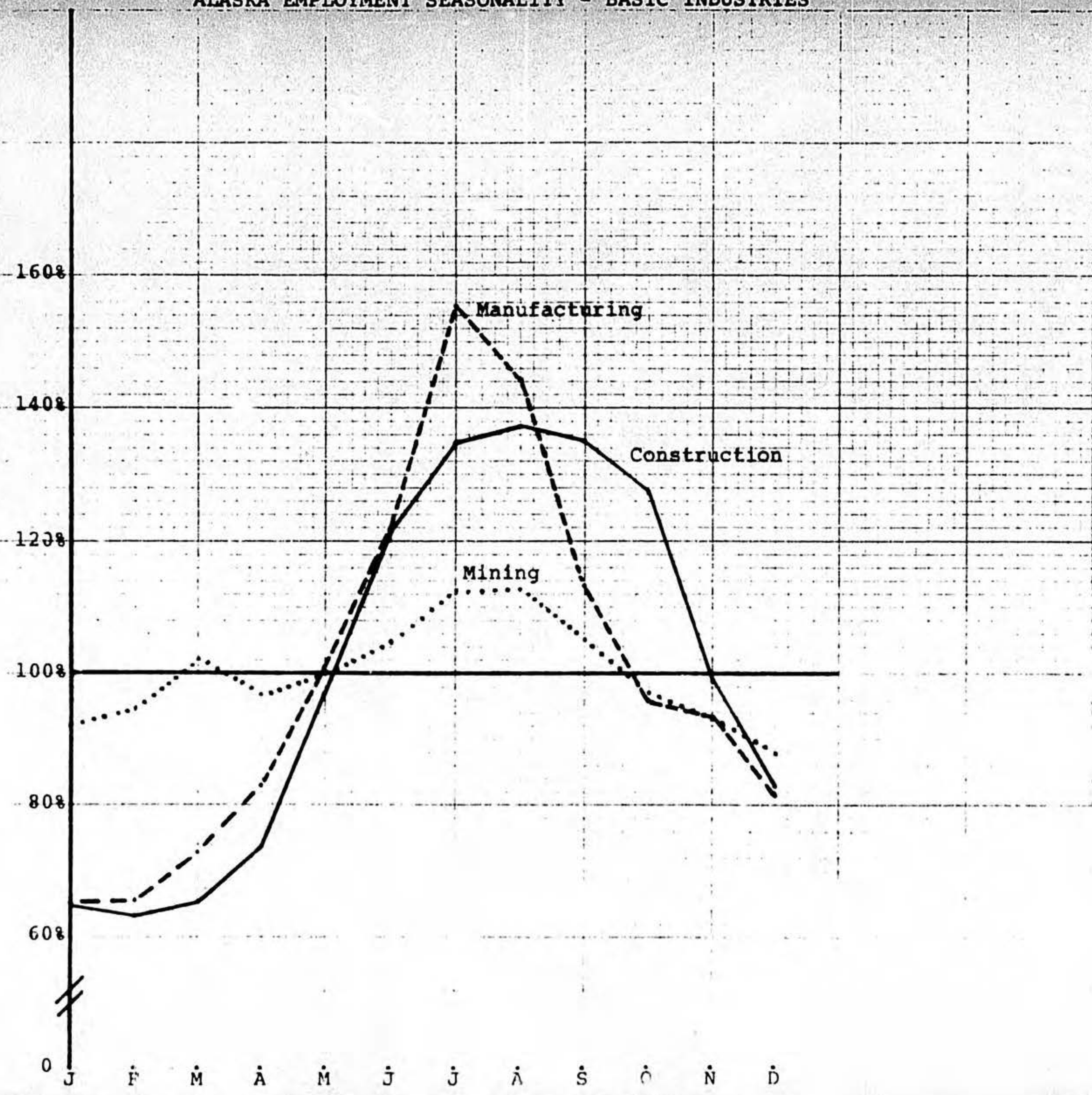
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



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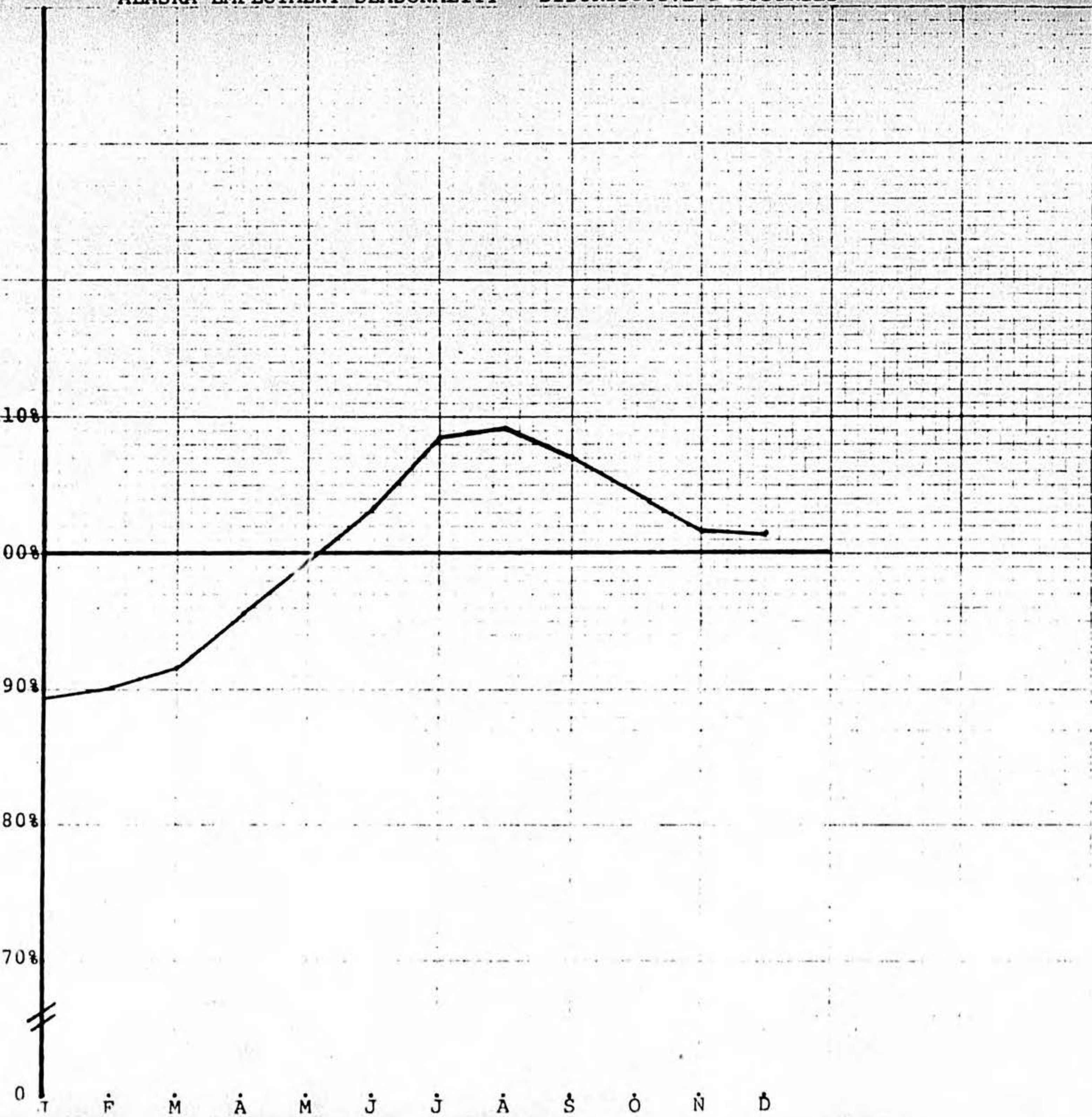
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES



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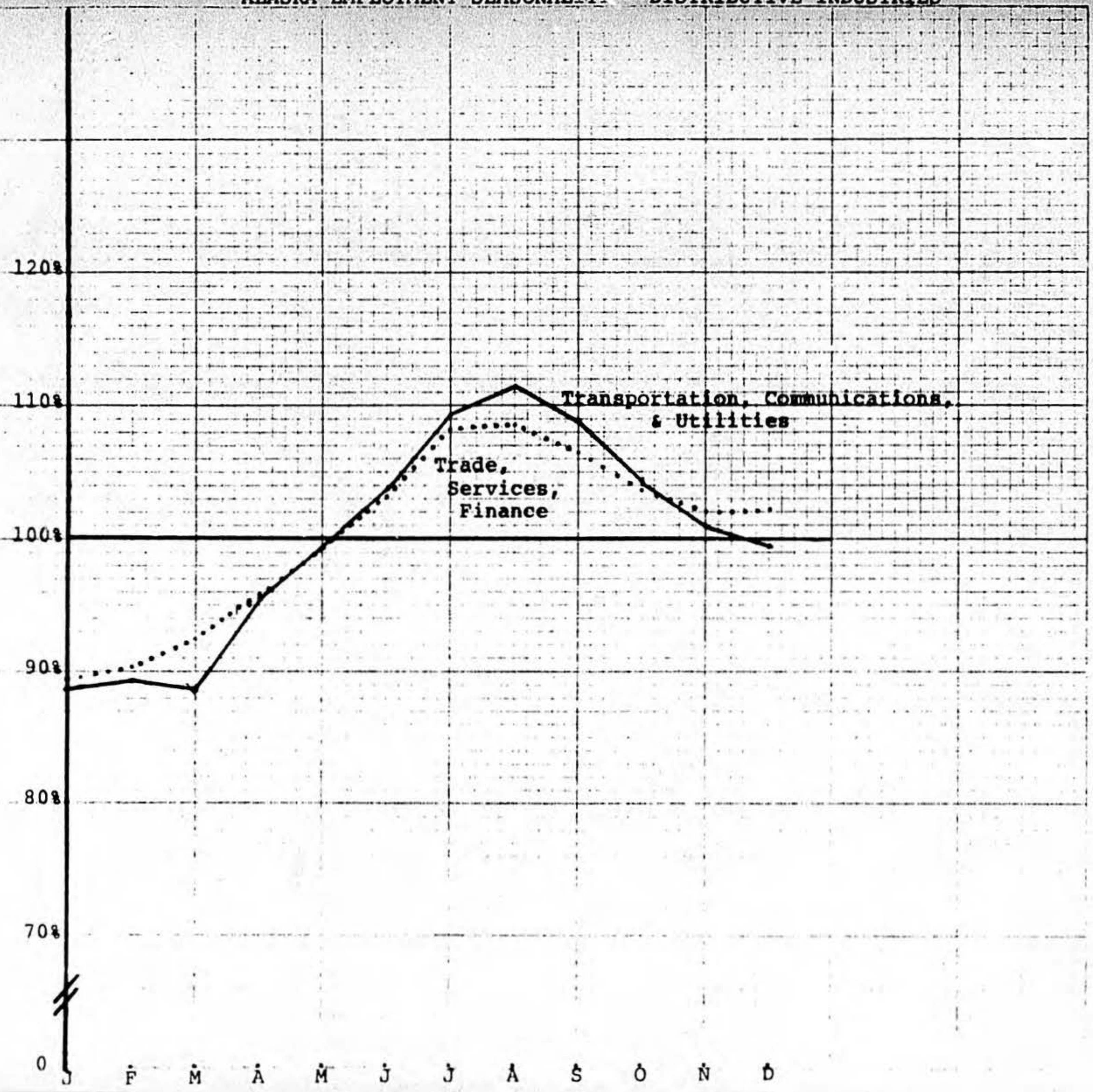
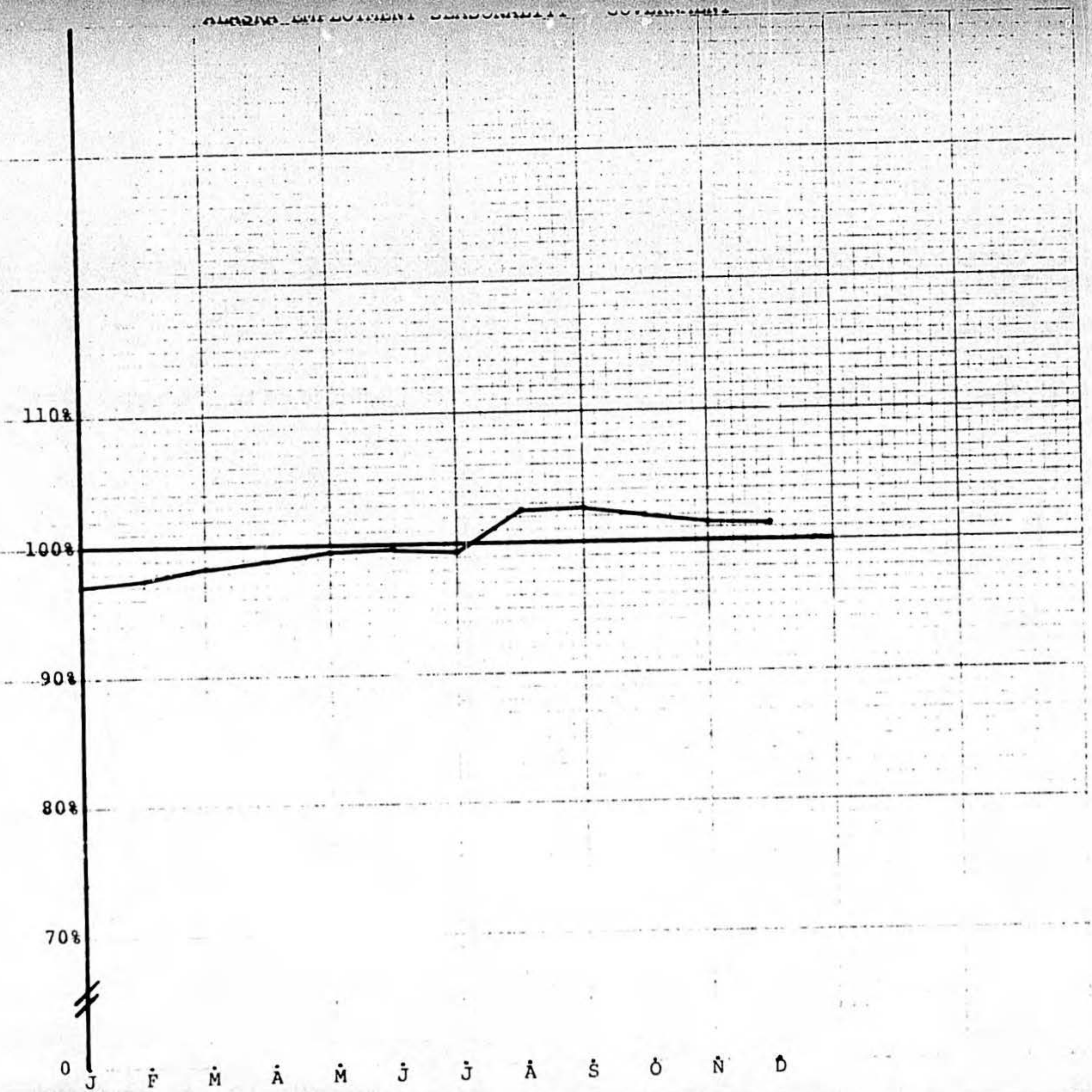
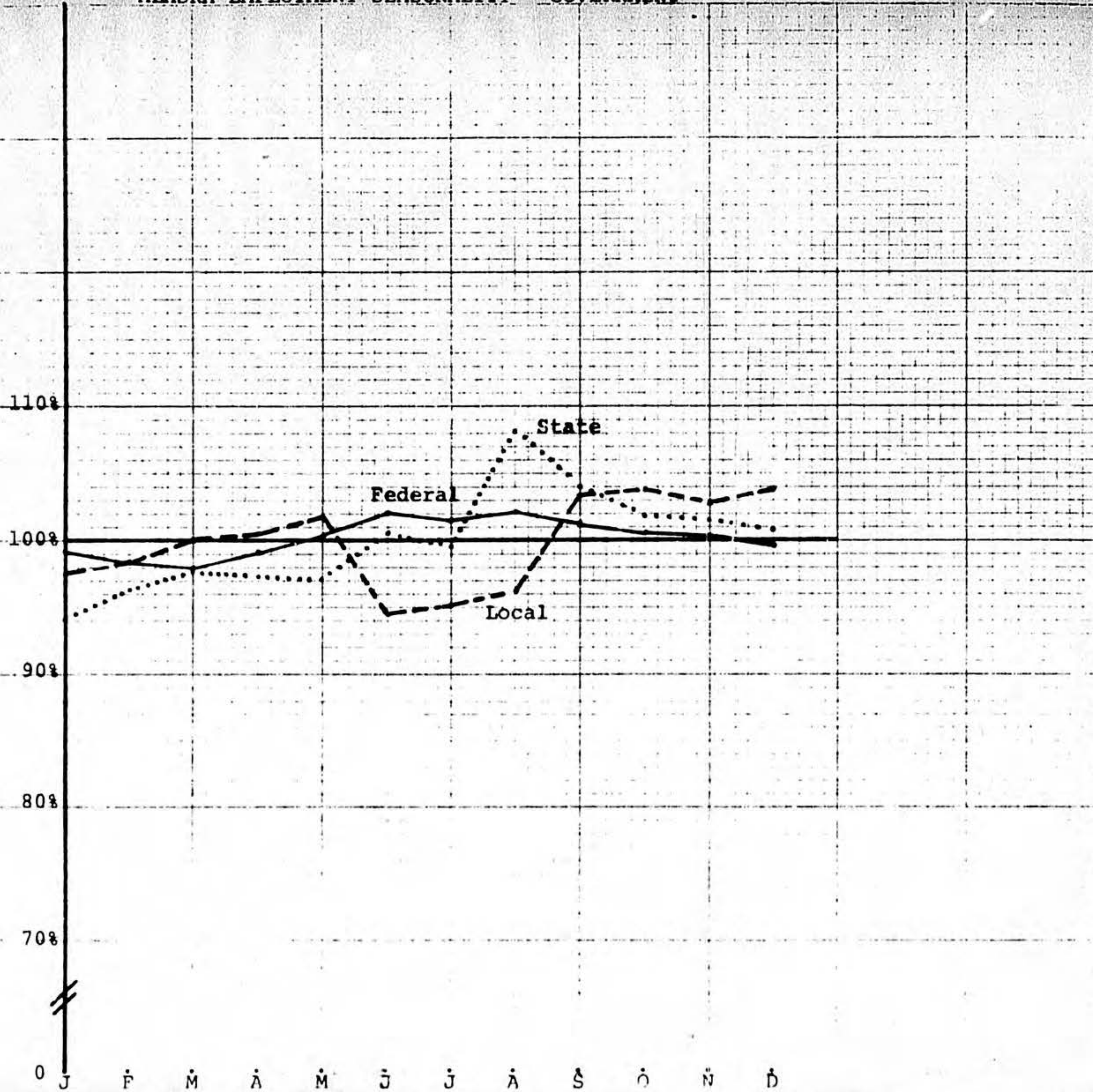
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES

