

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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

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It is therefore the last solution to be considered--only after having considered and either used or rejected all other forms of public intervention.

In designing the Permanent Fund as a development bank, there are four central questions we need to answer:

- \* First, what should be the limited goals of the Alaskan Permanent Fund within the framework of Alaska's overall economic development plan?
- \* Second, what should be the legal structure of the Alaskan Permanent Fund so that it is equitable and efficient in carrying out those goals, and yet accountable to the executive and legislature?
- \* Third, what board and staff management structure is best suited to carry out these goals?
- \* Fourth, what capital structure is necessary to ensure that the Alaskan Permanent Fund has the financial capability to achieve its purposes?

In addressing these questions, I have first approached the problem in general; then I have compared it particularly with the two drafts of the Alaskan Permanent Fund available to me, HB-298 and HB-300.

The comments that follow are intended to help clarify, or raise additional questions about, a basically sound draft document.

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In order to be sure that I understand the meaning of particular words and phrases in these draft bills, and perhaps to be of some assistance to you in making their meaning unambiguous, I've done a rather thorough exegesis of the key provisions. In all cases, I refer to the draft of HB-300, unless I particularly note HB-298.

A. What Should be the Limited Goals of the Alaskan Permanent Fund Within the Framework of Alaska's Overall Economic Development Plan?

Almost all development bank proposals are initially marked by three serious problems: confusion of goals, trying to do too many things at once, and assigning to the development bank responsibility for delivering more than it is capable of delivering. In considering any new development bank, we need first to remember that this new development finance institution, like any financial intermediary, can operate only on the supply side of the economic equation. Second, international and domestic experience make it clear that we should be precise in defining the goals of the institution and modest in our expectation of its impact on state, regional, or community economic development. Finally, if there are separate goals in terms of the cost or availability of capital, these separate goals should be implemented (as we shall see

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in our discussion below) through separate arms of the development bank which are capable of differentiating risk, sources and uses of funds, and specialized management capable of achieving those specialized goals. In assessing the goals of the Alaskan Permanent Fund in light of these principles, it is most useful to look beyond the general purposes articulated in Section 10 to the more specific investment criteria in Section 40:

Investing Only in "Income-Producing Investments" (Section 10 and Section 40) is the single most important investment criterion of the Permanent Fund. Permanent Fund investment strategies should also be organized to bring private judgment, at private risk, to joint venture in most projects in order to ensure that the investments are soundly planned, managed and overseen. This key provision recalls our "First Principles," pages 7-11: public intervention through a development finance intermediary to stimulate economic development is warranted not because investment opportunities are unsound, but because from the standpoint of opportunity cost, the private market has opportunities to employ its resources at greater return or lower risk than, as a public purpose, the state may be able to afford. Moreover, as we noted earlier, the issue is seldom the cost of capital, but rather, its availability. Therefore the Alaskan Permanent Fund will rarely be warranted, as a development bank, in offering substantial below-market interest

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rates. The costs of capital, like state and local taxation, represent a very small percentage of the cost of production; and differential rates in the cost of capital seldom make the margin of difference in the economic viability of the enterprise. Yet the problem of the availability of capital for new technology development, or for small- and medium-sized commercial and industrial enterprise, or for community-based enterprise, is often a serious public policy problem.

Should it be determined that some form of subsidy is essential for certain large-scale infrastructure developments, or some community development or rural housing development projects, that subsidy should be provided by the General Fund, as our earlier discussion and Section 130 (4) suggest.

The rest of our analysis of the goals of the Permanent Fund is most easily done by a careful review of the three essential investment criteria for (1) investment-grade securities, (2) productive private enterprise, and (3) community development. This analysis conveniently fits our earlier discussion of potential investments for the Permanent Fund on pages 11 through 23.

1. Investment-Grade Securities:

Section 40 (1) provides that "At Least 40 Percent of the Resources of the Permanent Fund Shall be Invested in Investment-

Grade Securities." (Section 10 (1)) This is a sound provision for two reasons (to which we have already made reference):

First, because development banks operate only on the supply side of the investment equation, it is not all clear what the capability of the Alaskan economy is to absorb Permanent Fund investments either for longer-term capital investment in productive private enterprises or for community development projects. Therefore, all capital which cannot be reasonably absorbed under those two categories should be invested in investment-grade securities. It is important, however, that a sufficient percentage of those investments be made in sufficiently liquid securities so that they will be available, when needed, for investment in productive private enterprises or community development projects. Second, this 40 percent investment in investment-grade securities not only "preserves the Permanent Fund's capital for future generations" (Section 10 (6)), but also acts as a kind of secondary reserve for the potentially high-risk investments in productive private enterprises and community development projects.

## 2. Investments in Productive Private Enterprise

Section 40 (2) provides that "The Permanent Fund May Invest Not More Than 30 Percent of its Resources to Provide a Reasonable Proportion of Longer-Term Investment Capital for Financing the

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Establishment, Improvement, and Expansion of Productive Private Enterprise Which Will Benefit Alaskans, and for Which Sufficient Capital is Not Available From Other Sources on Reasonable Terms. These Investments May Take the Form of Equity, Debt, or Debt Guarantees."

Each of the above underlined phrases is sufficiently important to warrant individual comment:

"Not More Than 30 Percent" suggests a reasonable and realistic upper limit of risk in terms of the availability of public development capital subject to demonstrated real demand for it. It is never possible to be rigorously precise in measuring the capital gap for publicly-needed capital. Development banks are best constructed to meet a reasonable demand and then organized in such a way that they are demand-sensitive, so that if there is a demand there is capital available. If such capital is not available, there is of course the alternative of adjusting the balance in investment-grade securities.

"A Reasonable Proportion" suggests that the Permanent Fund should not invest other than in collaboration with private financial intermediaries. Federal, state and local as well as international experience strongly support the idea that the public development bank investment is likely to be more sound if it is made on a joint venture basis with the private market.

order to either reduce the risk or increase the return. As noted earlier, the key issues here are to develop that joint venture in ways which do not unduly shift the risk to the Permanent Fund and the rewards to the private market.

The very scale of such undertakings, and the relative risks involved, would require that the investments be made directly by the Permanent Fund in a fashion not dissimilar from those large-scale investments undertaken by the Canada Development Corporation. The Canada Development Corporation is an important model for the Alaskan Permanent Fund, not only for purposes of undertaking such large investments but also in order to ensure that the ownership of such large-scale enterprises does in fact become Alaskan rather than foreign-owned. The Canada Development Corporation, created in 1971, has had a mixed record worthy of your more careful consideration.

b. The development of new technologies essential to the refining and production of value-added manufacturing of renewable or nonrenewable resources in Alaska before export.

This is a second instance in which the Alaskan Permanent Fund may need to "supplement private investment when sufficient private capital is not available on reasonable terms and conditions." The development of these technologies may require investments by the Permanent Fund either in Alaska or outside of Alaska.

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the private market is generally quite capable of filling this need. Second, the state has limited capability to influence short-term cyclical changes in worldwide markets or federal fiscal or monetary policy (in this regard, I trust the phrase "seek to smooth the cyclical pattern of growth of the Alaskan economy" (Section 10 (2)) refers to long-term redress of cyclical problems in the Alaskan economy resulting from overdependence on nonrenewable resources, and does not refer to short-term business cycles). Third, it is only in the longer-term capital markets that any capital gaps critical to overall state economic development arise.

"Establishment, Improvement and Expansion": Pages 11-21 of this paper, I outlined three kinds of investment opportunities where the establishment, improvement or expansion of sound, income-producing, productive private enterprises of benefit to Alaskans may not have sufficient private capital available on reasonable terms or conditions. These three kinds of investments include:

- \* sound investments in Alaska's renewable and nonrenewable resources which diversify the Alaskan economy but which are too large for private enterprise to finance on its own at a sufficient return coincident with other available risk opportunities;
- \* the development of new technologies essential to the refining and production of value-added manufacturing of

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renewable or nonrenewable resources in Alaska before export; and

- \* support for the retention and expansion of medium- and small-sized business enterprise by ensuring access through commercial and savings banks to adequate intermediate and long-term expansion capital.