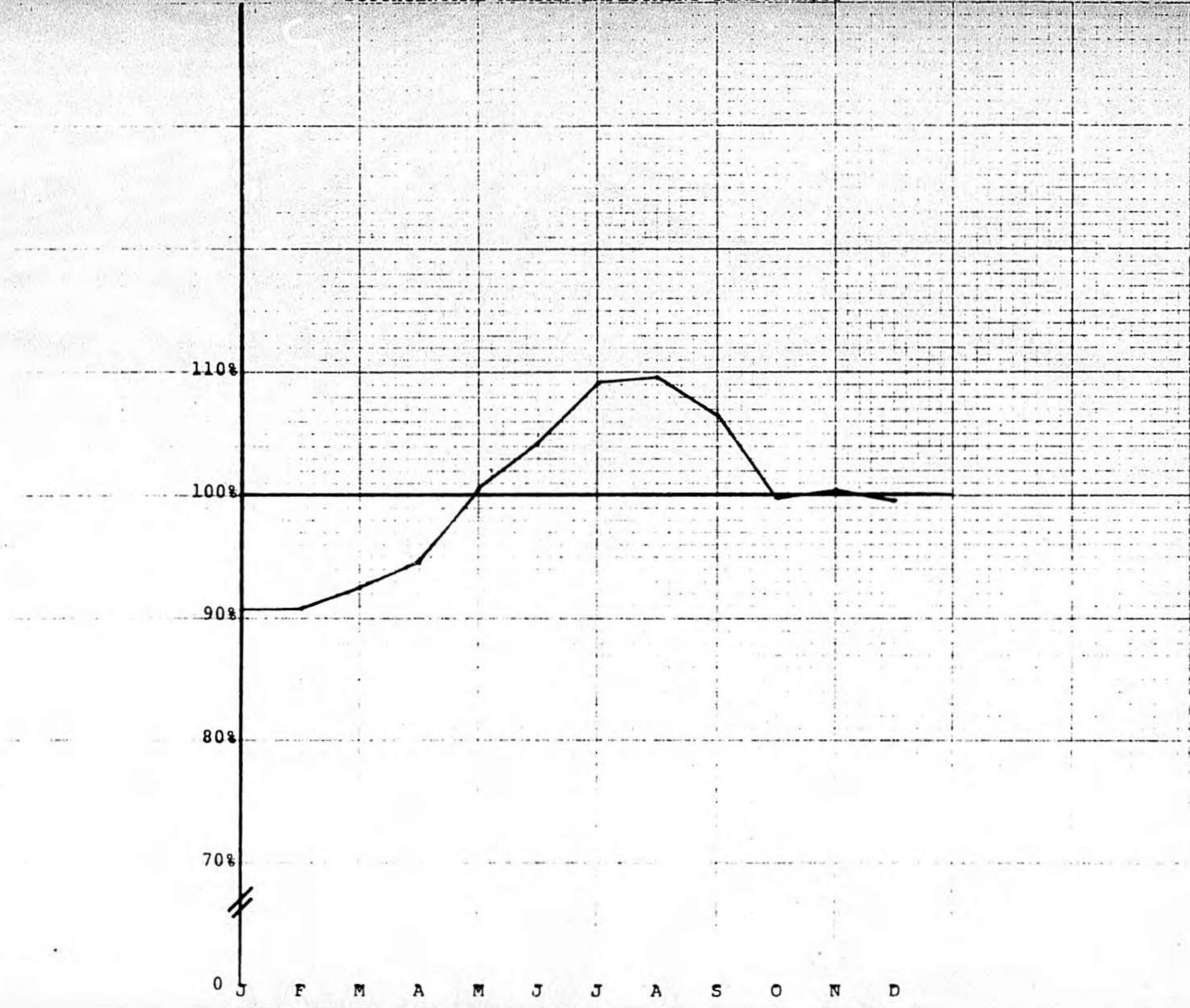


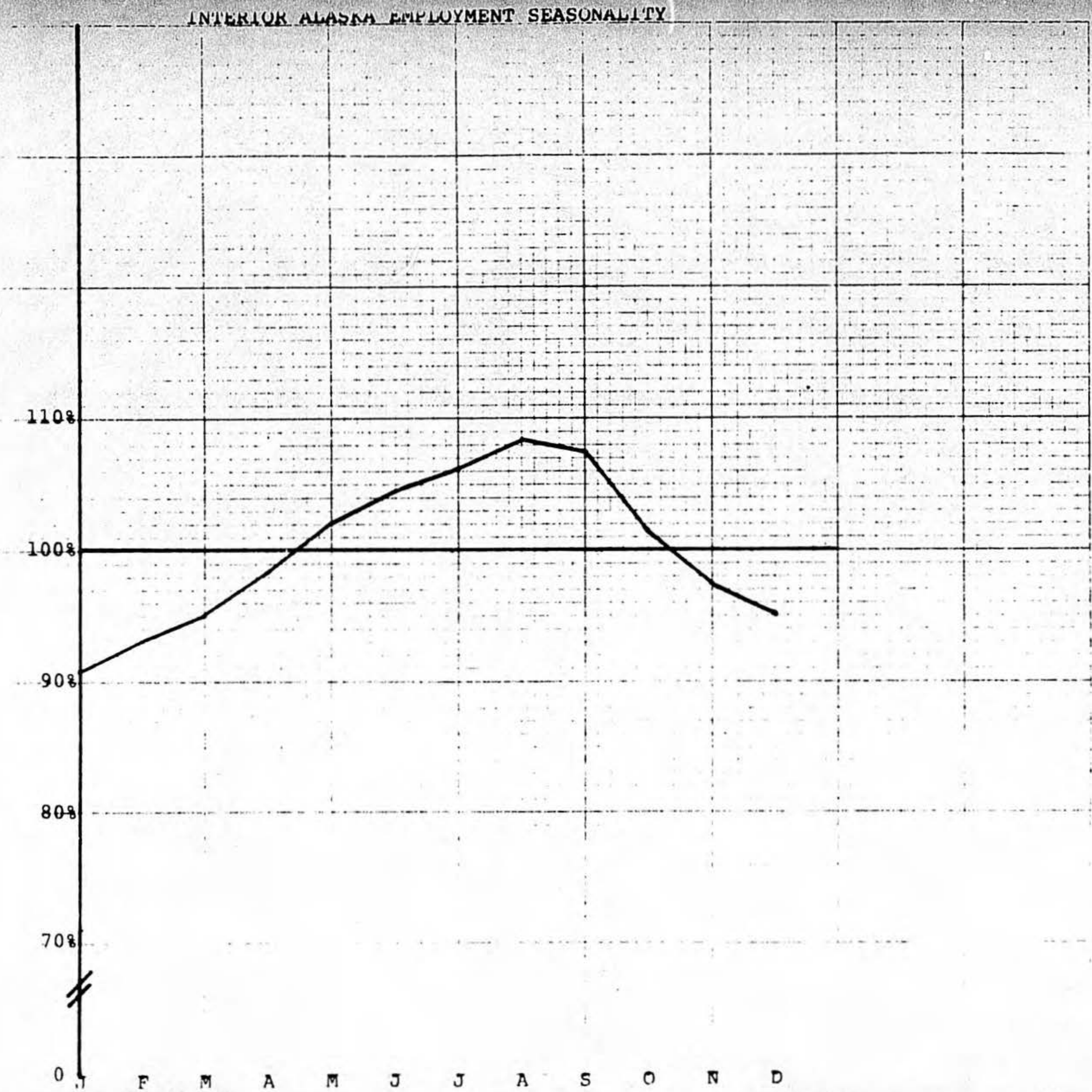

ALASKA EMPLOYMENT SEASONALITY
110%
100%
90%
80%
70%
0
J F M A M J J A S O N D

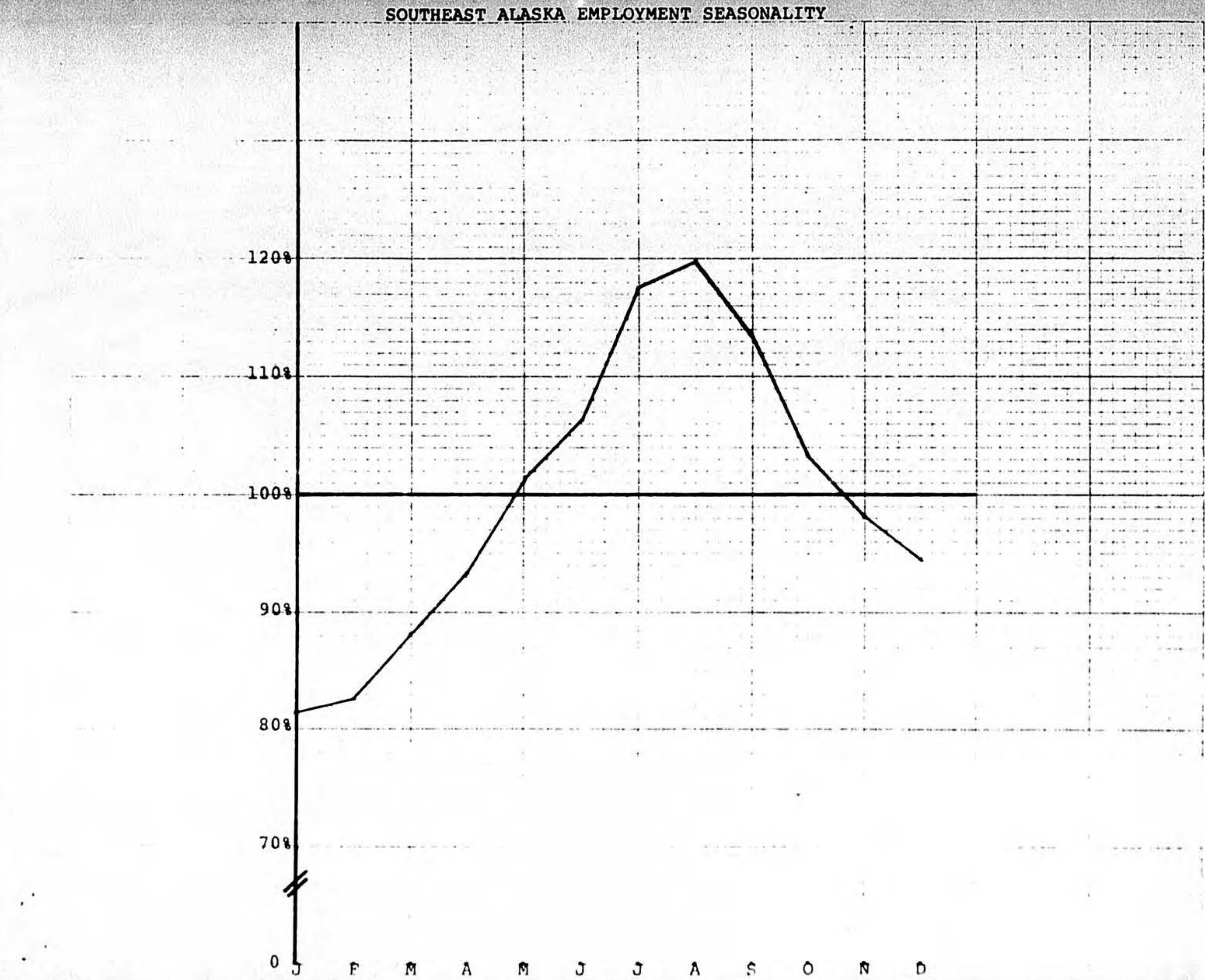
ALASKA EMPLOYMENT SEASONALITY - GOVERNMENT

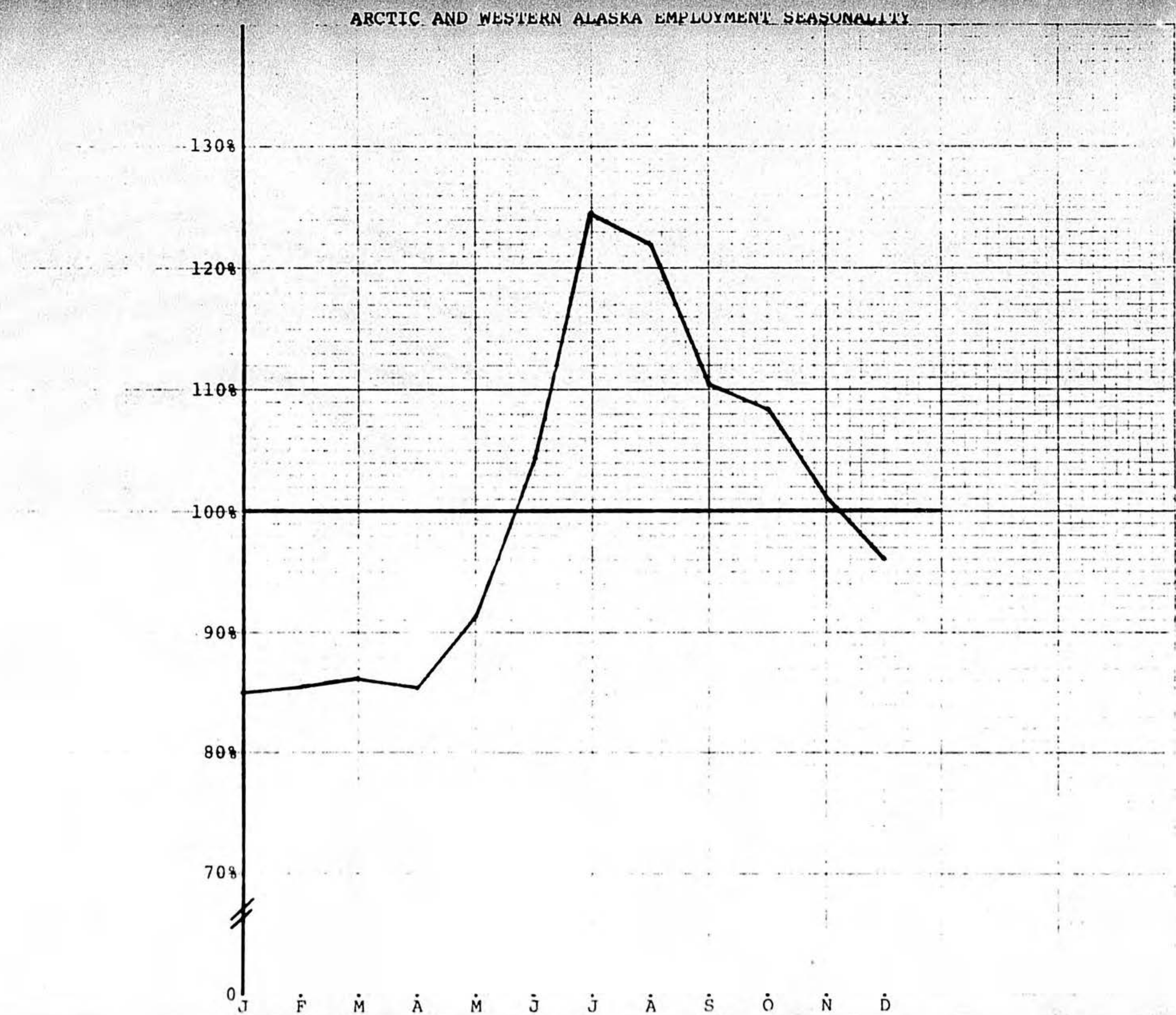


SOUTHCENTRAL ALASKA EMPLOYMENT SEASONALITY




INTERIOR ALASKA EMPLOYMENT SEASONALITY
110%
100%
90%
80%
70%
0
J F M A M J J A S O N D


SOUTHEAST ALASKA EMPLOYMENT SEASONALITY
120%
110%
100%
90%
80%
70%
0
J F M A M J J A S O N D



ARCTIC AND WESTERN ALASKA EMPLOYMENT SEASONALITY
130%
120%
110%
100%
90%
80%
70%
0
J
F
M
A
M
J
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COST OF LIVING
DIFFERENTIAL

Approximate cost of living differences between Anchorage, Alaska, and other cities are estimated below. Actual spending patterns for individual families, however, will vary in Alaska because of life style changes; therefore, the data below should be regarded solely as general approximates.

CITY	PER CENT MORE SPENT BY ANCHORAGE FAMILY
Atlanta	41%
Baton Rouge	38%
Boston	12%
Chicago	27%
Cleveland	28%
Dallas	37%
Denver	37%
Detroit	28%
Hartford	22%
Honolulu	10%
Houston	38%
Kansas City	33%
Los Angeles	29%
Minneapolis	34%
New York	14%
Philadelphia	28%
Portland, Maine	30%
San Francisco	22%
Seattle	25%
Washington, D.C.	29%
U.S. Urban Average	31%

Based on information supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

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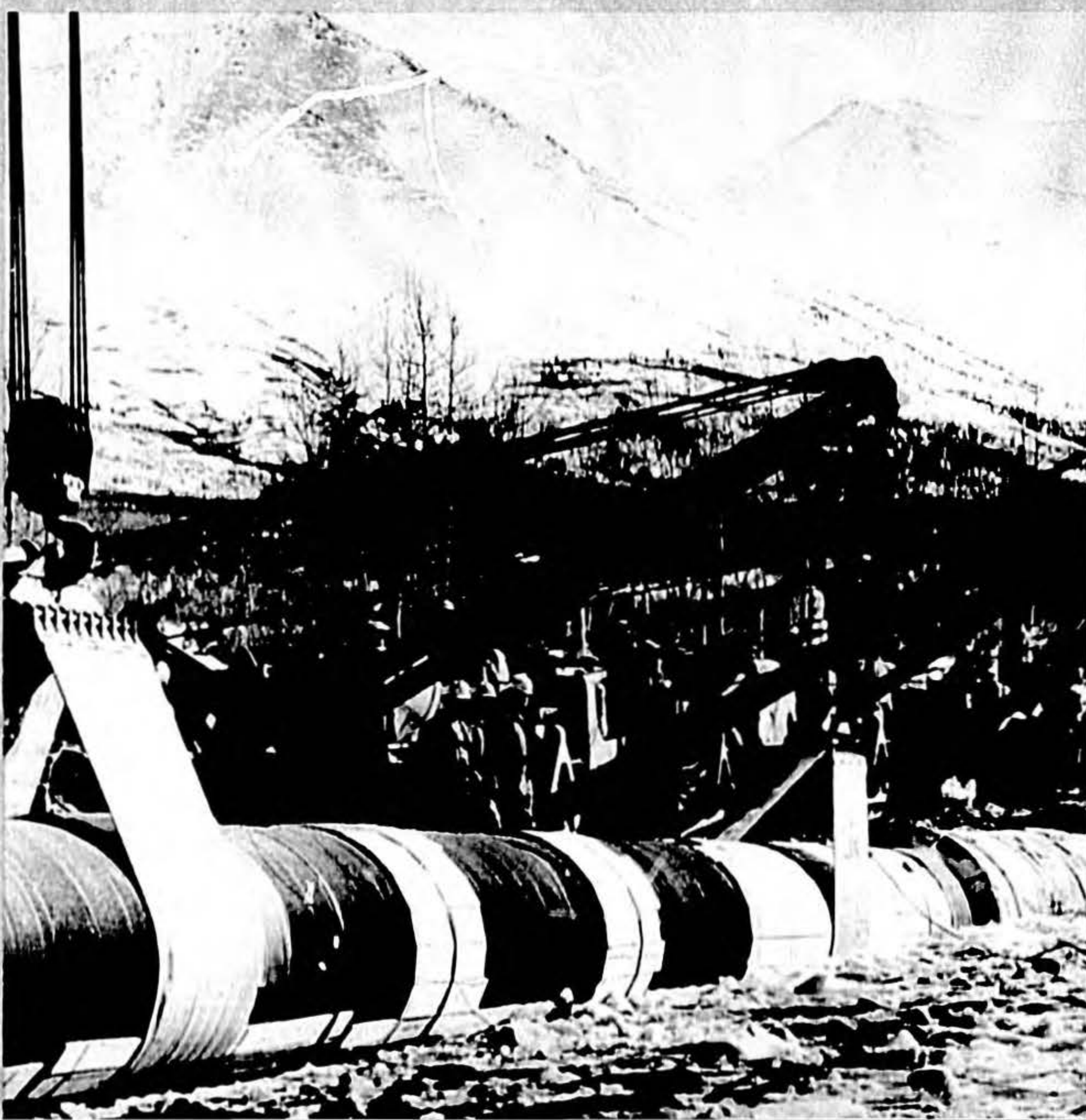
BUSINESS TRENDS

July 1976



NATIONAL AND INTERNATIONAL CONDITIONS AND EVENTS AFFECTING ALASKA'S ECONOMY ....

INDUSTRY REVIEW ....

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Construction ....

Fishing ....

Forest Products ....

Visitor Industry ....

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Interior ....

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Southeastern ....

A WORD ON 1977 ....

NATIONAL AND INTERNATIONAL CONDITIONS AND EVENTS AFFECTING ALASKA'S ECONOMY

U.S. ECONOMIC RECOVERY

Economic recovery in the "lower 48" is well under way, with the rise in real economic growth during the first half of the year surpassing expectations.

Nevertheless, despite its initial strength, the recovery has commenced to lose speed, and the economy is not yet back to pre-recession peaks. The unemployment rate in May stood at an unacceptable 7.3%, and U. S. manufacturing plants are operating at less than three-quarters capacity. Housing starts are up considerably from their eight-year low at the end of 1974, but still remain at an average annual rate of approximately 1.4 million starts. This is far below the annual rates in excess of two million units during the early 1970's.

Although slowing, the nation's economic advance remains strong. The mixed performance of various economic indicators reflects a switching in the sectors responsible for the expansion. Consumer spending, which led the advance during the first half of the year, is being replaced by business investment which is expected to provide the main impetus to growth during the second half.

INFLATION

Price increases abated considerably during most of the first half of the year, but shot up momentarily in May. During the first quarter the rate of inflation was about half as great as last year. Because the extremely low inflation rate of the first quarter was caused primarily by an actual temporary decline in food prices, and because wholesale prices are increasing at a fairly healthy clip, it is expected that the rate of inflation during the second half of the year will pick up somewhat, bringing the total increases in prices for the year to between 5% and 6%.

The rate of price increases in the U.S. in general is the major factor underlying the rate of inflation in Alaska. Accordingly, price rises in Alaska are expected to abate considerably this year to under 7% from last year's rate of 11%.

MONEY MARKETS: INTEREST RATES

A normal phenomenon in periods of economic recovery is rising short term interest rates as business loan demands pick up. After remaining at somewhat low levels longer than expected, short term rates rose strongly in May and June and should continue to rise, though moderately, through the end of the year.

Another factor underlying the upward movement of short term rates was a shift in Federal Reserve policy toward more restraint in increasing the money supply now that the economic recovery is well underway.

Short term rates are expected to increase by less than one percentage point by the end of the year. This means that the New York prime rate, which moved to 7% in July, ought to be about 8%. Although the outlook for short term rates is for a moderate upward trend, they can be expected to fluctuate somewhat during the second half of the year.

Long term rates are not expected to move significantly from their present levels. Increasing demands for long term funds should be offset by a lower inflation premium resulting from diminishing long run inflationary expectations.

As the rate of capacity utilization rises toward its optimum efficiency level of 90% there is reason to hope that the accompanying productivity increases will result in continuing moderating price increases.

Stable long term rates in general, accompanied by only moderate growth in housing starts, will likely result in mortgage rates remaining fairly stable throughout the end of the year. There is some hope for a downward drift in mortgage rates if inflation continues to moderate.

Investors will note that this forecast calls for a narrowing of the spread between long term and short term interest rates. This is consistent with the forecast of continued economic recovery and abating inflation.

JAPAN

After lagging behind the other industrialized countries, economic recovery in Japan now appears to have reached full steam. Industrial production was up nearly 12% during the first quarter of the year over the first quarter of 1975. This is good news to Alaska's fishing and forest products industries.

The Japanese Finance Ministry announced in June its intention to relax foreign exchange controls imposed during the 1973 oil crisis. The amount of foreign exchange a Japanese traveler can take out of the country will be doubled to $3,000. This should be a boost to Alaska's visitor industry which has seen only a trickle of Japanese following the heavy flows which reached an estimated 10,000 persons in 1972.

WORLD OIL

Strong economic recovery throughout the industrialized world is being accompanied by rising oil consumption. During the first quarter of this year oil consumption in the major industrial countries rose 4.1% from the first quarter of 1975. Note on the accompanying chart that, despite strong conservation measures and a rather severe recession, U. S. crude oil imports have continued to rise dramatically, tripling over the last five years.

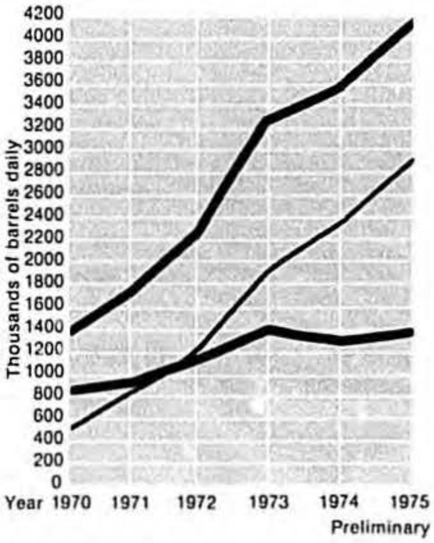
Despite this growing demand for oil, the Organization of Petroleum Exporting Countries refrained from raising prices at its three-day meeting in Bali, Indonesia, at the end of May. Therefore, the price likely will remain at $11.51 per barrel through at least the end of the year. The next regular session of OPEC is scheduled for December 15.

Oil is now flowing from the North Sea at nearly 200,000 barrels per day, and further development is proceeding strongly. This along with more aggressive exploration and development, particularly by Norway and the Soviet Union, and expanded incentives for tertiary recovery in the United States, at least raises the question of a possible "oversupply" by the early 1980's.

The world price of oil is of great significance to Alaska. If the President excludes Prudhoe Bay oil from administered pricing (which he has until April, 1977 to do), the price of our North Slope oil will vary with the market price. Under present oil and gas revenue statutes, a one dollar change in the price of oil means a change of nearly $100 million of revenue to the State of Alaska.

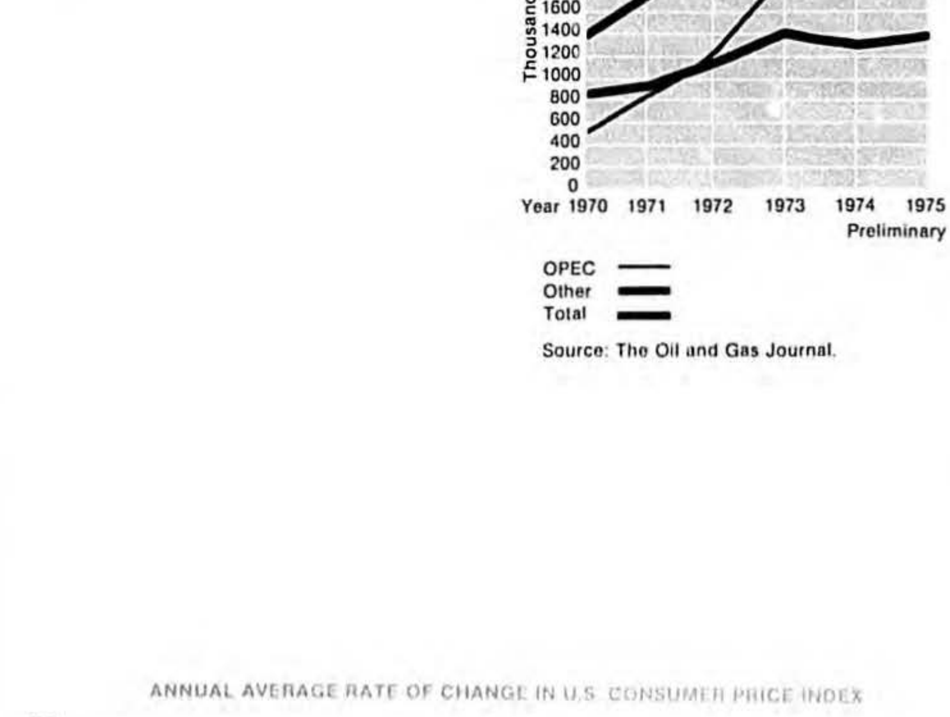
Virtually all of the national and international economic events of the first half of 1976 have been favorable to Alaska. The dominant forces throughout the industrialized world have been strong economic recovery and decelerating inflation.

U.S. CRUDE OIL IMPORTS BY ORIGIN



Source: The Oil and Gas Journal.

ANNUAL AVERAGE RATE OF CHANGE IN U.S. CONSUMER PRICE INDEX



Source: U.S. Department of Labor.