In each instance, there needs to be a rigorous analysis of the economic and financial soundness of the sector, the reasons for lack of adequate private market capital availability (if it, in fact, exists), and the relative benefits and returns, costs and risks of public intervention through the Permanent Fund.

"Productive Private Enterprises" appropriately requires that investments only be made in financially sound enterprises which are also income-producing, job-producing, revenue-producing, and contributing in real economic terms to the Alaskan economy.

"Which Will Benefit Alaskans" is a vital phrase requiring that the investments made in enterprises that are not only financially sound but also in which the economic benefit to the residents of Alaska is greater than their economic cost to the state. This critical issue will be discussed in detail under "Legal Structure and Accountability," pages 59-67, below.

"Not Available from Other Sources on Reasonable Terms" is also essential to ensure that any public investments made by the

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Alaskan Permanent Fund are complementary to the private marketplace and supplement private capital because of the public benefit derived by the residents of the state. However, as we have already noted, such collaboration between public and private capital must be reasonable and fair on both sides.

"Equity" is essential to the creation of new enterprises and new technologies, as well as to the expansion of substantial, large-scale enterprises which are necessary to the diversification of Alaska's renewable and nonrenewable resources.

"Debt and Debt Guarantees" are the modes of investment most necessary to collaborative support with commercial banks, savings banks and credit unions in increasing the availability of intermediate and long-term expansion capital to medium- and small-sized enterprises.

### 3. Investment in Community Development

Section 40 (3) provides that "The Permanent Fund May Invest Not More Than 30 Percent of Its Resources in Financing a Reasonable Proportion of the Longer-Term Investment Capital Needs for Community Development Projects of Municipalities and Public Corporate Entities and Private Dwellings in Alaska for Which Sufficient Financing is Not Available from Other Sources on Reasonable Terms. These Investments May Take the Form of Debt or Debt Guarantees."

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Again, I want to amplify the meaning and corroborate the soundness of underlined phrases in light of regional and community economic development experience in the United States, Canada, Europe, and Third World countries.

"Not More Than 30 Percent" is an important limitation for two reasons, which my own work in community economic development has often made painfully clear: First, community development finance is very high-risk investment activity. Second, there is a serious problem in finding a sufficient deal flow of projects which are sound both financially and in terms of their community economic impact. Part of this is a market problem and part is a management problem. Low-income areas, by definition, have a more limited capability to support economic activity. Therefore, heavy emphasis should be placed on the development of community projects with a strong export market, which generate stable, steady jobs in the local community by importing sales revenues from outside the community. Finding adequate managerial talent is a far greater impediment to community economic development than finding adequate capital. The Permanent Fund has the tough responsibility of ensuring that community development projects are adequately managed as well as adequately funded. It must help mobilize that management capability as well as capital.

"Reasonable Proportion" is also a phrase with particular

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importance to community development activities. First of all, it suggests that in every instance the Permanent Fund should be joint venturing either with a municipality or with a regional or local community development corporation or cooperative which would put up a significant amount of the financing. I have already noted Alaska's unique opportunity to co-venture with regional corporations.

It also suggests joint ventures with private entrepreneurs. Some of the most successful community development efforts in the lower 48 today involve creative financial and managerial collaboration between community development corporations and private investors--the Kentucky Highlands Investment Corporation, the Delta Foundation, Harlem Commonwealth Council, and Bedford-Stuyvesant Restoration Corporation. All of these models and the history of their experience deserve the careful attention of the legislature in designing the Permanent Fund's community development investment structure.

"Longer-Term Investment Capital", or "patient money," is essential for successful community development projects. The need for extensive managerial assistance, for developing markets over a long term, for infrastructure investment, all add to the cost and to the time frame over which community development projects are likely to have a profitable payout. Often, the private market

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is willing to put up the short- and intermediate-term financing if municipalities, public community development corporations and the Permanent Fund provide sufficient longer-term equity and debt financing.

"Community Development Projects" would (based on the experience of community development organizations in the United States and overseas) encompass at least three major categories of activity: export industry, local commercial and housing services, and social overhead capital and infrastructure development. To the extent that the Permanent Fund participates in any of these three areas of activity, it must meet its essential goal of investing only in income-producing projects.

In the case of social overhead capital and infrastructure development, a subsidy will be necessary either from the General Fund or from a local municipality or public community development corporation.

Similarly, commercial and housing services essential to local community development will also be somewhat precarious in terms of the capability of developing a substantial cash flow, given the relatively low income of the local service area. In order to put together a sound overall package, it may be necessary for Permanent Fund investments to be paired with subsidized grants from the General Fund or from local municipalities.

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Only in the case of export industry, in which local residents are employed in enterprises which sell to a "foreign" market outside the local area, is the likelihood of a strong, income-producing investment most assured.

"Municipalities" are essential co-venturers with the Permanent Fund where social overhead capital and infrastructure investments are required.

"Public Corporate Entities" I take to include regional and local development corporations and cooperatives.

"Private Dwellings" has a strange ring. The implication seems to be that individual local businesses are excluded from direct financing by the Permanent Fund for community development projects but local individual homeowners are not. Based on experience in the lower 48, serious consideration ought to be given to financing local housing development through a community development intermediary as well.

"Debt or Debt Guarantees": This is a serious flaw in the design of the Permanent Fund. The Permanent Fund should be free to make equity investments in community development, as well as in productive private enterprises. The experience of the most successful community development organizations in the United States confirms this judgment. The essential financial ingredient of successful CDCs is their ability to make equity investments

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in enterprises in order to have adequate control and in order to ensure that they are soundly and patiently financed.

Alaska is in a somewhat exceptional position, with many substantially funded regional community development corporations which can take much of the equity position for community development projects on a joint venture basis with the Permanent Fund. Nevertheless, such pioneering state community development banks as the Massachusetts Community Development Finance Corporation, with their capacity for making equity investments in community development as well as for handling debt and debt guarantees, deserve careful consideration by the Alaskan Permanent Fund. This power need not be used frequently, but it is essential that it is available to the Permanent Fund.

B. What Should be the Legal Structure of the Alaskan Permanent Fund So That It is Most Equitable and Efficient in Carrying Out Its Goals, and Yet Accountable to the Executive and Legislature for Achieving Its Public Purposes?

We have already noted that the great virtue of development banks is their ability to operate at a relatively high level of efficiency and market sensitivity. This strength, however, is counterbalanced by the tendency of development banks to operate more conservatively than public policy may warrant and (sometimes)

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to be designed with insufficient executive or legislative oversight. Care at this early stage in the design of the Alaskan Permanent Fund can help to ensure that the strengths of the Fund as a development bank are maintained while its weaknesses are minimized. I cannot emphasize too strongly the importance of integrating the Permanent Fund into an overall economic development plan. It is but one of many tools for achieving--and sustaining--a sound economy in Alaska.

Section 20 properly structures the Permanent Fund as "a public corporation of the state and an instrumentality of the state within the Department of Revenue that has a legal existence independent of and separate from the state. . . ." Section 90 "exempts" the Permanent Fund "from the provisions of the Executive Budget Act," Without knowing the particulars of the Executive Budget Act, I presume that this provision frees the Alaskan Permanent Fund board and staff to make decisions with regard to investing principal and whatever portion of income is necessary either for administrative overhead or for reserves without annual executive or legislative approval. Finally, Section 100 places "the president, officers, and staff of the Permanent Fund in the exempt service."

It is absolutely essential that the Permanent Fund, if it is to be efficient in carrying out its public purposes, be free to

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hire the highest caliber professional staff at competitive worldwide market rates--free of the constraints of Civil Service and of either political or bureaucratic manipulation. Similarly, the policy board of the Permanent Fund must be able to reward its president and staff for successful performance according to market standards, and fire that president and staff at will. Placing the personnel in the exempt service is essential to sound operations. Similarly, placing the Permanent Fund "in but not of" the Department of Revenue and making it exempt from annual approval of its investment decisions is also essential to its efficiency, PROVIDED THAT there are careful controls built into the statute of the Permanent Fund which ensure complete annual reporting and review of the investment activities of the Permanent Fund by both the legislature and the executive. This annual reporting and review must include both the financial soundness of its investments and their economic impact, and provisions must be defined which ensure that the investment planning of the Permanent Fund is consistent both procedurally and substantively with the overall economic development planning of the state.

In this regard, I prefer the language of Section 60 (10) in HB-300 over the comparable language in HB-298. The policy board should be required by statute to "present a complete report of investment programs, plans, performance and policies to a joint

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meeting of the Senate and House Finance Committees of the legislature within 30 days after the beginning of each session." It should not read merely "prepared to present."

The independent professional judgment that is essential to making tough investment decisions and the resulting market sensitivity of a well-structured public development bank such as the Alaskan Permanent Fund is, as I have noted, a conservatizing influence over time. It requires a more sophisticated form of accountability than simple financial accountability. Some form of dual accounting is called for. First, there must be simple accounting, according to conventional financial standards, of the ability of the Alaskan Permanent Fund to make prudent investments and receive an appropriate return on that investment. Because the Alaskan Permanent Fund is capitalized by a dedicated investment of public revenues, this public investment requires, however, an additional public measure of return on investment in terms of the external benefits to the economy as well as the internal rate of return to the development bank itself. Some of these external benefits can be measured as the fiscal return to the state in both reduced social overhead costs and increased tax revenues. There are serious technical problems in properly assigning both costs and benefits, but this is an area in which considerable pioneering is essential if we are to determine whether or not our

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projections for the Fund's economic impact and financial soundness have in fact been met.

I suggest, therefore, that Section 150 be amended to provide for an annual report which accounts for economic impact as well as the financial soundness of investments made by the Permanent Fund. This economic impact accounting should incorporate operational principle number 8, which requires that "the Permanent Fund shall analyze the economic and other effects of an investment decision, by including the effects on employment, income distribution, environment, health, social and other factors.

The Inter-American Development Bank and the World Bank have developed techniques of cost-benefit analysis which have some limited applicability to Alaska and which are summarized in most useful detail in "The Appraisal of Development Projects: A Practical Guide to Project Analysis with Case Studies and Solutions," by Roemer and Stern. It should be recognized, however, that because the Alaskan economy is part of the wide open and fluid American economy, it will be much more difficult to isolate the costs and benefits of Permanent Fund investments. For better or worse, unlike Zaire or India, Alaska does not have its own currency or tariff laws.

More appropriate to your purposes are some of the techniques now being pioneered in Massachusetts with the Community Development

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Finance Corporation, in which all investment decisions and all auditing of those investment decisions are made on a two-track line of analysis: the first track includes traditional projections and accounting for financial soundness; the second track includes projections for economic soundness. In this system, the staff must report to the investment board its projections of primary and secondary employment and fiscal benefits at the same time that it reports its projections for financial viability. The investment review board must then specifically find that the project meets standards of both economic and financial soundness. The monthly, quarterly and annual reporting of any enterprise financed must also note whether both sets of projections have or have not been met. In turn, the annual reporting of the Community Development Finance Corporation to the executive, legislature and public must account for the performance of its investments on both tracks.

I want to reemphasize that the techniques for economic impact accounting have not been well developed, but that is all the more reason for us to make a commitment to improve the sophistication of those techniques given the awesome financial responsibility in undertaking such projects as the Alaskan Permanent Fund. I would be happy to share with you in more detail some of the standards and procedures which are now being developed.

Two other forms of public accountability deserve further

consideration by the Alaskan Permanent Fund committee--provisions in keeping with the movement toward both "sunshine" and "sunset" laws.

Sunshine Provisions: Section 190, which provides for public access to information, does not yet properly articulate, in either draft, the appropriate boundaries for "sunshine" on the one hand, and for confidentiality and discretion on the other. Two matters require the utmost confidentiality: the financial records of an individual private enterprise, and the personnel actions of the Permanent Fund itself. Those matters should be dealt with in executive session and in full confidentiality regarding individual records. All other policy actions of the investment board should be taken in public meetings of which a public record is available. The results of individual financial reviews and personnel actions must be available in summary form to the public--including the basic terms of any financial arrangements that are concluded.

Sunset Provisions: While these are, in principle, a good means of holding public development banks accountable for their actions, they present certain practical problems, in that development banks by their very nature are investing assets and creating liabilities which will not mature until perhaps twenty or thirty years into the future. This is not an insurmountable

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problem; the sun of the Federal Reconstruction Finance Corporation (RFC) set in 1958, at which time its assets and liabilities were assumed by the Small Business Administration. Nevertheless, I suggest not a predetermined "sunset" date for terminating the Alaskan Permanent Fund, but rather what I would call a "high noon" provision.

The "High Noon" Provision: After the Permanent Fund has had a chance to get off to a good, strong start--say, after an interval of ten years--at its high noon of financial and economic activity, I suggest that it be subject to a fundamental review by a joint executive and legislative commission in order to determine whether or not its performance equalled its promise. The establishment of such a commission should, at the end of nine and a half years of activity, be required by statute now. The commission should be required to report to the executive and legislature on the tenth year anniversary of the Permanent Fund. Included in the commission's findings would be recommendations for the continuation of the Permanent Fund, subject to various modifications, or its termination.

Accountability to Local Communities: This is a sensitive issue, handled differently by different states, depending on the history and custom of different jurisdictions. Massachusetts, for instance, has a three-hundred-year history of strong local

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home rule which requires virtually all state actions to be locally approved. Connecticut has precisely the opposite tradition.

The language of the Permanent Fund bills seems to make three implicit distinctions:

Because the Permanent Fund can only finance a "reasonable proportion" of community development projects, there seems to be an implication that there must be a municipal or regional or local development corporation sponsor.

Section 130 (8) specifies that the Permanent Fund generally "shall be sensitive to the views of affected local communities . . . and specifically "shall include an analysis of those views in proposals for large investments." The implication is that investments in medium and small "productive private enterprises" need not bear such an analysis. The key questions are: What is "large"? And, do these phrases reflect Alaskan state-local custom?

C. What Board and Staff Management Structure is Most Efficient for Carrying Out These Goals?

Generally speaking, I find the structure and responsibilities of the Permanent Fund policy board, the investment committee and the president to reflect appropriate international, national and state development banking experience.

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In the above section on legal organization and accountability, I have already noted the critical importance of establishing the managerial independence of both the boards and staff of the Permanent Fund so that they are able to produce according to market standards and to be independent from daily political or bureaucratic interference.

Structure of the Permanent Fund policy board (Section 50):

The structure of the Permanent Fund policy board is good. It is small enough to be effective and yet large enough to represent a balance of interests. The two/seven balance between members of the executive and public members is good. The public members should be "confirmed by the legislature in joint session," in the manner of advice and consent for major executive positions in the federal government.

If the Alaskan governor serves a four-year term, the consequence of staggered four-year terms for the seven public members is to give an incumbent governor assured control of the board during the third year of his or her term, subject of course to legislative confirmation. This arrangement has both advantages and drawbacks. If the Permanent Fund is to be an integral part of an overall development plan for the Alaskan economy there must be some mechanism by which the president and the policy board are a part of that planning process and operate within an overall development plan. On the other hand, the efficiency of the

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Permanent Fund requires some independence from the executive. On balance, the provisions in HB-300 seem appropriate given the stipulation of confirmation by the legislature, and removal only "for cause".

Given the small size of the policy board, the requirement of a two-thirds quorum is particularly important to ensure an active and vital policy group in which a substantial number of the members are consistently present.

I would suggest that you consider some mix of users among the seven public members of the policy board. One user might be a representative of a municipality, another might be a representative of a regional or local development corporation, another might represent a major primary sector of industrial activity, and one might represent a distributory sector, especially in the community or regional development area. The financial community is appropriately represented on the investment committee, but users might well be similarly represented on the policy board.