INDUSTRY REVIEW
Summary

Alaska's economic growth started the year on an extremely strong acceleration during the first quarter but, as the year has progressed, the initial signs of an anticipated growth deceleration have appeared very clearly.

During the first quarter employment in the state grew 20% faster than it did during the first quarter of last year, and personal income rose 53% faster than it did during the first quarter of 1975. Despite this initial exhuberance, certain lead indicators are unmistakably foreboding slower rates of growth for the year as a whole compared to last year's experience.

Individual income tax withholding collections in the first quarter grew half as fast as during the first quarter of 1975, and bank loans and deposits are growing only about three-fourths as fast as they did last year. Additionally, new construction contracts during the first five months registered virtually no gain over the same level of last year. Finally, State spending, a major factor in Alaska's economic activity, will increase in fiscal year 1977 at less than half the rate of its growth in fiscal year 1976.

The industry mix of Alaska's economic growth is particularly interesting with some rather dramatic changes from last year. This year the forest products and fishing industries are exhibiting considerably greater vibrance than last year. On the other hand, non-pipeline related construction, the visitor industry, retail and wholesale trade and state government spending, all of which contributed to last year's economic exhuberance, are registering either substantially slower rates of growth or absolute declines. Petroleum exploration and development and pipeline construction have been strong in both 1975 and 1976.

In Alaska's petroleum industry the year's major events include (1) development at Prudhoe Bay in anticipation of next year's production for which nearly 700 permanent employees are being hired, (2) the $572 million federal offshore lease sale in the northern Gulf of Alaska, (3) the entrance of a third applicant for permission to construct a gas pipeline to ship Prudhoe Bay natural gas to the "lower 48", (4) ground breaking for construction of an oil refinery at North Pole, (5) the State's reneging on $25 million of oil and gas leases in Kachemak Bay, (6) the Presidential order to transfer Navel Petroleum Reserve No. 4 from the Department of the

Navy to the Department of the Interior, and (7) stepped up oil and gas exploration activity by eight of Alaska's twelve Native corporations. Approximately twice as many wells are scheduled to be drilled in Alaska this year as last.

For the third year in a row the mammoth $7.7 billion trans-Alaska oil pipeline project is the dominant element in Alaska's construction industry. Non-pipeline related construction activity is rather lackluster this year, with new construction contract awards registering no growth and residential construction activity in Anchorage off 20%. The chief cause of the slowdown seems to be fewer public projects in light of tighter fiscal reins at both the state and federal levels and fewer private projects because of arrested population growth resulting from slower increases in government jobs and a peaking of the influx of families related to the pipeline project.

Alaska's fishing industry is reversing its mediocre performances of the past few years. Each of Alaska's major fisheries, salmon, halibut and shellfish, are experiencing both higher catch volumes and rising prices. As a result, fishermen throughout Alaska should enjoy a relatively good year.

As a result of strong economic recovery in both the United States and Japan, Alaska's forest products industry output is up considerably with first quarter lumber and cant exports rising 38% over first quarter 1975 levels. Despite this short-run favorable news, however, some events occurred during the first half of the year with serious unfavorable long-run implications: Champion International announced its abandonment of its plans for a pulp mill at Berners Bay, Ketchikan Pulp Company announced its intention to close its pulp mill by July 1, 1977, and the U.S. Forest Service announced its intention to limit future timber contracts to a maximum of 10 years.

Alaska's visitor industry, which has soared over the past few years, is showing signs of virtually negligible growth this year. Whereas business travel is up somewhat, the flow of tourists to the state appears to be off significantly. This has resulted from adverse publicity regarding the "pipeline boom" and competition from bicentennial related travel to the East.

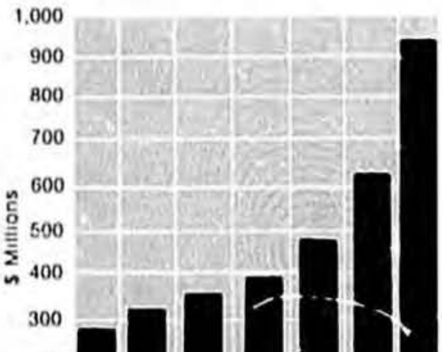
Alaska's distributive industries are registering a mixed performance, with the dominant theme being declines. The flow of freight to Alaska is off slightly this year. However, freight volumes last year were unusually great because of the transport of pipeline material and equipment. Retail sales in Anchorage and Fairbanks – particularly of durable goods – appear to be down somewhat from last year.

Reflecting an apparent concern over burgeoning "big government" throughout the country, spending increases by both federal and state government are moderating in Alaska. The State fiscal year 1977 budget recently signed into law by the Governor calls for a spending rise of less than half the rate of increase of fiscal year 1976. This abating activity in the public sector, which provides 39% of the employment in Alaska, is a major factor contributing to the generally slower rate of economic growth being experienced by Alaska this year.

The Alaska Native corporations have essentially completed their organizational efforts and are now turning their attention to long-run plans and investments oriented toward establishing and maintaining their economic viability. They have made major investments in existing Alaska operations of all types and are vigorously pursuing programs oriented toward resource development. Eight of the twelve regional corporations are actively engaged in oil and gas exploration.

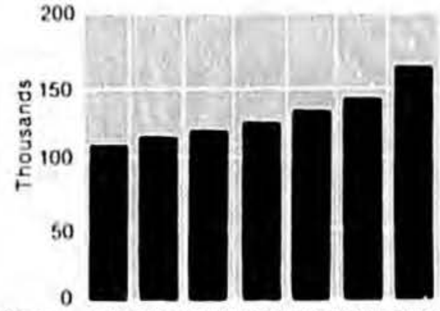
As of March 31, 1976, $283.1 million had been paid into the Alaska Native Fund, slightly less than one-third of the total required by the Alaska Native Claims Settlement Act of 1971. Conveyance of lands to the Native corporations is proceeding more slowly with less than one million acres of the total 40 million acres transferred.

FIRST QUARTER PERSONAL INCOME



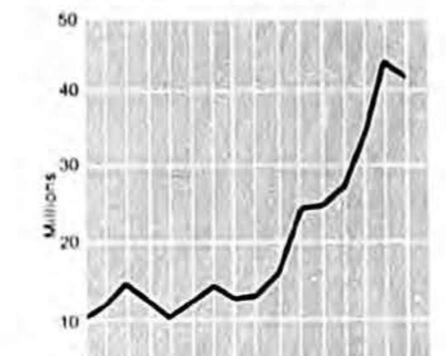
Source: Federal Reserve Bank of San Francisco and Business Week Magazine

AVERAGE FIRST QUARTER EMPLOYMENT
(Excludes Uniformed Military)



Source: State of Alaska Department of Labor

ALASKA INDIVIDUAL INCOME TAX WITHHOLDING COLLECTIONS



Source: State of Alaska Department of Revenue

The Anchorage economy is experiencing considerably slower growth than the state as a whole, with employment rising in the first quarter at half the rate of the statewide pace. Fairbanks experienced virtually no employment growth during the first quarter of the year over the same period in 1975. On the bright side, inflation is abating in Anchorage, coinciding with the national trend. In fact, price increases have been decelerating continuously since peaking in April of 1975 at the annual rate of 15.6%. During the year from April, 1975, to April, 1976, the Anchorage Consumer Price Index rose 7.8%. This suggests that price increases for the year 1976 ought to be slightly under 7%.

Making generalizations about Alaska's economy is particularly dangerous this year as the rates of growth and levels of activity relative to previous years vary considerably from industry to industry and region to region. Nevertheless, for the state as a whole, the general trend appears to be one of moderating growth.

Petroleum

The prime focus in Alaska's petroleum industry during the first half of the year includes (1) continued development at Prudhoe Bay in anticipation of next year's production and (2) the $572 million federal offshore lease sale in the northern Gulf of Alaska. Both of these important occurrences support the major contribution the petroleum industry is making toward Alaska's continued economic growth. Approximately twice as many wells are scheduled to be drilled in Alaska this year as last with about one-third to be wildcats and two-thirds to be development wells. About 150 development wells will be necessary to bring the volume through the trans-Alaska pipeline up to 1.2 million barrels per day by the end of 1977.

NORTH SLOPE

Currently on the North Slope ARCO and BP Alaska, the two operators, are preparing the field and production facilities required to accommodate the 1977 oil flow. This spring BP and ARCO began hiring the 680 permanent employees required for initial production of Prudhoe Bay oil.

GULF OF ALASKA

On April 13, the first Alaska Outer Continental Shelf oil and gas lease sale was held. The sale brought $571,871,586.92 in bonus bids on 81 of the 189 tracts offered. However, five bids were subsequently rejected as too low, bringing the net sale figure to $559.8 million. In terms of the number of tracts acquired, ARCO, Shell and Exxon were the big winners.

While the Gulf of Alaska is rated best by the industry for the entire United States in unexplored resource potential, it is also rated worst by the Council on Environmental Quality in terms of risk. This was one of the factors underlying the State of Alaska's opposition to the oil lease sale. The second reason was the State's desire for a share in the revenue from OCS activity. Congress has passed a ten-year, $1 billion impact loan program providing offshore impact aid for coastal states. The coastal communities of Yakutat, Seward, and Cordova are receiving considerable attention as support activity bases and are gearing up for an anticipated doubling or tripling of their small population levels. Nevertheless, it is expected that it will be four to ten years before any oil production will occur in the Gulf of Alaska.

FUTURE LEASE SALES

At the present time the Department of Interior is considering the following additional lease sales on the Outer Continental Shelf off Alaska: (1) 564 tracts in the western Gulf tentatively scheduled for December, 1976, but requested by Native groups to be delayed; (2) 152 tracts in the southern two-thirds of Cook Inlet for the winter of 1977; and (3) 299 tracts in the southeastern Bering Sea for sale in the fall of 1977, but reported to be postponed until 1978.

In anticipation of this last sale, ARCO is using the world's largest semisubmersible drilling rig this July for stratigraphic tests in the St. George Basin. This drilling is for the Continental Offshore Stratigraphic Test Group, a cooperative research venture open to all interested parties.

COOK INLET

This spring the Legislature voted to negotiate the repurchase of $25 million in oil and gas leases in Kachemak Bay and imposed a one-year moratorium on oil and gas exploration there. During this moratorium the State intends to reacquire the leases it sold in 1973 by negotiation or, if necessary, eminent domain. This legislative action was encouraged when the jackup drilling rig, George Ferris, became mired in 82 feet of clay. The legs of the rig were severed, and it is now being floated to the West Coast.

Elsewhere in Cook Inlet, Union Oil Company has contracted a Global Marine drill ship for exploratory drilling in the Redoubt Shoals area.

NATURAL GAS

The major event so far this year related to Alaska's natural gas was the emergence of a third proposed route for transporting Prudhoe Bay gas to the "lower 48." Northwest Pipeline Corporation of Salt Lake City announced its filing of an application with the Federal Power Commission for permission to construct a pipeline parallel to the trans-Alaska oil pipeline from Prudhoe Bay to approximately Fairbanks where it would turn east and follow the Alaska Highway into Canada, entering the United States through existing systems. This is the very route found most environmentally desirable by the staff of the FPC when evaluating the other two proposals by Alaskan Arctic Gas Study Company and El Paso Alaska Company.

Supporters of the El Paso trans-Alaska route have been advocating the State commit its royalty gas to that route. However, the State has not made any commitment of its North Slope royalty gas, although in April it sold its north Cook Inlet royalty gas to Alaska Pipeline Company for distribution to Anchorage and the north Kenai Peninsula. In June, the FPC began hearings on Pacific Alaska LNG's application to purchase the remaining uncommitted Cook Inlet gas reserves for liquefaction at a proposed $660 million plant at Kenai from which the gas would be shipped to California. A decision is not expected until early next year.

REFINING

Tesoro-Alaskan continues the expansion of its refinery at Nikiski. Some products from this refinery will be shipped the 68 miles to Anchorage through a new ten-inch common carrier pipeline now under construction. The line, which will cross under Turnagain Arm and cost approximately $19 million, is scheduled to be ready for use this fall.

In June, ground breaking ceremonies were held for Energy Company of Alaska's refinery at North Pole. The refinery, the first phase of which is expected to cost over $30 million, will use North Slope crude oil for the manufacture of a broad range of products for consumption in the Interior, except for asphalt which will be shipped to Anchorage.

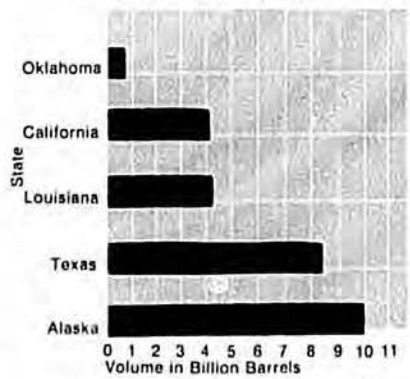
PET 4

This spring the President ordered the transfer of Naval Petroleum Reserve No. 4 from the Department of the Navy to the Department of Interior. This area will be called the National Petroleum Reserve in Alaska. Pet 4 has seen some exploratory drilling this year; however, of the first two wells, one was "noncommercial" and the other apparently was a dry hole. This winter should see drilling of five exploratory and two gas wells.

To summarize the current petroleum picture in Alaska: both development and exploration are strong this year. This results from five factors: (1) anticipated completion of the trans-Alaska pipeline next year; (2) the recent Gulf of Alaska lease sale; (3) several federal lease sales scheduled for offshore Alaska; (4) the Pet 4 program; and (5) exploration activity by the Native corporations. These elements not only underlie the present strength of the petroleum industry in Alaska, but also assure its continued healthy growth. Alaska's oil and gas potential is huge as indicated by the accompanying graph.

1975 VOLUME OF MAJOR OIL FIELDS

(Excludes the volume of oil in pools having an ultimate reserve of less than 100,000,000 barrels)



Source: The Oil and Gas Journal.

Construction

Alaska's construction industry is exhibiting less fervor this year than last. The trans-Alaska oil pipeline project is now over half completed, fewer government projects exist, and development in the private sector has slowed considerably.

TRANS-ALASKA OIL PIPELINE

Again this year the largest segment in Alaska's construction industry is the trans-Alaska oil pipeline project. Over half of the 7[illegible]-mile, $7.7 billion project has been completed, and oil is expected to flow in July of next year.

As the spring construction began, any army of machines and over 20,000 men and women were mobilized again to carry on this immense enterprise. The work force reached its maximum in May of this year instead of August as it did last year.

Although the pipeline welds have received considerable publicity and attention, virtually a negligible number of the 30,800 mainline field girth welds have been determined to be below standard.

HEAVY CONSTRUCTION

In non-pipeline construction work, activity has been predictably about the same level this year as last, with approximately $95 million in new contracts awarded during the first five months. This leveling of heavy construction activity results from a reduction in government contracts as well as a holding back in the private sector as developers anticipate a general slowing of the ecomony over the next two years. Nevertheless, some notable projects are underway including the Chena River Flood Control project, the federal building, and refinery and power plant near Fairbanks, and the federal building and highway projects in Anchorage. Highway construction should pick up as a result of more than $100 million in federal funds appropriated for Alaska.

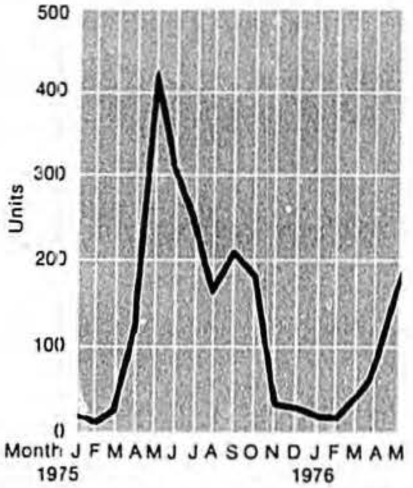
RESIDENTIAL CONSTRUCTION

Residential construction is off somewhat this year as a result of the subsiding influx of pipeline-related workers and government employees, the chief cause of Alaska's housing boom over the past two years. In Anchorage, residential building permit values were down 20% through May of this year. The accompanying graph reveals the lower level of building permits in Anchorage this year. Although the average selling price of houses listed with the Anchorage Multiple Listing Service had risen to $63,000 or 12.2% above last year during the first quarter, it is taking about a week longer to sell a house this year on the average.