I also suggest that you reconsider the soundness of having the president serve as the chairman of the policy board. The president has sufficient power as the chief executive officer. It is more common development banking practice for the chairman to be a widely-respected public member, either appointed from among the public members to serve as chairman at the pleasure of

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the governor or to be chosen by the policy board itself. Having the chairman serve at the pleasure of the governor, drawn from the public members, is one method for helping to integrate the Permanent Fund's planning into state development planning. In any event, for the protection of both the president and the institution, I suggest a separation of the chairman's and the president's functions.

Also, in my judgment, all meetings of the policy board should be public, particularly in light of the fact that the policy board does not itself make specific investment decisions. Only the personnel actions of the policy board with regard to the president should be held in executive session, and then publicly announced.

The provision in HB-300 to pay policy board members \$250 per meeting day, as well as per diem and travel expenses, is a good one. The policy board function is enormously important, in which the members carry great responsibility. It is common practice to pay private board members a fee for performing that function; the same should be true of a public development bank such as the Alaskan Permanent Fund.

The Duties of the Policy Board (Section 60) are well drawn. The distinction between your policy board and investment committee is remarkably similar to the distinction between the policy

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board of the Massachusetts Industrial Development Authority and its subsidiary investment review boards.

It may be wise to point out in precise language that the policy board cannot impose an investment decision upon, or override an investment decision of, the investment committee. It can only determine, on a periodic post-audit basis, that investment decisions made by the investment committee were within the overall annual operating and financial plan approved by the policy board.

The Structure and Duties of the Permanent Fund Investment Committee (Sections 70 and 80) are also quite sound. Here I think it is not only appropriate but essential that the president of the Permanent Fund serve as chairman of the investment committee. I would suggest, however, that at least one of the members of the Permanent Fund investment committee have "recognized competence and wide experience in" community economic development.

The Structure and Duties of the Permanent Fund President (Section 90) are also generally well articulated, although there are a few matters here which call for some clarification. For example, I wonder if I am the only one confused by the apparent contradiction between a Permanent Fund president to serve for "a term of five years," while at the same time serving "at the pleasure of the policy board." In my judgment, the Permanent

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Fund can only be effective if in fact the president is subject to employment at the "pleasure of the policy board."

Similarly, the provision in Section 170 which states that "members of the policy board are prohibited from all attempts to influence the investment committee, president, officers and staff in the discharge of their ordinary operating duties. The president, officers and staff of the Permanent Fund, in the discharge of their offices, owe their duty entirely to the Permanent Fund and no other authority," seems to me to confuse the respective responsibilities of the policy board, investment committee and president, rather than clarify them.

Finally, I am pleased that this generally good draft recognizes the importance of empowering the president of the Permanent Fund with the sole responsibility for "the organization, appointment, dismissal, and remuneration" of all other staff. The policy board wants to be able to hire and fire a president who is then held wholly accountable for all of the other operations of the Permanent Fund.

The Provisions for Technical Assistance in Section 160 are another area in which I would suggest some reconsideration by the Permanent Fund committee. This provision, however well intended, runs counter to my own experience in designing development banks. In fact, in all recent development bank legislation I have

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drafted, we have specifically prohibited the development bank from "providing financing for pre-investment activities including feasibility studies." The reasoning behind this prohibition is simple: we want to hold separate the developer function from the banker function. If the development bank invests in its own pre-investment feasibility studies or technical assistance there is a tendency on the part of the development banker to become prematurely "married" to what may turn out to be an unsound idea.

On the other hand, this kind of technical assistance is essential--particularly for many regional and local community development projects. Therefore an alternative solution has been to create a separate technical assistance agency which is specifically in the business of using "soft" tax dollars rather than "hard" investment dollars to make these pre-investment studies and then to bring the developed proposal to the development bank for an arm's-length banker review. Section 160 deserves further thought and review in light of this experience.

Intervention in the Case of Default: The apparent contradictions between Section 130 (2) (3) and Section 130 (b) need to be resolved so the management of the Permanent Fund has full power to protect its investments, including the exercise of voting rights.

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D. What Capital Structure is Necessary to Ensure that the Alaskan Permanent Fund Has the Financial Capability to Achieve These Purposes?

The capital structure of a development bank is intimately tied to the goals of the institution. Different kinds of management and different kinds of capital are both required in order to carry out the different purposes. Both international and domestic development finance experience makes it emphatically clear that for the very reason we don't want venture capitalists to make unsecured inventory loans and for the very reason we don't ask commercial bankers to make thirty-year, fixed-asset land, plant and equipment loans, we need to keep the risks, managements, and funds of the development bank separate to carry out separate tasks. Thus, the World Bank Group, for instance, separates the International Finance Corporation (an equity investing vehicle) from the World Bank itself (a market-rate debt vehicle) from the International Development Authority (a subsidized, below-market granting and lending vehicle). In Massachusetts, the Technology Development Corporation and the Community Development Finance Corporation, which are both high-risk equity and venture capital vehicles, are capitalized, managed, and insulated from each other and from the operations and risks of the long-term secured lenders such as the Industrial Finance Agency. In public development

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finance as in private finance, the terms, the cost, and the character of the sources of funds must match the uses of the funds.

It is for this reason that I suggest that operational principle number 9 which empowers the Permanent Fund to "make investments in financial intermediaries . . ." might be more precisely defined to isolate several compatible but operationally distinct tasks on a functional basis. Specifically, I suggest that the business plan of the Permanent Fund consider the possibility of establishing separate subsidiary financial intermediaries to carry out several possible specific functions of the Permanent Fund, including:

a technology development corporation to invest in technologies which would reduce the cost of value-added and refined production of both renewable and nonrenewable resources in Alaska;

an intermediate and long-term financing agency to collaborate with commercial banks and savings banks in providing debt and debt guarantees in support of greater intermediate and long-term capital for medium and small-sized enterprise;

a community development finance corporation to co-venture with regional and local community development corporations and municipalities in providing equity as well as debt and debt guarantees to finance income-producing community

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development projects particularly in lower-income and rural areas of Alaska; and

a central development bank for locally-owned cooperative banks which would be initially capitalized by the Permanent Fund but eventually repurchased by local cooperatively-owned user banks in order to support rural and community development in outlying areas of Alaska.

Each one of these four areas of activity would have its own investment review board appointed by the policy board (much like the investment committee) with persons of "recognized competence and wide experience" in the specific investment area. Their chief executive officers would be directly appointed and directly responsible to the president of the Permanent Fund, but the day to day decision-making would be the province of the investment review board and the staff of the subsidiary institutions. The policy board, the investment committee, and the president would retain the same direct power over these subsidiaries that any private corporation holds over its subsidiaries. As the Central Bank gradually became owned by its users, this authority in time would pass from the Permanent Fund to the users.

Two major areas of activity would be directly retained by the Permanent Fund:

First, those productive private investments which are of

July 11, 1977

such a large scale and such a relatively high risk as to be beyond the capability of the private market acting alone;

Second, large-scale infrastructure investments deemed critical to the overall development of the Alaskan economy. Any subsidies necessary to finance the infrastructure, however, would be borne by the Alaskan General Fund rather than the Permanent Fund. Operational principle number 4, Section 130, implicitly suggests that any subsidies would be made by special appropriation of the legislature. I think that additional consideration might be given to the retention of income on investments by the Permanent Fund for a third purpose beyond overhead and reserves--that purpose being the explicit provision of subsidies for specific kinds of social overhead capital investment, community development, and infrastructure development. A specific prior authorization by the legislature should be required before the income of the Permanent Fund could be released to those purposes by the policy board.

Section 130 (8) could also be used to create subsidiary financial intermediaries on a geographic basis to encourage some more sensitivity to the needs of lesser-developed regions in Alaska. In our highly complex political economy, it is not necessary that capital mobilization and decision-making take place at the same level. This has been amply demonstrated in the

July 11, 1977

operations of the Federal Home Loan Bank System and the Farm Credit System at the federal level. Similarly, there are increasing numbers of development finance intermediaries at the state and local level which operate on a decentralized basis so that decision-making is more sensitive to local conditions. Local investment decision-makers will be better able to assess the risk, service the risk, monitor the risk, and deal with problems of default than a more distant investor. International, national and private market financial experience supports this concept.

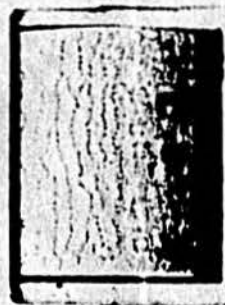
Finally, my limited exposure through memoranda to the existing thirteen revolving loan funds now operated by the Alaskan state government suggests that they might be more efficiently managed as subsidiary development finance intermediaries under the overall policy guidance of the Permanent Fund. This is another matter that calls for further review.

The Provision for Reserves in Section 120 is a good start which does not go far enough. The legislature should consider establishing specific differential reserves for different kinds of equity, debt or debt guarantee activity. For instance, reserves for community development equity investments by the Massachusetts Community Development Finance Corporation are projected to be 100 percent. Similarly, no state has established long-term industrial debt guarantee programs without limiting the

July 11, 1977

state's exposure through a ceiling on reserves in ratio to total guarantees outstanding.

The Provision for Borrowing Powers in Section 40 is a very important provision in terms of the future growth and development of the Permanent Fund. The dedicated oil revenues initially capitalizing the Permanent Fund's equity base at \$2 or \$4 billion should be compared to the capital base of the World Bank or the Canada Development Corporation. If the Permanent Fund is soundly managed, the opportunity to leverage additional equity or debt in worldwide money and capital markets on top of that equity base is substantial, as has been the experience of the CDC (in equity markets) and the World Bank (in international bond markets).



# Alaska State Legislature

SPECIAL COMMITTEE ON  
THE ALASKA PERMANENT FUND

(907) 276-3433

528 W. 5TH, SUITE 270  
ANCHORAGE, AK. 99501

[POUCH V. JUNEAU, AK. 99811]

(907) 465-3873



## MEMBERS

REP. CLARK GRUENING, CHMN.  
REP. TERRY GARDINER, V. CHMN.  
REP. E. J. HAUGEN  
REP. RUSS MEEKING  
REP. BILL MILES  
REP. LEO SCHAEFFER  
REP. RICK URION

## House of Representatives

TO: Gregg K. Erickson  
Director, Research Svs.  
Legislative Affairs

September 15, 1977

FROM: Clark Gruening  
Chairman  
House Special Committee on  
The Alaska Permanent Fund

This memorandum is to confirm that the following terms of the contract with Belden Daniels have been completed.

Clause I (A): On September 14, 1977 a 196 page report was delivered which provided:

1. A series of technical reports on purposes, legal and capital situations, and management structures of:
  - a. Canada Development Corporation
  - b. Connecticut Development Authority
  - c. Massachusetts County Development Finance Corporation
  - d. British Columbia Central Credit Union
  - e. Deutsche Genossenschaftsbank of Germany
  - f. And two other relevant institutions: British National Enterprise Board, European Investment Bank.
2. Report on possible methods for regionalizing the Permanent Fund.
3. Report on options for ensuring public accountability.

Compensation \$7,000.00

Clause I (B): Travel to Anchorage (6 days @ 50/day)  
and Kotzebue (1 day @ 67/day)

Total Per Diem 367.00

Coach class air travel--Boston-Anchorage-Boston

Total Air 555.04

Six days compensation @ 300

1,800.00

Total

2,722.04

Gregg Erickson

-2-

September 15, 1977

Clause I (C): Other Tasks:

Consultation to John Williams of the Legislative Affairs Agency on the role of the Permanent Fund and the Renewable Resources Fund in Fisheries Development, August 22 - 23, 1977.

14 hours @ 50/hour 700.00

TOTALS \$10,422.04

*Clark Lanning*  
*Sept 15, 1977*

BELDEN HULL DANIELS  
COUNSEL FOR COMMUNITY DEVELOPMENT  
4 SENTRY HILL PLACE  
BOSTON, MASSACHUSETTS 02114  
617-523-4885

8/16/77

Dear Mike -

Signed Contract enclosed. Look forward to seeing you in Alaska soon. Please let me know as soon as the meeting dates are set. Also, I would appreciate it if Kathy could:

- ① Send me a dozen more of my reports.  
(to 4 Sentry Hill Place, not Truro)
- ② Any clippings on the Perant Fund since July 16 + any other new material.
- ③ The new brochure of the committee.

SENT  
AUG 15  
KAS

Thanks again  
Regards  
Belden

August 12, 1977

Belden Daniels  
c/o Nancy Watson  
P.O. Box 32  
Truro, MA 02666

Dear Mr. Daniels:

Enclosed please find two copies of your contract with the Committee. If the contract is in order, please sign and return it to the Committee as soon as possible.

Also enclosed are State forms for travel expenses and what have you, for your use in preparing an expense billing under the contract.

Sincerely,



Mike Doogan  
Administrative Assistant

Enclosures

Belden Daniels

# 11

Memo

To: Brian Rogers  
From: Jamie Love

**THIS IS WHAT YOU SHOULD ASK BELDEN TO DO:**

- 1). Help people in Alaska to ask the right questions, by defining the planning process. In this area, Belden should not be asked to draw conclusions regarding specific investment priorities, or goals, but he will be valuable as a consultant who can define the method by which one comes up with priorities and goals. Process issues.
- 2). Discuss the mechanisms by which the state can finance community economic development, in smaller, depressed communities and villages. Again, Daniels should not be asked to propose specific projects, but rather the mechanisms which commonly are used for successful community economic development, such as a community development finance corporation (CDFC). This is a special area of expertise for Daniels, which has not been discussed by any of the other consultants.
- 3). Drawing upon Daniels experience in development banking, you should ask him to comment on the structure for a development fund. Specifically, how purposes of a development program should be set out, the necessary legal statutes of the fund, the proper capital structure, management structure, and the methods of insuring accountability to the legislature, the administration, and the public. In this last area, you have already had some input from Price Waterhouse and White, Wield, but Belden is certainly as qualified (more qualified) as either firm to comment on these areas, plus, it is a good idea to see how his observations would differ from those of the other consultants.

He should be able to comment on all these items for the amount of money you have set aside for his contract. It will be important to coordinate some travel with Belden, so that he can meet with members of the legislative committee, the administration, and in general, spend some time in Alaska.