Approximately 80% of the funds which finance Alaska homes come from outside the state. Consequently, an abundant supply of money has been available to Alaska's home buyers resulting from relatively low demand for mortgages in the other states combined with a heavy flow of funds into savings institutions. However, by May the savings inflow appeared to have leveled, and housing demand outside Alaska had picked up considerably. At the same time, the Federal Reserve adopted more monetary restraint causing rising short term rates, raising the specter of possible disintermediation. As a result, the mortgage money situation is tightening.

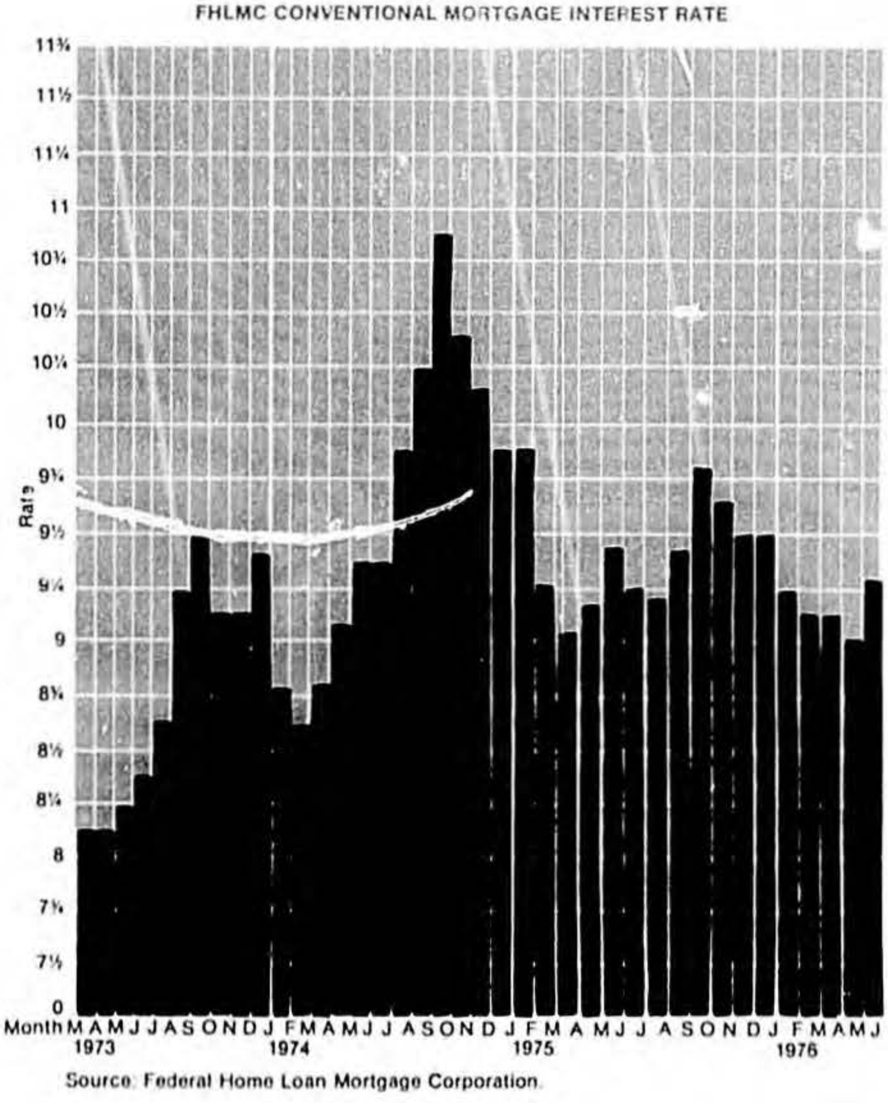
In the construction industry, Alaska's largest basic industry even when the pipeline workers are subtracted, activity depends largely on government spending and private development. Both are decelerating, creating a less than banner year for the non-pipeline related sector of this important industry.

ANCHORAGE AREA SINGLE FAMILY RESIDENTIAL BUILDING PERMITS



Source Department of Housing and Urban Development.

FHLMC CONVENTIONAL MORTGAGE INTEREST RATE



Source: Federal Home Loan Mortgage Corporation.

Fishing

Alaska's fishing industry, which has not fared well over the past few years, is expected to register a healthy performance this year. Both volume and prices are expected to be above the levels of last year.

SALMON

This year's salmon catch is predicted to total 37.8 million fish, about 50% above last year's level. This represents a continued upward climb from the 1971 low of 19 million fish. Nevertheless, it is an extremely low catch in the perspective of the 100 million fish harvests of the 1930's. The chart on the following page presents an historical view of Alaska's salmon harvests.

This year's improved catch will be reflected throughout Alaska except in Southeastern which has not yet recovered from floods and severe winters of a few years ago. Bristol Bay is expected to have another good return of red salmon, and Kodiak, where 320 salmon boats operate, should experience good pink runs. Prince William Sound is forecast to have improved volumes of both pink and chum salmon.

U.S. markets have faced low supplies of salmon resulting from the lower returns of the past few years, an adverse court decision affecting Washington trollers, and a long fishermen's strike in Cordova. This low supply, accompanied by rising demand based on higher discretionary spending throughout the United States, has brought about improved prices for salmon during the first half of this year. Prices should continue their upward movement into the second half of the year until the new pack starts to enter the market. The initial signs indicating extremely strong returns of salmon suggest that present market conditions could be reversed by fall, with possible price declines.

To help rebuild Alaska's failing salmon fisheries the State legislature approved this year a $200 million nonprofit hatchery loan bill and a $29 million bond proposal for State hatcheries.

SHELLFISH

Initial indications suggest that harvests of crab and shrimp should be excellent this year. Higher volumes are being accompanied by price increases for the same reasons salmon prices are rising. Kodiak, where about 90% of the seafood catch is shellfish, ranked eighth nationwide for commercial landings last year.

As indicated on the accompanying chart, shrimp and king crab comprise the major portion of Alaska's shellfish catch.

HALIBUT

The International Pacific Halibut Commission recommended placing the 1976 quota at the same level of last year's 25 million pounds for the area including Alaska. The increased landings last year appeared to suggest that healthy recovery of this resource is beginning, although landings are still down from the highs of the 1960's.

Identical to the situation facing salmon and shellfish, relatively short supplies of halibut accompanied by strong demand are resulting in price increases. Kodiak halibut fishermen have set prices with Seattle and Alaska processors at $1.29 per pound, 10 cents higher than last year's closing high of $1.19. Interestingly, halibut prices are now higher than those of certain small red and white salmon.

The rising demand for halibut reflects an increase in acceptability of bottomfish on the part of the American consumer. As a result, increasing numbers of Alaska fishermen are going after bottomfish. It is estimated that between two and five billion pounds of bottomfish are harvested from Alaska's continental shelf each year, almost all of which are caught by foreign fleets. In April, 179 Japanese and 147 Russian fishing vessels were sighted operating off Alaska's coast.

LIMITED ENTRY

Entry into Alaska commercial fisheries has been regulated for about a year and one-half. Although there has been no resolution of the mixed feelings regarding the somewhat controversial legislation, this November an initiative to repeal the limited entry law will be placed on the ballot.

As of April, about 6,700 limited entry permits had been issued from a total of 94,000 applications received. This wide discrepancy is somewhat misleading, however, for it is reported that only 14% of the eligible fishermen did not receive a permit. Nearly three-fourths of the permit holders are Alaskans.

Already some of the permits have been bought and sold with prices ranging from a low of $1,000 to a high of $11,035. The average price for drift gill net permits in Southeastern Alaska has been $9,100; for purse seine permits in Prince Willian Sound, $7,600; for gill net permits in Cook Inlet, $2,200; and for gill net permits in Bristol Bay, $1,000. In January, 1977, the State of Alaska will assess the buy-back prices as fishermen sell their permits back to the State. The acquired permits will be discontinued in order to limit gradually the number available in any particular fishery.

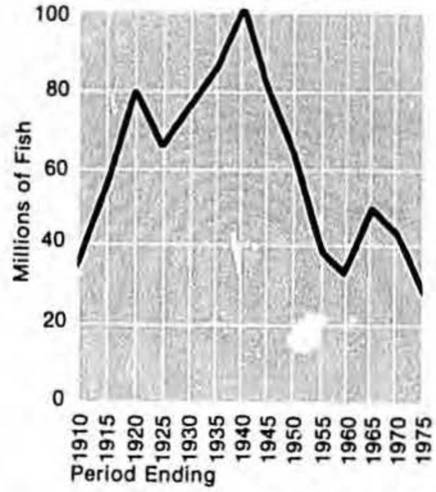
Alaska's limited entry law has been given credit for reducing the potential problems arising from the decision by Judge Boldt in Washington State giving 50% of that state's salmon harvest to the Indians. It was feared that this decision would result in a strong northern migration of Washington fishermen.

200-MILE LIMIT

On April 13, 1976, the President signed into the law the 200-nautical-mile exclusive fisheries conservation zone interim bill which will be in effect unilaterally until the United States signs a comprehensive Law of the Sea treaty. Enforcement is to commence on March 1, 1977. However, implementation of the law may not be possible by that date if certain existing fishing treaties between the United States and other countries have not been renegotiated. This law reflects concern over alleged overharvesting of Alaska fish by foreign vessels, particularly Japanese. A recent study in Japan estimated that nearly one-fifth of Japan's total seafood harvest comes from within the 200-mile zone off Alaska.

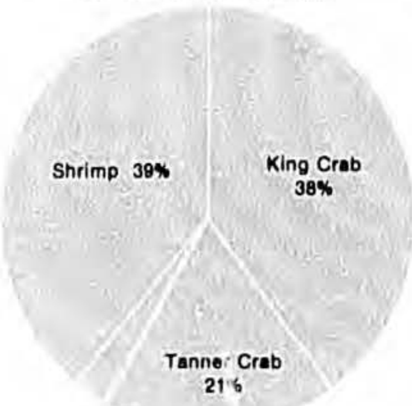
In general, it appears as if both the short run and long run outlooks for Alaska's fishing communities are brightening.

ALASKA COMMERCIAL SALMON HARVEST
Five Year Average 1906-1975



Source: Kramer, Chin & Mayo, Inc.

ALASKA SHELLFISH CATCH BY SPECIES
1974 and 1975 Average Mix



Scallops 0.2%
Dungeness Crab 2%

Source: State of Alaska Department of Fish and Game.

Forest Products

Despite some grave problems threatening the very existence of Alaska's forest products industry, this year's production levels and prices are reflecting improving market conditions in both the United States and Japan. First quarter lumber and cant exports from Alaska were 38% above the level of the first three months of last year.

The short run favorable news, however, is overshadowed by three unfavorable events: a court decision restricting clearcutting; severe environmental requirements threatening the continued operation of the Ketchikan Pulp Mill; and the announcement by Champion International to abandon plans for a pulp mill at Berners Bay.

CLEARCUTTING

In late December last year the U.S. District Court ruled to uphold the 1897 Organic Act which in effect forbids clearcutting as it is now practiced on portions of particular national forests. The case dealt with a distinct Alaska sale on northern Prince of Wales Island. Both the forest products industry and the U.S. Forest Service are displeased with the clearcutting ban as both agree clearcutting is the most appropriate silvicultural system in southeastern Alaska forests. This decision, if appealed and upheld, could upset the entire southeastern Alaska forest products industry. Unlike other regions in the U.S., where a significant portion of the commercial timber is on state and private lands, in Alaska 95% of the merchantable timber is on federal lands.

Currently the U. S. Senate is wrestling with this problem, endeavoring to reach a compromise between the Randolph Bill, which is highly environmentalist oriented, and the Humphrey Bill, which would take a considerably less restrictive approach toward clearcutting. Like many issues which have a great impact on Alaska's future, this matter will be decided in the halls of Congress.

ENVIRONMENTAL PROTECTION REQUIREMENTS

Both of Alaska's large southeastern pulp mills are facing strict requirements handed down by the Environmental Protection Agency. The Alaska Lumber and Pulp mill in Sitka has been required to install a multi-million dollar secondary waste water treatment facility which will add $37 per ton to the cost of producing pulp at that mill.

Ketchikan Pulp Company, which employs one-fourth of the job holders in the Ketchikan area, has announced its intention to close its pulp mill by July 1, 1977. This decision resulted from (1) an EPA requirement to add $32 million of investment in secondary waste treatment facilities; (2) uncertain future log supplies resulting from adverse court decisions regarding clearcutting; and (3) somewhat unfavorable market conditions. Following considerable testimony by Ketchikan residents at public hearings in that community, the EPA granted a delay in enforcement of the requirements until January 1, 1977.

PULP MILL PLANS ABANDONED

In another blow to the forest products industry, Champion International and the U.S. Forest Service have agreed to terminate their 50-year, 8.75 billion board feet contract. This was the largest timber contract consummated in the history of the Forest Service. After six years of vigorous litigation by the Sierra Club in federal courts, Champion asked to withdraw its bid. Additionally, portions of the contracted timber lands, which exceeded a million acres, qualify for selection by Native corporations within the Sealaska region under provisions of the 1971 Alaska Native Claims Settlement Act.

The U.S. Forest Service has imposed a moratorium on timber sales in Alaska for at least two years, pending completion of a land-use plan for the Tongass National Forest. Further, the U.S.F.S. recently announced a major policy decision which will alter substantially the very structure of Alaska's forest products industry. Future timber contracts will be limited to a maximum of ten years rather than 50 years. This means that firms interested in a major wood processing complex will be unable to obtain an assured supply of logs sufficient to justify a large operation. Accordingly, under present U.S.F.S. policy, any expansion of Alaska's forest products industries will be limited to relatively small mills.

Visitor Industry

Reports from throughout the state this spring indicate a very slow start to Alaska's tourist season. Initial indications suggest a possible drop-off in the number of visitors coming to Alaska this year with a significant number of package tours having been cancelled. Passenger traffic through the ALCAN Port of Entry decreased 12% in the first quarter of this year compared to the same period last year.

EXTERNAL FORCES

The cause of this year's reversal of recent climbing trends is twofold: (1) the adverse publicity given Alaska from dramatic stories in publications throughout the country on the "pipeline boom," and (2) competition from east-bound bicentennial travel by westerners who traditionally supply the major portion of Alaska visitors.

On the positive side, strong economic recovery in the U.S., accompanied by slowing inflation, is resulting in noticeable increases in real incomes. This means greater portions of family incomes going to discretionary expenditures such as travel. Throughout the country airline travel is expected to rise 6% and the number of Americans taking cruises is forecast to increase about 9%. At Anchorage and Fairbanks International Airports, air passenger traffic topped three million last year, registering almost one million during the third quarter. This year, combined Fairbanks and Anchorage air passenger traffic is running about 14% ahead of last year.

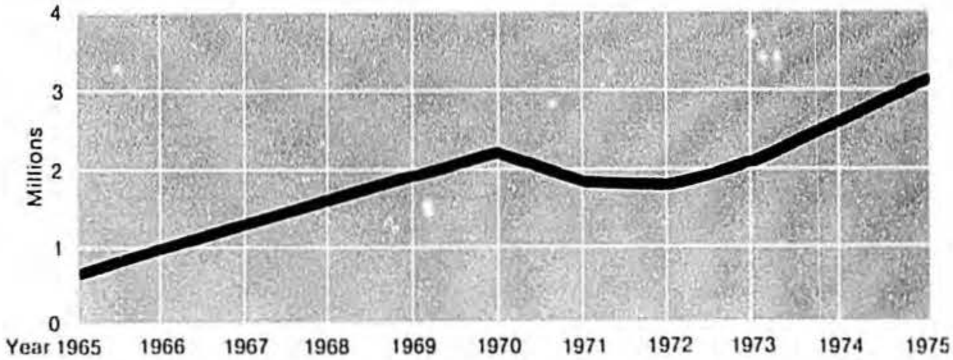
The net result of this combination of positive and negative factors, as estimated by the Alaska Visitors Association, is that approximately 300,000 tourists should visit our state this year.