JUNEAU ALASKA

*Belden Daniels*

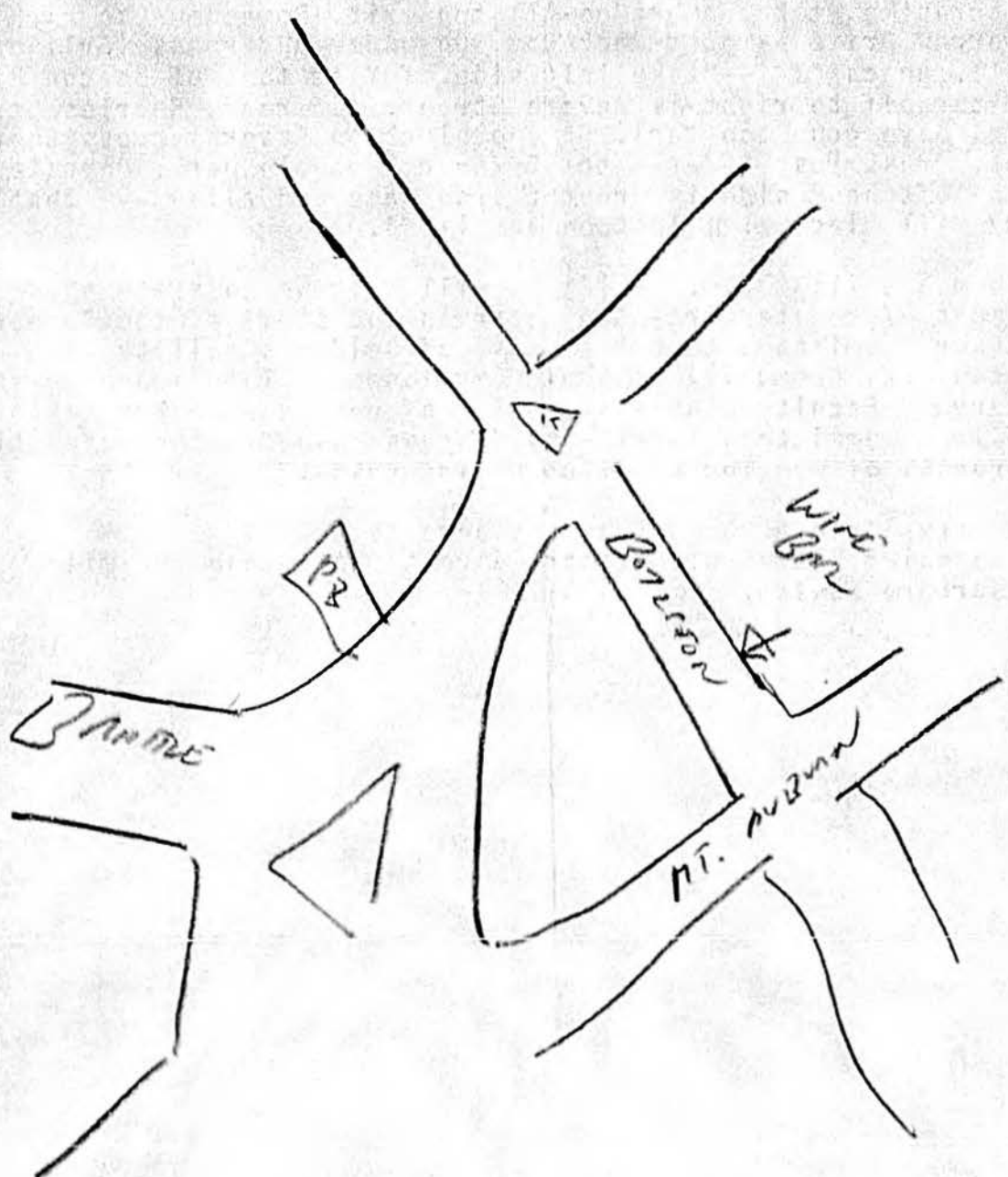
Alaska State Legislature  
House

Belden Daniels  
4 Sentry Hill PLACE  
Boston 02114  
617-523-4885

From turnpike, take Cambridge-Allston exit. Come down to right on Storrow Drive -- past Back Bay. Go under underpass (Arlington Street). Reach "Y" -- take left side of Y at foot of Beacon Hill. First turnoff to right is Revere Street. (If reach Charles Street Circle, have gone too far). Go one block on Revere, cross Charles Street. Cross West Cedar-- to 78 Revere. Double park. Opposite #78 on left hand side is wrought iron gate and alley --- that's Sentry Hill Place. The last on end is #4.

Meet him at 11:30 a.m. At 12:45, will walk up to state house and ~~meet~~ meet w/ counterpart- the chairman and staff of the Commerce and Labor Committee, to get a sense of Belden's ability in Massachusetts Community Economic Development. Then luncheon at the Harvard Faculty Club - a small # of people - banker, attorney, staff from committee, Terry - to discuss issues - the conception and process of meeting conflicting interests.

Then Barry Stein at 3:00 (maybe change to 3:30?)  
At 6 Channing Place, off Brattle Street, less than one mile from Harvard Square. 617-868-5264



**BELDEN HULL DANIELS**  
**COUNSEL FOR COMMUNITY DEVELOPMENT**  
**4 SENTRY HILL PLACE**  
**BOSTON, MASSACHUSETTS 02114**  
**617-523-4886**

**RESUME**

Belden Daniels is a lawyer, former international banker, and a lecturer on development finance at Harvard who specializes in financing urban and regional economic development and designing development banks to support that development.

He has financed industrial development first in underdeveloped countries of Asia, and now in underdeveloped urban and rural areas in this country.

From 1960 to 1965 he helped to organize and finance joint ventures between Asian and American businesses in India, Pakistan, Japan and Southeast Asia as an international banker working with national and international development banks.

Since 1965, he has helped to organize and finance community development corporations and their enterprises in Nassau County, New York; Boston, Massachusetts; Eastern Kentucky; Racine, Wisconsin; Trenton, New Jersey; the San Joaquin Valley, Shasta County and Richmond, California; as well as in Denver, Hartford, New York, New Orleans, Louisville, Philadelphia, St. Louis, East St. Louis, Minneapolis, Tucson, and Washington, D.C.

Since 1972, he has been a principal participant in drafting legislation to create new development banks and development finance institutions at the federal level and in Massachusetts, California, New York, Delaware, and Alaska. In 1976 and 1977, he was Executive Director of the Massachusetts Task Force on Capital Formation for Economic Development, a broad-based effort of 40 leaders from finance, industry, labor, and government. Two of the major development finance mechanisms proposed have been authorized and funded: the Massachusetts Community Development Finance Corporation and the Massachusetts Industrial Mortgage Insurance Agency which will form part of a comprehensive Massachusetts Industrial and Community Development Authority. Belden Daniels is now assisting the Alaskan legislature to establish the Alaskan Permanent Fund, a \$4 billion state development bank financed by oil revenues.

He has also authored many monographs and analyses of development finance, including "Development Incentives to Induce Efficiencies in Capital Markets," co-authored with Professor Martin Katzman, for the New England Regional Commission. The German Marshall Fund has recently invited him to undertake a similar study comparing European and North American development finance efforts.

Summary of Development Finance WorkA. Urban and Community Development Finance

In addition to packaging private and public capital for community development corporations, Belden Daniels has also been engaged in planning new community development finance institutions, conducted research on the operating experience of urban business ventures, written major monographs of this research, and taught advanced Harvard graduate students the technical skills of market and financial feasibility analysis for business enterprises sponsored by community development corporations or operating in depressed urban and rural areas. Some of the work which he has authored includes:

The Community Development Finance Corporation, enacted by the Massachusetts Legislature, December 1975, funding authorized, October 1976.

There is no Equity: The Case for a Community Development Banking System to Capitalize Underdeveloped America (book, manuscript 1975).

CEDC, of Nassau County: An Economic Development Philosophy and Strategy (CCED, Cambridge, Massachusetts, Spring 1975), 48 pp.

Building a Capital Base for Community Economic Development (Marshall Kaplan, Gans and Kahn: San Francisco, California, February 1973), 20 pp.

Community Economic Development Corporation Manual, Editor (Office of Economic Opportunity, Washington, D.C., July 1969), 300 pp.

Technical Market and Financial Feasibility Studies of Business Enterprises prepared under Belden Daniels' direction by advanced graduate students at Harvard for Massachusetts community development corporation clients include:

A \$20 Million Structural Grade Particle Board Manufacturing Plant in Franklin County, for the Franklin Training Corporation.

A Commercial Fishing Boat Construction Facility in the Boston Marine Industrial Park, for the Boston Economic Development Industrial Corporation and for the Massachusetts Land Bank.

Alternative Operating Costs at Different Sites in Massachusetts for the Creation of a New 1,000 Employee, 400,000 Square Foot Production Facility for a rapidly growing high technology company now located in the inner city.

A Proposed Community Owned Savings Bank, Cooperative Bank or Credit Union in the Dudley Square area of Roxbury, for the Southwest Corridor Coalition, Inc.

Market Analysis and Alternative Uses of 17,000 Square Feet of Commercial Space in the John Eliot Square Development in Highland Park, for the Roxbury Action Program.

A \$12 Million Industrial Park in the Southwest Corridor, for the Community Development Corporation of Boston, Inc.

A Twenty-nine Acre Industrial Park in East Boston, for the East Boston Community Development Corporation.

A \$20 Million, 400 Unit mixed commercial, housing and recreation project on the East Boston waterfront, for the East Boston CDC.