LEGISLATION

Congress has authorized the Klondike Gold Rush National Historic Park with Skagway, the Chilkoot Trail, and White Pass Sections in Alaska. In Canada, proposed maritime legislation could halt round-trip visitor travel between Whitehorse and southeastern Alaska beginning next season.

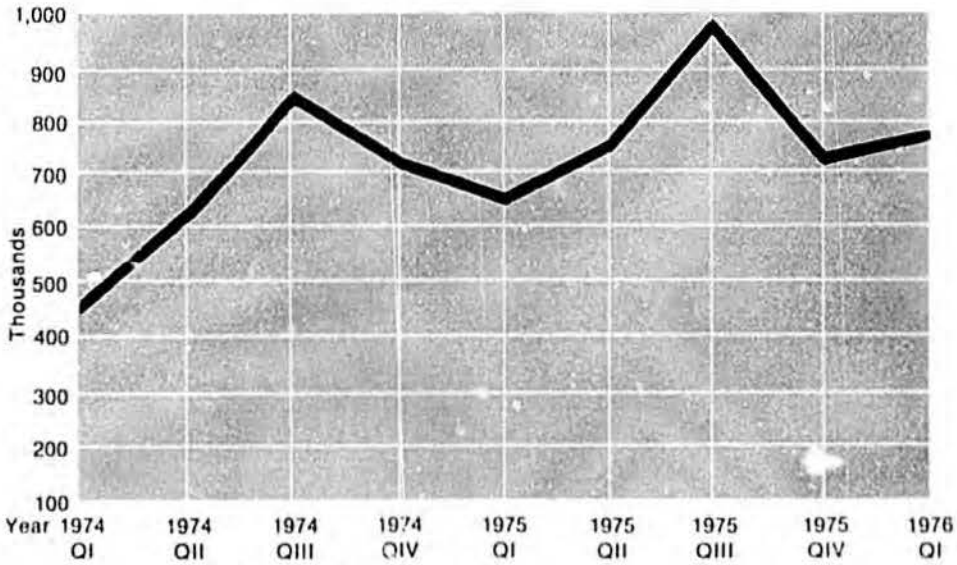
This year's lackluster tourist season is expected to be simply a momentary interruption in a longer term escalating trend. A recent NATIONAL GEOGRAPHIC Magazine poll revealed Alaska is the place readers most want to know about. Additionally, the Superintendent of Mount McKinley National Park has reported receiving twice as many inquiries this year as last. Finally, the flow of Japanese tourists is expected to resume next year when foreign exchange restrictions are reduced by the Japanese government.

TOTAL PASSENGERS AT ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS



Source: State of Alaska Division of Aviation.

SEASONAL PATTERN OF PASSENGER TRAFFIC AT ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS



Source: State of Alaska Division of Aviation.

Distributive Industries

In general, the trade and service industries which support the basic industries and government sector in Alaska are exhibiting decelerating rates of growth.

RETAIL AND WHOLESALE TRADE

Retail sales in Anchorage and Fairbanks are showing less exhuberance than last year. Reports from retailers in both communities suggest that purchases of consumer durables during the first half of the year were down somewhat from the same period last year.

Reflecting the overall deceleration of the state's economic growth, the increase in bank loans and deposits slowed during the first quarter. This year's first quarter loan levels were 16.2% above those of 1975 which had increased 22.4% over those of 1974. Deposits exhibited a similar pattern, increasing 17.3% from the first quarter of 1975 to the first quarter of 1976, compared to a 23.0% increase from the first quarter of 1974 to the first quarter of 1975. This deceleration in the rate of growth of loans and deposits is expected to continue throughout the year.

In 1969, the year of the Prudhoe Bay lease sale, and in 1974, startup of trans-Alaska pipeline construction, the annual average rate of change in Alaska bank deposits increased dramatically, as revealed by the graph on page 12.

The ability of Alaska borrowers to compete for funds was aided this spring when the Legislature amended the State's usury law to change the floating formula for maximum rates on loans under $100,000 to five percentage points above the federal discount rate for one to four family residential loans and 5½ percentage points above the discount rate for commercial loans.

TRANSPORTATION

Of great significance as an indicator of general economic trends in Alaska, 1976 marked a reversal in the flow of household goods to and from Alaska, with outbound volume exceeding inbound volume.

The flow of air freight to Alaska is off this year. From the first quarter of last year to the first quarter of this year air freight volumes in Anchorage and Fairbanks decreased 31.4% compared to the 85.5% increase of the previous year. (See the accompanying graph.) The first half of the year saw numerous applications for route authorities presented to the Civil Aeronautics Board by airlines serving Alaska. Western Airlines applied for nonstop service between Anchorage and San Francisco and to resume service to southeastern Alaska. Wien Air Alaska also has applied for an exemption with the CAB to serve Ketchikan and Seattle. Alaska Airlines added an additional two round-trip flights between Seattle-Anchorage-Fairbanks.

Rail freight fell also during the first quarter of the year compared to the same period in 1975, decreasing 0.4%. This almost 500,000-ton level is, nonetheless, 26.8% above 1974's first quarter, as depicted on the chart on page 12. It should be kept in mind that the Alaska Railroad was used heavily for transport of oil pipeline material and equipment. Therefore, this data is highly biased by the fact that pipeline construction has passed the halfway point.

The Alaska Railroad, one of two federally owned railroads, has ordered 212 additional flat cars and hopper cars to update the rail fleet this year at an approximate cost of $3.7 million. Also, a $152,000 spur from Palmer to the Palmer Industrial Park is planned for summer operation.

Sun Shipbuilding's second large roll-on-roll-off trailership started service this summer. Totem Ocean Trailer Express, the operator, has moved its southern terminus from Seattle to Tacoma where it will create about 240 dock jobs. This resulted from the Seattle longshoremen's refusal to take a manpower training program which TOTE requested to speed up ship loading time.

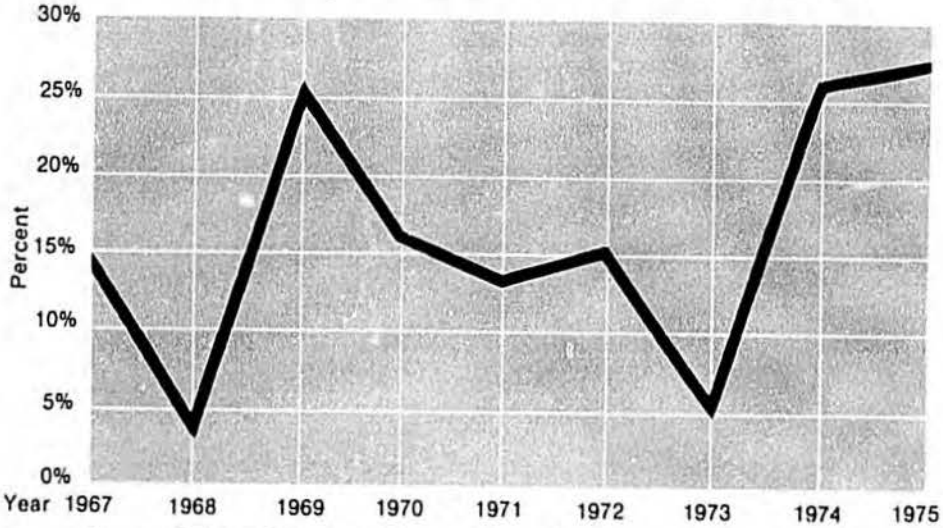
In anticipation of heavy tanker traffic between Valdez and the West Coast commencing next year, the Alaska State Legislature passed a law requiring sophisticated navigational radar and anti-collision systems along with heavy assessments for not providing double bottoms, segregated ballast tanks, and explosion deterrents. One obvious result of these new requirements, some of which are believed to be counterproductive, is to increase the cost of fuel to American consumers.

Construction has begun on the three LORAN-C radio navigation systems which will assist ocean tankers traveling between California and Alaska. Total cost for the three Alaska stations near Ketchikan, Tok, and Kodiak Island is $14.2 million.

TOTAL AIR FREIGHT THROUGH ANCHORAGE AND FAIRBANKS INTERNATIONAL AIRPORTS

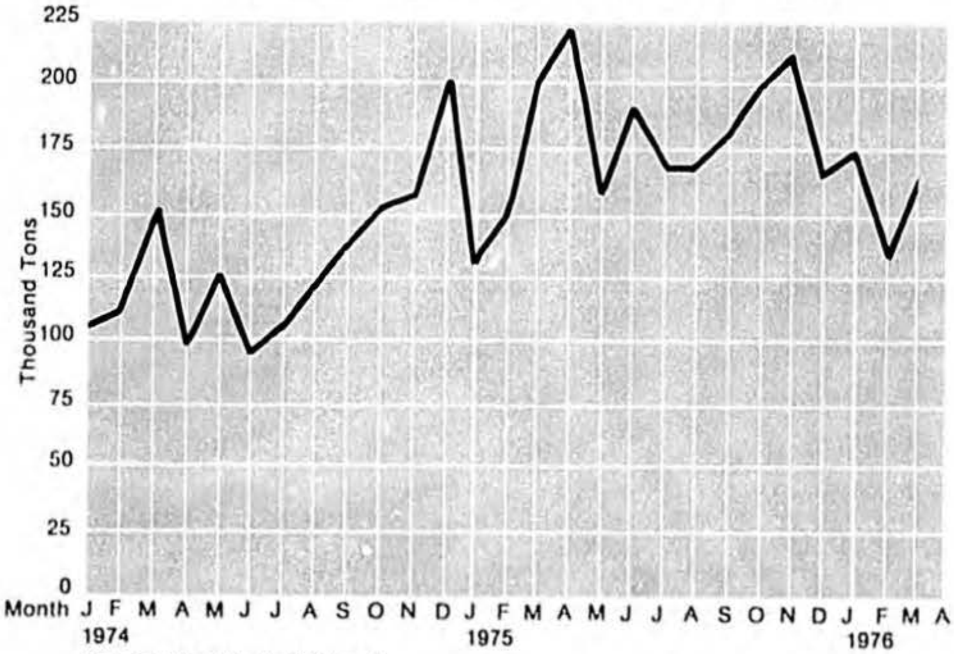
Source: State of Alaska Division of Aviation.

ANNUAL AVERAGE RATE OF CHANGE IN ALASKA BANK DEPOSITS



Source: Federal Reserve Bank of San Francisco.

TOTAL TONNAGE HAULED BY THE ALASKA RAILROAD



Source: The Alaska Railroad.

COMMUNICATIONS AND POWER

RCA Alaska Communications has completed two more major satellite ground facilities. These combine with six others to link all of southeastern Alaska for the first time into one civilian communications system. In June, RCA Alascom announced construction plans for 50 satellite earth stations in rural communities this year.

In February, the Governor's special task force recommended that the Watana and Devil Canyon hydroelectric projects were feasible. The project as currently proposed calls for the first dam to be completed in 1986.

Preliminary work will begin this summer on a study for the Federal Energy Research and Development Administration of Cook Inlet tides as a source of electrical power.

Government

Government spending continues to be the underpinning of Alaska's economy. Federal, state and local government, which provide 39% of the jobs in Alaska, are continuing their massive swell.

STATE

The State's Fiscal Year 1976 spending, which ended on June 30, is estimated to be nearly 30% greater than that of Fiscal Year 1975. The Fiscal Year 1977 budget which commenced on July 1, calls for approximately a 13% increase in the level of spending over that of Fiscal Year 1976.

The current level of State spending is seven times greater than it was immediately prior to the 1969 Prudhoe Bay lease sale. In the three years from Fiscal Year 1974 to Fiscal Year 1977, State spending has doubled. Today, while Alaska's per capita personal income is only about one-fourth greater than the U.S. average, the State of Alaska on a per capita basis spends nearly four times as much as the average state and employs three times as many people as the average state.

As indicated in the table below, the petroleum industry presently pays for over half the spending by the State of Alaska. Note that this is before any production from Prudhoe Bay.

FEDERAL

Although state government has been the most rapidly growing part of the public sector, federal government is by far the largest. The United States Government provides nearly one-fourth of the jobs in Alaska and is responsible for one-fifth of Alaska's gross state product. Despite recent military cutbacks, total federal spending has continued to increase because of substantial growth in civilian federal employment. The Department of Interior has expanded considerably to perform the necessary functions associated with accelerated oil and gas lease sales in Alaska and broader resource management responsibilities.

LOCAL

On the local government scene, Anchorage voters in April rejected 10 of 13 bond issues for a wide variety of public projects. It would seem that the State bond issues totaling approximately $236 million, which are to be voted on next November, might be in jeopardy.

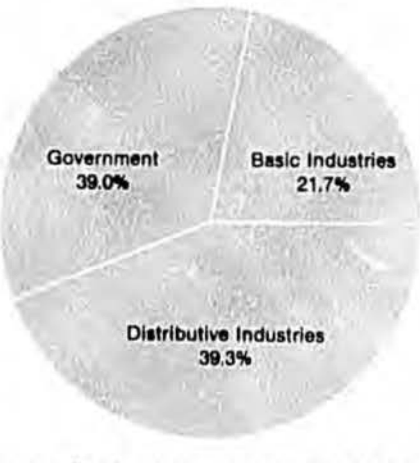
STATE OF ALASKA ESTIMATED REVENUE SOURCES
FISCAL YEAR 1977

Source	Amount ($ Millions)	Portion
Petroleum-Related Sources		
Reserves Tax	$ 260	37.2%
Royalties, severence tax, property tax, etc.	$ 155	22.1%
SUBTOTAL	$ 415	59.3%
Other Sources		
Income Taxes	$ 145	20.7%
Other taxes, fees, etc.	$ 140	20.0%
TOTAL	$ 700	100.0%

REGIONAL SUMMARY

The Southcentral and Interior regions, which provide over three-fourths of Alaska's gross state product (see accompanying chart), have exhibited rather sluggish economic growth in 1976 relative to the past two years. On the other hand, the Arctic with its stepped up oil and gas exploration and development, Western Alaska with its improved fishing industry, and Southeastern Alaska with substantial production increases in the forest products industry are experiencing strong, healthy economic activity.

EMPLOYMENT MIX
ALASKA



Source: State of Alaska, Department of Labor

SOUTHCENTRAL

Anchorage, with about half of the population and nearly half of the jobs in Alaska, is the state's commercial and financial center. It therefore reflects the general tone of the state's economy. During the first quarter of the year the employment growth rate fell to half the rate of the same period last year. Reflecting the slowing population influx, Anchorage school enrollment during the first quarter was less than 1% greater than the first quarter of 1975.

The Anchorage housing market is considerably weaker this year than last. The low sales to listings ratio of homes selling above $70,000 implies a rather serious accumulation of inventory. Currently it takes approximately one week longer to sell a home than at this time last year.

Responding to this weakening demand situation, Anchorage home builders have exercised admirable restraint. The value of residential building permits through the first five months of the year were down 20% from the same period last year. This holding back by builders, accompanied by a significant influx of permanent petroleum related personnel, suggests that the Anchorage home market could strengthen somewhat this fall. However, further weakening is anticipated next year.

In May one of the city's two hospitals opened a new $26 million addition which augments the health care facilities available and emphasizes Anchorage's roll as a major support and service area for the entire state.

Inflation has cooled off in Anchorage, reflecting a national trend. As suggested by the graph on page 16, consumer prices in Anchorage ought to rise about 7% this year.