A Refinancing Strategy for Methunion Manor, a 150 Unit, Federally Subsidized Housing Project in Default in the South End, for the Black Housing Task Force.

A \$15 Million, Fifteen Acre, new 480 Unit Housing and Commercial Development (Phase III), for the Lower Roxbury Community Development Corporation.

The Re-Financing and Renovation of the 228 Unit Warren Gardens Development in Roxbury, for the Greater Roxbury Development Corporation.

The Preservation and Development of Existing but Abandoned Single Family Housing Stock in Jamacia Plain, for Urban Edge, Inc.

#### B. State Development Finance

Consultant to the Alaskan State Legislature Joint Committee on the Alaskan Permanent Fund, 1977-

Executive Director, Commonwealth of Massachusetts Task Force on Capital Formation for Economic Development, Secretariat for Economic Affairs, Department of Commerce and Development, Boston, Massachusetts, 1976-1977.

The Task Force proposed the creation of a comprehensive Massachusetts Industrial Development Authority (MIDA) which would oversee three publicly owned and operated development banks:

- \* A Technology Development Corporation to co-venture with the venture capital community, high technology industry and Massachusetts universities in the creation of new technologies and industries (bill before the legislature);
- \* A Massachusetts Industrial Finance Agency to work with commercial banks and the thrift industry in financing the expansion within Massachusetts of small and medium-sized industries (passed and funded; now being expanded by legislative amendment);

- \* The Community Development Finance Corporation to finance the creation, expansion, and retention of industry in depressed areas of the state through local community development corporations (passed and funded).

In addition, two new publicly chartered but privately capitalized development banks are before the legislature:

- \* A \$100 million Massachusetts Source Corporation to be owned and operated by the Massachusetts life insurance industry to finance the intermediate term lending needs of rapidly expanding high technology companies in the \$25-\$100 million sales range.
- \* A Central Development Facility to be owned and operated by state chartered commercial banks, savings and cooperative banks and credit unions to finance long term industrial capital investment for Massachusetts industry.

Summary Report of the Task Force on Capital Formation for Economic Development (Massachusetts Secretary for Economic Affairs, Boston, Massachusetts, January 24, 1977), 26 pp.

Massachusetts Capital Markets Coordinator, New England Regional Commission Capital Markets Coordinating Group, 1976-1977.

Consultant, California State Banking Commission, to assist in creating development finance institutions to stimulate California economic development, San Francisco, California, 1975.

Consultant to New York Assembly Speaker Stanley Steingut to critique a proposal for a New York State Public Bank, Albany, New York, 1975.

Consultant to Delaware Governor Peterson to prepare a plan for a State Development Bank, Wilmington, Delaware, 1972.

#### C. Regional Development Finance

Development Incentives to Induce Efficiencies in Capital Markets, with Martin Katzman (New England Regional Commission, Boston, Massachusetts, September 1975), 190 pp.

Member, Steering Committee for a New England Capital Corporation proposed by the six New England Governors and the New England Regional Commission, 1976-1977.

#### D. Federal Development Finance

A Proposal for a National Community Development Finance System, prepared for the Office of Economic Development of the Community Services Administration, Washington, D.C., September 1973, 161 pp.

A Pilot National Development Finance System, with Christopher Bergstrom, Preston Brine and Donald Worth (CCED, Cambridge, Massachusetts, September 1975).

Counsel to Senators Kennedy, Javits, Humphrey and Stevenson, and Congressman Harrington on various national development bank proposals.

#### E. International Development Finance

An Analysis of 35 Multinational, Federal, State and Local Development Finance Institutions, with Christopher Bergstrom, Preston Brine and Rudolph Yaksick (Center for Community Economic Development, Cambridge, Massachusetts, May 1975).

Consultant to the German Marshall Fund to analyze and compare development finance institutions in Germany, France, Ireland and the United Kingdom with those in the United States: 1976-

#### Employment

Harvard University, Department of City and Regional Planning, Lecturer on Development Finance	Cambridge, Massachusetts 1974-
Counsel for Community Development, Inc. President	Boston, Massachusetts 1971-
OSTI (Organization for Social and Technical Innovation), Senior Partner	Cambridge, Massachusetts 1967-1971
Commonwealth of Massachusetts: Coordinator of Anti-Poverty Programs; Program Director, State Anti-Poverty Programs	Boston, Massachusetts 1964-1967
First National Bank of Boston International Division, International Officer for Asia	Boston, Massachusetts 1960-1964

#### Education

Harvard University Loeb Fellow in Advanced Environmental Design	1973-1974
University of Calcutta Legal and Financial Organization of Joint Ventures between U.S. and Indian Companies	1959-1960
Harvard Law School International Corporate Law, LLB, 1959	1956-1959

## Dartmouth College

International Economics, BA, 1956

1952-1956

Honors: Penfield Traveling Scholarship to Asia from the University of Pennsylvania, 1959-60; Fulbright Grant to India, 1959-60; Charles Howe Woodbury Law Fellowship, 1956; Member, Phi Beta Kappa, 1956; Member, Massachusetts Bar.

Publications and Manuscripts

In addition to those listed above, Editor of The Neighborhood Corporation Manual; OEO, July 1969; Cooperation and Conflict - Readings in American Federalism, Elazar, Carroll, Levine & St. Angelo, eds. (Ithasca, Ill.: F.E. Peacock, 1965); "Power, Politics and Poverty," Boston Forum, May 1966; Editor, Boston Forum, 1963-64; "The Study Group As A Learning Tool: Notes on Experiments in the Open Classroom," National Association of Independent Schools Bulletin, Winter 1973.

Personal

Born July 3, 1934

Married Pamela Koehler July 11, 1959

Sons Andrew and Jonathan born 1963, 1965.

Other Serious Interests: Parenting, Householding, Cooking, Backpacking, Running and Dancing.

File: Belden Daniels

**BELDEN HULL DANIELS**  
COUNSEL FOR COMMUNITY DEVELOPMENT  
4 SENTRY HILL PLACE  
BOSTON, MASSACHUSETTS 02114  
617-523-4885

RESUME

Lawyer, Banker, Specialist in Financing Community Economic Development,  
Lecturer on Development Finance

Belden Daniels has specialized in Financing industrial development first in underdeveloped countries of Asia, and now in underdeveloped urban and rural neighborhoods in this country.

From 1960 to 1965 he helped to organize and finance joint ventures between Asian and American businesses in India, Pakistan, Japan and Southeast Asia as an international banker working with national and international development banks.

Since 1965, he has helped to organize and finance community development corporations and their enterprises in Nassau County, New York; Boston, Massachusetts; Eastern Kentucky; Racine, Wisconsin; Trenton, New Jersey; the San Joaquin Valley, Shasta County and Richmond, California; as well as in Denver, Hartford, New York, New Orleans, Louisville, Philadelphia, St. Louis, East St. Louis, Minneapolis, Tucson, and Washington, D.C.

Since 1972, he has been a principal participant in drafting legislation to create new development banks and development finance institutions at the federal level and in Massachusetts, California, New York and Delaware.

Summary of Development Finance Work

A. Community Development Finance

In addition to packaging private and public capital for the community development corporations noted above, Belden Daniels has also been engaged in planning new community development finance institutions, conducting research on the operating experience of CDC financed business ventures, writing major monographs of this research, and teaching advanced Harvard graduate students the technical skills of market and financial feasibility analysis for business enterprises sponsored by community development corporations. Some of the work which he has authored includes:

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The Re-Financing and Renovation of the 228 Unit Warren Gardens Development in Roxbury, for the Greater Roxbury Development Corporation.

The Preservation and Development of Existing but Abandoned Single Family Housing Stock in Jamaica Plain, for Urban Edge, Inc.

In addition, a number of out of state market and financial feasibility studies were undertaken with nationally successful CDCs in order to determine what new enterprise development, expansion and acquisition strategies might be adapted by CDFC in Massachusetts.