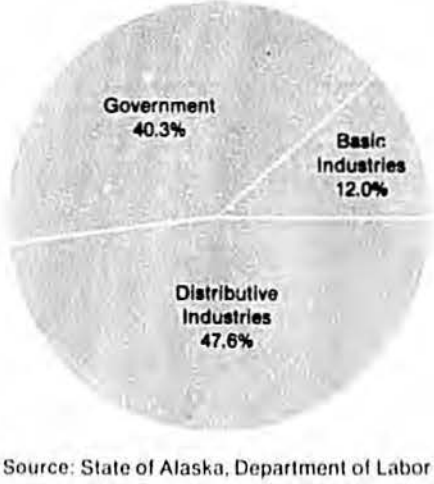
Much of the growth from Anchorage is spreading north into the Matanuska Valley. Both permanent and residential land sales have been soaring at a pace similar to recent "land booms" in the southern United States. Bids on recent land sales by the Matanuska-Susitna Bureau are running 50% to 100% higher this year than last. The dominant participant in recent land auctions has been Calista Corporation, a western Alaska regional Native corporation with administrative offices in Anchorage.

The Matanuska-Susitna Borough is the site of all three proposed new state capitol sites, one of which will be selected by the Alaska voters in November. The Palmer Industrial Park will house new acetylene and air separation plants for the production of oxygen in its gaseous and liquid form for distribution throughout Alaska.

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a $660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a $6 million barite grinding mill for drilling mud used in off-shore oil and gas exploration. Also in connection with anticipated OCS exploration in the Gulf of Alaska the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

Elsewhere in Southcentral Alaska, a recent land trade which would have given Cook Inlet Region, Inc. valuable state coal lands in the Beluga area was declared illegal in Superior Court.

EMPLOYMENT MIX
ANCHORAGE



Source: State of Alaska, Department of Labor

INTERIOR

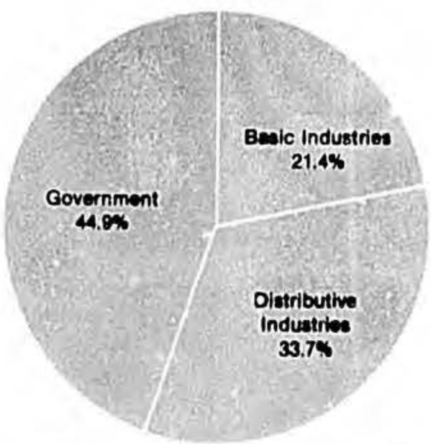
The Fairbanks area has registered virtually no employment growth this year, and sellers of both consumer goods and business, industrial and construction equipment report rather poor sales.

Similar to the Anchorage situation, the Fairbanks housing market is weakening. In May there were approximately 2½ times as many units available for rent as May, 1975. Rapid price increases appear to have abated, with some price declines being reported.

Nevertheless, economic activity in the Fairbanks area remains strong. Work continues on the $120 million Chena River Flood Control project with a $1.4 million contract for levy construction let in April. In June, the Fairbanks Community Hospital announced its intention to break ground for a $4 to $5 million expansion.

As stated in the discussion of the petroleum industry, Energy Company of Alaska broke ground in June for construction of the first phase of a refinery at North Pole. This project will not only create jobs but will provide lower cost petroleum products to Interior Alaska.

EMPLOYMENT MIX
FAIRBANKS



Source: State of Alaska, Department of Labor

ARCTIC AND WESTERN

The Arctic and Western regions of Alaska are enjoying relatively strong economic activity this year. Development at Prudhoe Bay and oil and gas exploration in Pet 4, accompanied by investment activity of the Arctic Slope Regional Corporation, are contributing to a vigorous economy in the Alaska Arctic.

Similarly, oil and gas exploration and construction projects of the NANA, Bering Straits, Calista, and Bristol Bay Native corporations, accompanied by another good return of salmon, suggests a relatively satisfactory year for Western Alaska.

SOUTHEASTERN ALASKA

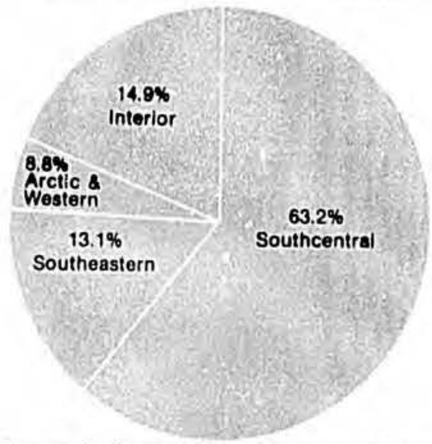
Higher prices for fish and timber products underlie a strong economy in Southeastern Alaska this year. Southeastern's major basic industries are fishing, forest products and tourism. Accordingly, the reader's attention is directed to these sections in the preceding discussion of Alaska's industries.

Offsetting somewhat the favorable prices, the return of salmon to Southeastern Alaska is expected to be relatively poor, having not yet recovered from flood damage to spawning grounds and severe winters of a few years ago.

Both prices and output volumes are up considerably in the forest products industry, responding to healthy economic recovery in Japan.

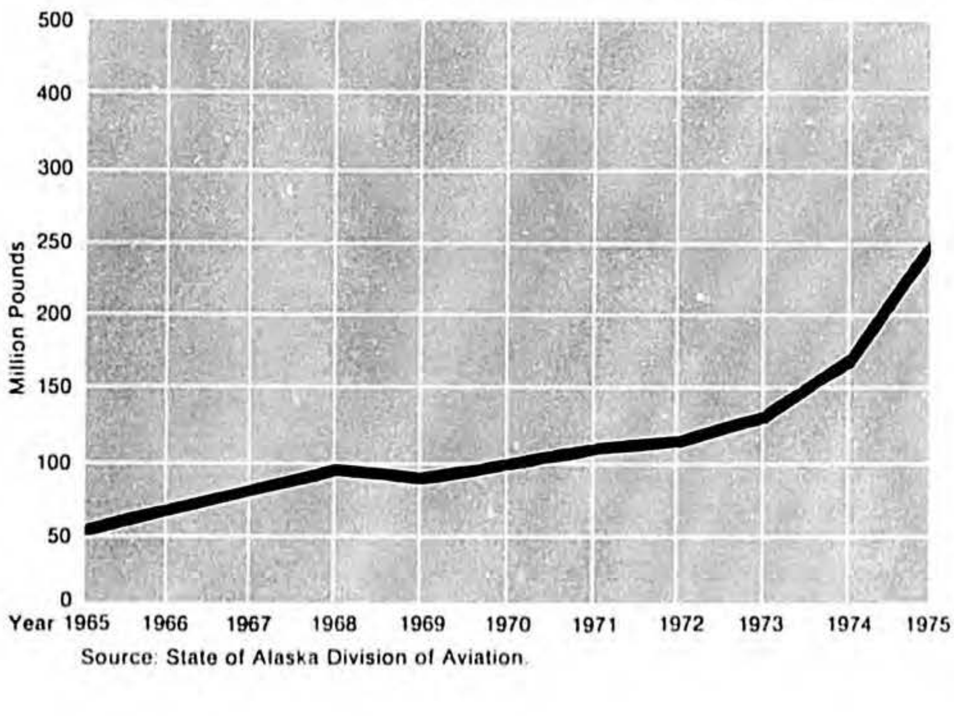
On the other hand, the visitor industry in Southeastern Alaska is reported to be registering a rather mediocre performance when compared to previous years' growth rates.

GROSS STATE PRODUCT BY REGION



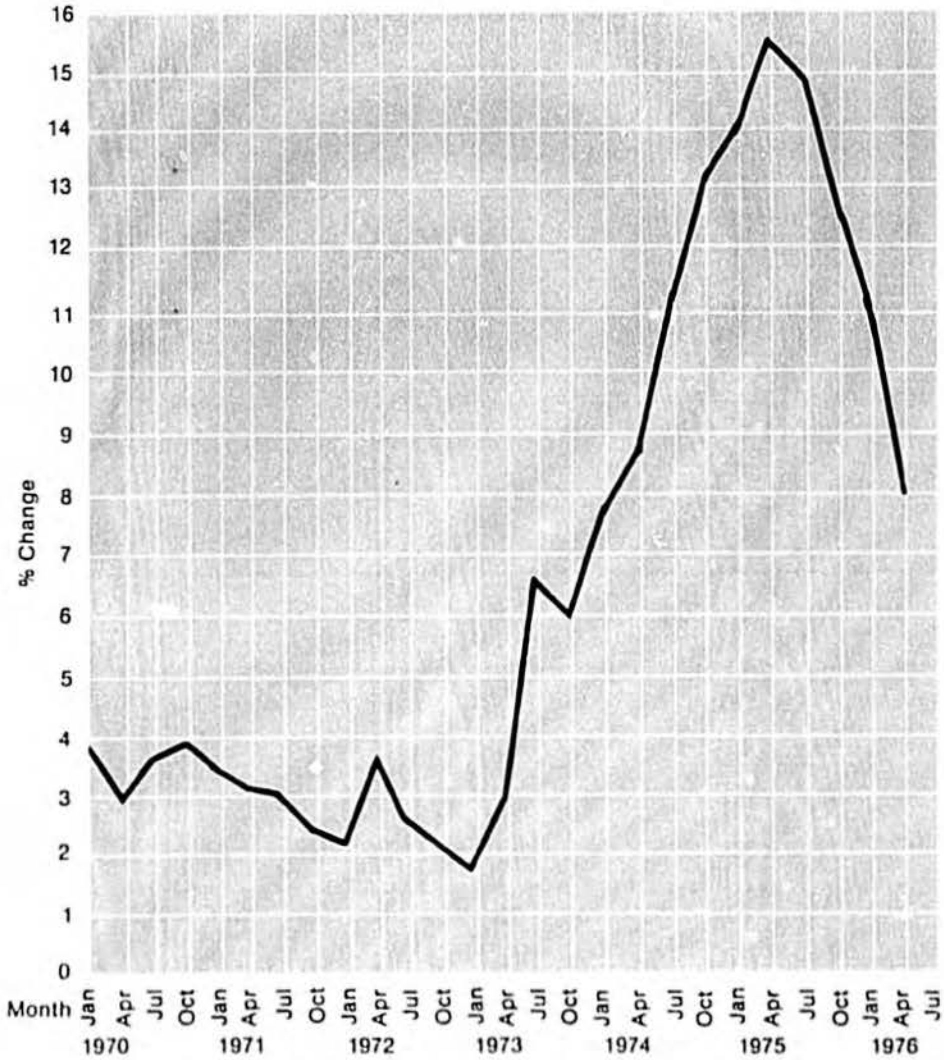
Source: Institute of Social, Economic and Government Research, University of Alaska.

AIR FREIGHT THROUGH ANCHORAGE INTERNATIONAL AIRPORT



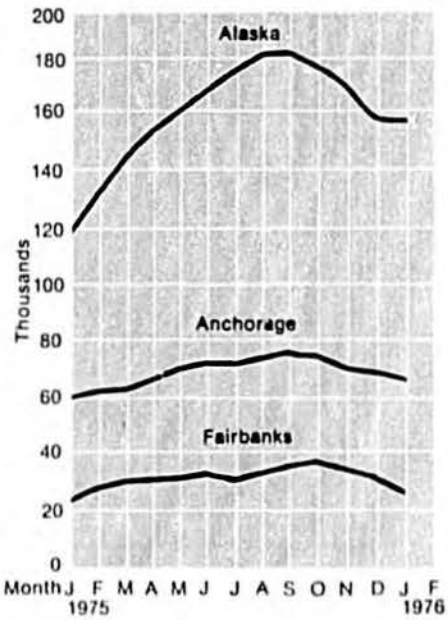
Source: State of Alaska Division of Aviation

RATE OF CHANGE IN ANCHORAGE CONSUMER PRICE INDEX
(% Change From Previous Year)



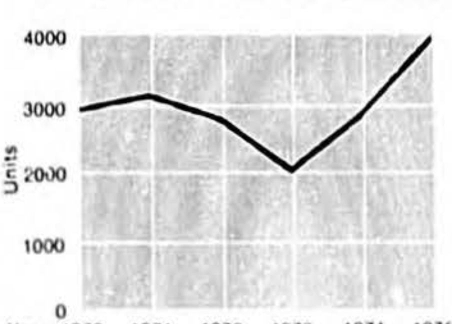
Source: U.S. Department of Labor.

TOTAL EMPLOYMENT
(Includes Only Wage and Salary Workers)



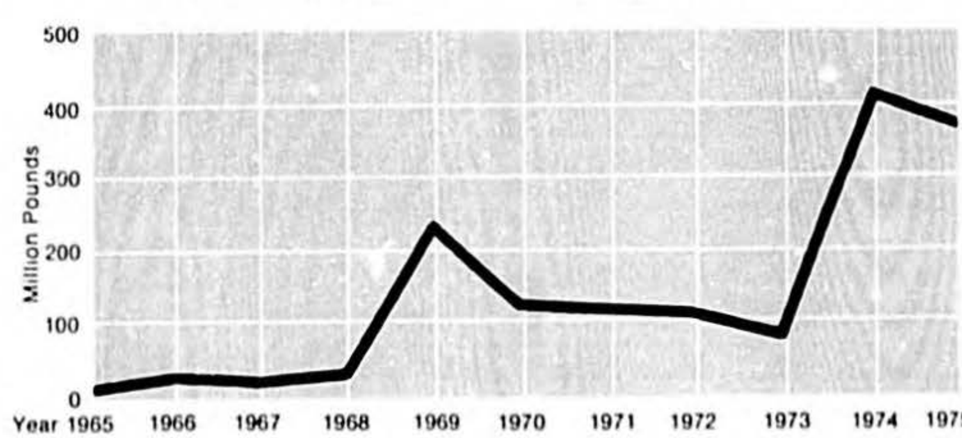
Source: State of Alaska Department of Labor.

ANCHORAGE AREA NEW HOUSING UNITS



Source: Department of Housing and Urban Development

AIR FREIGHT THROUGH FAIRBANKS INTERNATIONAL AIRPORT



Source: State of Alaska Division of Aviation.

A WORD ON 1977

Because most national firms doing business in Alaska are now preparing their 1977 budgets, perhaps a few comments on the outlook for next year will be helpful.

The aggregate level of economic activity in Alaska is tracking almost precisely as anticipated. The rate of growth this year for the state as a whole is about half the rate of growth as last year. We expect this deceleration to continue with the rate of growth in 1977 being somewhere between a low of zero and a high of approximately half the rate of growth of this year.

The growth slowdown is being brought about by a reversal of the very factors that contributed to the boom of 1974 and 1975: State spending and the trans-Alaska oil pipeline project. As both of these elements wind down, Alaska's distributive industries will feel the impact considerably — as they are commencing to this year. Wholesale and retail trade, equipment sales, residential and commercial construction, and freight traffic are expected to continue their lackluster performance. Oil and gas exploration and development and forest products output will continue strong, and the visitor industry should take off again from its present plateau. It is too early to forecast the outlook for Alaska's fishing industry.

Even if the Federal Power Commission grants authority early in the year for construction of a natural gas pipeline, no real impact will be felt in 1977. However, the psychological effect may be manifest in some anticipatory expansion in the distributive industries.

Although the general overall outlook for 1977 calls for slower growth, the longer range outlook suggests that this is merely a lull before the next flurry of activity commencing in 1978 or 1979 when huge oil and gas revenues are flowing to the State of Alaska and a natural gas pipeline is likely to be under construction.

AlaskaPacificBank
P.O. BOX 420
ANCHORAGE, ALASKA 99510

AlaskaPacificBank

#5

31 August 1976

Mr. Bob Richards
Executive Vice President
Alaska Pacific Bank
Box 420
Anchorage, AK 99510

Dear Bob:

I agree with a theme of yours at the first meeting of the State Investment Advisory Committee, that most uses of the Permanent Fund are likely to involve some subsidy to various businesses and groups. Assuming the capital markets are functioning reasonably well in regard to Alaska (although investors may not always have good information about this State), we can define the subsidy in any case as the difference between the going rates of interest and terms and those offered by the Permanent Fund.

In measuring the tradeoff between the costs of any subsidy and its benefits, however, you speak only of the benefits of new tax revenues for the State government. But I think you would agree that we also need to add in other economic benefits such as new income from new jobs (insofar as that income remains in the State), the effects on living standards if a part of that income goes to lower income groups, the benefits of saving "rusting" job skills or upgrading or creating new ones, removing bottlenecks in the local economy, reducing congestion and other externalities by our timing and placing of investments, and perhaps others. I trust you will have a chance to elaborate on this at the Committee's next meeting.

With best wishes, I am,

Sincerely,

James B. Rhode
AA to the Chairman,
House Finance Committee

cc: Mr. Jim Edenso
Department of Revenue
Legislative Members
S.I.A.C.

JR/jb

SCOMM

#9:6

GOVERNMENTAL & POLITICAL AFFAIRS

BAILEY, DONAHUE & KASSON
Consultants
1543 East 26th Avenue
Anchorage, Alaska

Norman Bailey
274-6986

25 July 1977

Representative Clark S. Gruening
Chairman, House Special Permanent Fund Committee
Anchorage, Alaska

Dear Clark,

Recalling our conversation of Friday evening regarding a follow-up on the SIAC study I prepared in January, I have the following in mind:

1. ~~r~~establish contact with the people I interviewed regarding their awareness of the current status of Fund activities

2. ~~p~~preparation of additional questions to guage the above

3. possible expansion of the number of interview subjects

I would be pleased to discuss with you any ideas or suggestions you have in this regard.

Hope to hear from you soon.

Best
Norm

Norm

Bailey, Donohue & Kasson Financial Consultants

1543 East 26th Avenue
Anchorage, Alaska 99504

(907) 274-6986
Juneau, 586-2312

N. A. Bailey
M. A. Donohue
J. M. Kasson
V. E. Bailey, Sr.

September 21, 1977

The Honorable Clark S. Gruening
Chairman, House Permanent Fund Committee
528 West Fifth Avenue Suite 270
Anchorage, Alaska 99501

Dear Clark:

As we discussed some weeks ago, here is the proposal for my follow-up of last years Permanent Fund study.

My plan is to contact all of last years respondents during the month of November to conduct interviews and to prepare the report during the first two weeks of December. It would ready for the convening of the session in January.

I will hold off actual question design until we can get together so I can find out what exactly you think should be included. I hope to hear from you soon. I will be outside during the month of October, so I hope we can get together soon.

I have attached a cost estimate and breakdown.

Cordially,

Norm

Norman Bailey

COST ESTIMATE

1977 Follow up Permanent Fund Attitude Study

Preparation, Interviews, response analysis, Consultations with Committee members and Staff various during November	20 days	$ 3,000
Printing, Materials and supplies		500
Travel		200
Total		$ 3,700

GOVERNMENTAL & POLITICAL AFFAIRS

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Anchorage, Alaska

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274-6986

A CANVASS OF ATTITUDES
CONCERNING
ALASKA'S PERMANENT FUND

Prepared for the State Investment
Advisory Committee
January 10, 1977

GOALS OF THE CANVASS

THE QUESTIONNAIRE: STRUCTURE AND ANALYSIS

RESPONSES

SUMMARY AND RECOMMENDATIONS

APPENDIX

GOALS

The canvass and questionnaire were designed to help members of the State Investment Advisory Committee with their determinations of the directions and potentials of the Alaska Permanent Fund.

It is hoped that the responses gathered will:

help delineate levels of awareness about the structure of the Fund, its varied possibilities for investments, and its potential impacts;

help gain an understanding of the current thinking and depth of knowledge about the economic, commercial and governmental complexities likely to develop from fund activities;

help determine what long and short run goals the Fund should pursue;

help make recommendations to the Committee regarding the development of Permanent Fund legislation.

THE QUESTIONNAIRE: STRUCTURE AND ANALYSIS

Structure

The questionnaire used with the interviews consisted of twenty-five questions. Thirteen specifically referred to aspects of the Permanent Fund. Ten focused on other areas of peripheral influence on Permanent Fund development.

Analysis

In part, the questionnaire was designed to guage the level of acceptance of the idea of the Permanent Fund, to determine to what degree certain economic relationships are understood. It was also designed to test understandings of the assumptions that underlay the Permanent Fund. Several questions relate to issues involving where the Fund should be placed, who should run it, and what controls should be placed on those in positions of greater authority.

The questions gauge perceptions about various aspects of State government. There were "level of confidence" questions. Also included are questions that deal with rural Alaska and activity by native land claims regional corporations, petroleum industry impacts and operations, and the proposed capital move.

In summary, the questionnaire addresses the Fund and its potential activities, that is, perception or projection about what might happen; it addresses and attempts to gauge certain relationships of economic and political significance; it attempts to get a feeling about how the Fund is perceived by those with whom the Committee and the Legislature have little contact.

THE RESPONSES

The general attitude toward establishment of a Permanent Fund to conserve part of Alaska's oil wealth broke nearly 50/50 between favorable and mixed. Those who favored the Fund seemed to have a little better working knowledge of various State issues that may be affected by Permanent Fund activities. Those with mixed responses expressed a distrust in the ability of the "political system" to keep its hands off the Permanent Fund monies. Several felt the Fund would be "just another pork barrel for politicians". Those who did not favor the Fund expressed the view that monies should not be "locked up" now, when so many pressing problems have not been solved. Cited were the areas of criminal justice, alcoholism, education, municipal needs, and rural problems.

Respondents favored the savings aspect as the focus the Fund should pursue. Though few could put a number on how much should be saved, conservation and continued permanency of the corpus of the Fund were fundamental desires.

No clear perceptions or ideas about how the Fund should be structured or implemented were evident. In part this stems from a minimal amount of contact with technical Permanent Fund issues. Nearly all respondents expressed a concern about the insulation of the Fund from political manipulation. A small, tight, non-bureaucratic structure was favored by those who did express a desire in that regard.

A majority of respondents recognized a relationship between the Fund and other State expenditures. Some interesting responses were encountered on this question. Several felt that a 25% or greater diversion of Revenues to the Permanent Fund would only hasten what they considered a critical State revenue-expenditure situation. Several expressed the view that the vote for the Fund was a message to not repeat the $900 million experience. Many felt that the Fund could do little to stop the "ratchet" effect of State operations and budget expansions - that the State should be placed on a "pay as you go basis".

More than 50% of the respondents felt the effect of the Fund on the State economy would be positive. A little less than 50% took the pessimistic view that the effect could go either way. This attitude was formulated along the argument that politics (negative connotation) would probably prevail and that the public would lose out again as it has before. Several respondents brought up the point that Alaska has the opportunity and potential to produce a Fund which undertakes to spend or invest Permanent Fund monies in new and innovative ways. In general, it was felt that the Fund could insure reserves for future needs but the short term stabilising effects the Fund might have were under suspicion. "It all depends on how the policies are developed and who administers them."

The overwhelming response to the question of State growth and development was that it should be left to "private enterprise". This response contains a contradiction in terms. Respondents previously envisioned the Fund as having a "positive effect" on the economy which assumes that either Permanent Fund activities (through a State government entity) will occur primarily in or through the private sector (bank involvements etc.) or, that the respondents did not recognize that certain spending patterns presume " planning ". In any case, State spending activity, whether through the Fund or not, assures some "plan" of development and growth (even though it might be random). It is clear that a formal State-administered growth or development plan is not favored.

In general the Legislature received poor marks. Its strengths were outlined as:

* its diverse nature and the generally high quality (morals and motives) of it members;

* uniform rules that encourage cooperation between the houses and among the members;

* its sense of public morality, adversary nature and balance of attitudes and desires.

The weaknesses pointed out were manifold. Those mentioned most often were:

* portions of the Rules system, particularly the power of presiding officers to appoint conference committes with powers of " free conference "

* the isolation and remoteness of the present capitol was viewed as not conducive to efficient government.

* the lack of adequate notice on many hearings and committee meetings

* a tendency of the legislative bodies to react rather than initiate

* the inability of many members to back off and get a better perspective on "hot" issues

Other criticisms were leveled at the fragmented decision-making structure, the lack of adequate pay and staff, over-reaction of the membership to lobbys and pressure groups that are ever-present, the divisive nature of geographic sectionalism and the trade-offs that prevail, and a tendency to delay rather than create (except, as one respondent observed, more red tape and bureaucratic layers!).

Those who responded to the question which asked what areas of the state economy might best benefit from Permanent Fund investment indicated that more study and technical analysis of the various sectors be made before any investments were undertaken.

Few respondents felt they possessed a qualification to comment on whether or not the Fund should involve itself with loan guarantees and equity purchases. Most felt the area should be thoroughly explored by the legislative inquiry to be conducted this session. Most felt the Fund should be placed under stringent internal controls.

Nearly two thirds of the respondents felt the Fund should be located outside of existing State agencies. They expressed the desire that it be autonomous and that it be insulated from "political" influence to the greatest degree possible. Those who preferred that its location be inside an existing agency or other State entity viewed the Fund as more an "accounting" entity than a policy and program maker. An additional view was expressed that it be a small operation, controlled, and subject to outside audit and examination.

Respondents were nearly evenly divided on questions concerning the level and quality of State services. The level of State services received marks from too high and improved greatly to primitive. Several felt levels were best judged on a local basis - that the State performed remarkably well given its age, size and complexity of problems. The quality of State services received mixed marks centering on mediocre, inefficient, and isolated. Sunset laws were offered as one way quality might be improved.

The outcome of the November general election was well received. The common expression and observation was that the new legislature has "better balance". The most important issues, besides the Permanent Fund (which ranked highest) were:

* Fiscal policy and taxation matters
* Capitol move
* Workman's compensation and medical malpractice

Nearly all respondents felt the "private enterprise" aspect of native regional corporations was their strongest asset. Most were acutely aware that the volume of commercial activities, particularly resource development, engaged in by the regional corporations will have a significant effect on various economic sectors. They felt the effects of the spending would be positive though the reservation was expressed that at least one failure was possible and that several corporations would probably not grow beyond a certain size. Though the corporations were viewed as having a potentially positive effect over the long haul, some observed that native "power cliques" were becoming oppressive and could possible hinder short term growth. In general, the ANSCA has been well received and is viewed as one of the most significant Congressional Acts of this century.

The petroleum industry as a whole received good marks with regard to the effects of its varied impacts across the State. There is a clear perception that the State pins much of its ability to provide a wide range of quality services (while protecting Alaska's beauty) on the success of the petroleum industry here. At the same time the observation was made that the industry and State officials must learn to trust one another, that a confidence must be rebuilt between the two and that Alaska must construct a comprehensive petroleum policy and stick to it. Response to industry activities overall was of a positive nature.

Nearly all respondents were unanimous in observing that Southeast Alaska possessed great potential but that as a community in general it has not worked up to that potential. Feelings were mixed regarding whether or not the Fund should be involved in timber, fish, and tourism (since programs currently exist). It was observed by some that <u>no</u>

geographic distinction be made or allowed.

Little or no relationship was perceived between the Fund itself and the proposed capital move.

The preponderance of responses fell against the use of subsidies (except in the utility area) or involvement by the Fund directly as a resource developer.

It was clearly accepted that the State has responsibility for the development of long term infrastructure on a statewide level. Generally, most respondents felt the Fund should <u>not</u> be involved in the development of infrastructure - that that should be accomplished through the normal capital projects budgetary process.

Nearly unanimous agreement was reached that the magnitude of the Permanent Fund and the effects of petroleum revenues are not well understood. The anomaly here is that most felt that rising expectations and demands would outstrip the monies available for at least ten years if not twenty. One respondent termed it as "everybody wants a piece of the action (or think they deserve it) syndrome". That is a significant insight.

Again nearly all respondents were unanimous in their desire that the legislative process and the Administration develop detailed information about State finances and economics during this year and press for a Permanent Fund enabling act diring the 1978 session.

Response was nearly non-existent to the social benefits question.

The future of rural Alaska was characterized as both bleak and one full of potential. The subsistance way of life seems doomed, village consolidation seems an accepted fact as does the net out-migration of young natives to urban areas where the money and action is. Rural Alaska is seen as having a high long term economic potential but most perceived that significant investments will be required to unlock and develop that potential.

The business climate was unanimously proclaimed to be excellent.

Little or no effect on Alaska's electoral future was perceived in the relationships of registration statistics.

I received an overwhelmingly positive response to this method of gathering information and initiating contact. Nearly every respondent was very enthusiastic and extended an invitation to return.

SUMMARY

Respondents to the canvass came down solidly in favor of a Permanent Fund focused on the savings concept and one that stresses a high degree of safety and quality in any investments the Fund might make. Over and over they emphasized the word "permanent". Nearly all felt the Fund should have as two of its major goals the conservation of capital, and that it should always insure that the benefits of its activities accrued to Alaskans to the highest degree possible. Most perceived the Fund in simple terms, expressing a fervent desire that it not turn into a powerful bureaucracy. All expressed the desire that the legislature fully publicize all anticipated aspects and decisions regarding formation of the Fund during the up-coming session.

The idea of the Fund was founded on the argument that non-renewable resource revenues ought to be preserved and that the Fund perform as a kind of spending brake. On an ever expanding State budgetary process, with built in ractchet-like increases, the only possible method of reduction is the removal of revenues. To the extent the Fund is able to restrict its own spending it may be able to accomplish an overall reduction in the increases of the regular budget process.

RECOMMENDATIONS

After conducting the canvass and analyzing the last two years activity and resulting passage of the Permanent Fund Amendment to the Alaska Constitution I make the following recommendations:

* the Department of Revenue be extended an interim authority over Permanent Fund monies as they accumulate for placement consistent with present State policies for the conservation of State revenues.
* if a Permanent Fund enabling act is passed it should require a complete economic and financial analysis of the State and that projections under differing sets of circumstances be prepared to gauge the effects of possible Permanent Fund activities.
* a three to five year moratorium on Permanent Fund investment other than those engaged in to preserve the principal be placed, in a effort to build up a lead time for planning and analysis purposes.
* once the Fund begins investments <u>no more</u> than the amount received in the third preceding year be placed or loaned in that and subsequent years and that in any year no more than a certain amount be pledged or used as guarantees.
* an effort to truly make the Permanent Fund a "peoples fund" be accomplished by establishing a "Permanent Fund Jury" which would decide what proposed investments offered by the staff be undertaken. The Jury might be selected by

requesting all citizens to send applications and/or resumes and then select twelve to fifteen randomly for a one year term. Service on the jury would not be mandatory. The jury would meet twice during the year of its selection. Use of the jury concept would insure that the final decision making power of the Fund remained with those supposed to be its ultimate beneficiaries.

APPENDIX

One

What is your general attitude or response to the proposed permanent fund on the November 2, ballot?

Two

In what way would you prefer the fund be implemented or structured? What do you think the focus of the fund should be?

Three

With the general question of state expenditures in mind, how would you characterize that question in relation to the proposed fund?

Four

In general terms what do you think the effect of the proposed fund will be on the economy of the state ?

Five

Do you favor a " development and growth plan " administered by the state government agencies <u>or</u> development and growth that is left, in general, to " private enterprise " ?

Six

Would you name 3 major strengths and three major weaknesses of the legislative branch of state government ?

Seven

In more specific terms, what areas of Alaska's economy do you think could best benefit from investment by the permanent fund monies?

Eight

After the fund is implemented and begins its activities do you think it should make " loans " or " guarantee bonds ", invest only in government and corporate securities, what combinations or additions would you make?

Nine

What controls do you think should be placed on those with the authority and responsibility for administering permanent fund activities?

Ten

Do you think the fund should be placed inside or outside of State government? Should it be administered through a state agency or an autonomous body?

Eleven

What is your general impression of the level and quality of state services?

Twelve

What is your general reaction to the outcome of the November 2nd General Election? What do you think will be the most important issues of the coming legislative session?

Thirteen

What effect do you think increased levels of economic activity and spending by the Native Regional Corporations will have on Alaska? What is your general impression of the Alaska Native Land Claims Settlement Act?

Fourteen

In general terms, how would you assess the impact of the petroleum industry (and other resource intensive industries) on Alaska?