B. State Development Finance

Executive Director, Commonwealth of Massachusetts Task Force on Capital Formation for Economic Development, Secretariat for Economic Affairs, Department of Commerce and Development, Boston, Massachusetts, 1976-

Massachusetts Capital Markets Coordinator, New England Regional Commission Capital Markets Coordinating Group, 1976-

Consultant, California State Banking Commission, to assist in creating development finance institutions to stimulate California economic development, San Francisco, California, 1975.

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Employment

Commonwealth of Massachusetts Task Force on Capital Formation for Economic Development, Executive Director	Boston, Massachusetts 1976-
Harvard University, Department of City and Regional Planning, Lecturer on Development Finance	Cambridge, Massachusetts 1974-
Counsel for Community Development, Inc. President	Boston, Massachusetts 1971-
Center for Community Economic Development Financial Consultant	Cambridge, Massachusetts 1972-1975
OSTI (Organization for Social and Tech- nical Innovation), Senior Partner	Cambridge, Massachusetts 1967-1971
Commonwealth of Massachusetts : Coordinator of Anti-Poverty Programs ; Program Director, State Anti-Poverty Programs	Boston, Massachusetts 1964-1967
First National Bank of Boston International Division, Inter- national Officer for Asia	Boston, Massachusetts 1960-1964

Education

Harvard University  
Loeb Fellow in Advanced Environmental Design 1973-1974

University of Calcutta  
Legal and Financial Organization of Joint  
Ventures between U.S. and Indian Companies 1959-1960

Harvard Law School  
International Corporate Law, LLB, 1959 1956-1959

Dartmouth College  
International Economics, BA, 1956 1952-1956

Honors: Penfield Traveling Scholarship to Asia from the University of Pennsylvania, 1959-60; Fulbright Grant to India, 1959-60; Charles Howe Woodbury Law Fellowship, 1956; Member, Phi Beta Kappa, 1956; Member, Massachusetts Bar.

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Personal

Born July 3, 1934  
Married Pamela Koehler July 11, 1959.  
Sons Andrew and Jonathan born 1963, 1965.

Other Serious Interests: Parenting, Householding, Cooking, Backpacking and Dancing.

CONTRACT BETWEEN  
STATE OF ALASKA  
LEGISLATIVE AFFAIRS AGENCY  
AND  
BELDEN DANIELS

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, on behalf of the Alaska State Legislature, hereinafter referred to as the "Agency", and BELDEN DANIELS, hereinafter referred to as the "Contractor".

THE PURPOSE OF THIS AGREEMENT is to provide the Alaska State Legislature with specialized counsel and consulting services with respect to the formation of the Alaska Permanent Fund.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

- A. The Contractor will conduct a study and produce a report on the following topics and questions:
1. Suggested methods for management of the Alaska Permanent Fund which will assist community and rural economic development, regionalization of Permanent Fund capital investments, and stable regional economies in Alaska.
  2. What refinements could be made in the Alaska Permanent Fund (current proposals HB 298, HB 300, HB 4, SB 357) in order to insure that its purposes and policies can in fact be carried out through its legal structure, capital structure and its management organization and mechanisms for accountability?
  3. What problems have occurred during the initiation of similar funds in other parts of the country and world? What could Alaska do to be prepared for or to avoid these problems?
  4. Suggested methods for management of the Alaska Permanent Fund which could stimulate development in small communities without major distortions in the state or local economy (including changes in per capita income and population growth).

- B. The Contractor will be available to provide up to two days of testimony or briefings on the report at a place in Alaska to be designated by the Project Director.

CLAUSE II. - PERIOD OF PERFORMANCE

- A. A draft of the report required under Clause I (A) shall be delivered to the Project Director by 30 June 1977; the finished report shall be delivered to the Project Director in camera-ready form prior to 14 July 1977.
- B. The Contractor shall be available to provide the testimony required under Clause I (B) on the 14th and 15th of July, 1977, or such later date in July as may be specified by the Project Director.
- C. Unless extended by written agreement, this contract expires on 31 July 1977.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be Gregg K. Erickson, Director of Research, Legislative Affairs Agency, or his designee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

- A. Contractor's compensation for the work specified in Clause I (A) shall be \$5000.
- B. Contractor's compensation for the work specified in Clause I (B) shall be computed at the rate of \$300 per day, including time spent in travel to and from Alaska, but in no case shall total compensation for Clause I (B) work (testimony and related travel time) exceed \$1200.
- C. The Contractor shall be reimbursed for the expenses of travel provided that: (1) the travel is approved in advance by the Project Director, (2) the costs of air travel shall be reimbursed at coach class rates, (3) food and lodging shall be reimbursed on the basis of per diem at the rate authorized for state employees, and (4) total reimbursement shall not exceed \$800.
- D. Total compensation under this contract, inclusive of expenses, shall not exceed \$7000.

CLAUSE V. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE VI. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted next to their signatures.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY  
(By direction of the Executive Director)

\_\_\_\_\_  
BELDEN DANIELS  
4 Sentry Hill Place  
Boston, Massachusetts 02114

Date

*Gregg K. Erickson*  
\_\_\_\_\_  
GREGG K. ERICKSON

5/20/77  
Date

(Reviewed  
6/15/77)

Approved as to form.

*Billy G. Smith*  
\_\_\_\_\_  
AGENCY LEGAL COUNSEL

CONTRACT BETWEEN  
STATE OF ALASKA  
LEGISLATIVE AFFAIRS AGENCY  
AND  
BELDEN DANIELS

The parties of this agreement are the LEGISLATIVE AFFAIRS AGENCY, on behalf of the Alaska State Legislature's Committee on the Alaska Permanent Fund (House), hereinafter referred to as the "Agency", and BELDEN DANIELS, hereinafter referred to as the "Contractor".

THE PURPOSE OF THIS AGREEMENT is to provide the Alaska State Legislature with specialized counsel and consulting services with respect to the formation of the Alaska Permanent Fund.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

(A) The Contractor will:

- (1) Prepare a series of technical reports on purposes, legal and capital structures, and management structure (including the issue of accountability) of the following institutions: a) Canada Development Corp., b) Connecticut Development Authority, c) Community Development Finance Corp. (Mass.), d) British Columbia Central Credit Union, e) D. G. Bank (Germany), and f) any other relevant institutions.
- (2) Report on possible methods for regionalizing the Permanent Fund.
- (3) Present options for insuring public accountability for the Permanent Fund, detailing tradeoffs involved and citing specific cases in point.
- (4) Be available for consultation with committee members and other involved Alaskans prior to specified committee meetings, at times and places as determined by the Project Director.

- (B) The Contractor will be available to attend committee meetings, as specified by the Project Director and to provide testimony or briefings on the reports required under Clause I(A).

- (C) The Contractor will perform other tasks as may be defined by the Project Director.

CLAUSE II. - PERIOD OF PERFORMANCE

- (A) Final reports required under Clause I(A) above shall be delivered to the Project Director by 16 September 1977.
- (B) The Contractor shall be available to provide the testimony or briefings required under Clause I(B) in September, November and December, on dates specified by the Project Director.
- (C) Unless extended by written agreement, this contract expires on December 31, 1977.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be Gregg K. Erickson, Director of Research, Legislative Affairs Agency, or his designee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

- (A) Contractor's compensation for the work specified in Clause I(A) shall be \$7000.
- (B) It is contemplated that the work specified in Clause I(B) shall require three trips to Alaska, not to exceed six days per trip, for which compensation shall be paid at the rate of \$300 per day, including time spent in travel to and from Alaska. The Contractor shall be reimbursed for the expenses of travel provided that: (1) the travel is approved in advance by the Project Director, (2) the costs of air travel shall be reimbursed at coach class rates, and (3) food and lodging shall be reimbursed on the basis of state per diem rates. Total compensation for the work specified in Clause I(B) and related travel expenses shall not exceed \$9000.
- (C) The Contractor shall be compensated at the rate of \$50 per hour for consulting services provided under Clause I(C), but in no case shall total compensation for these services exceed \$3500.
- (D) Total compensation under this contract, inclusive of expenses, shall not exceed \$19,500.
- (E) Billings for all work and requests for reimbursement of expenses shall be submitted to the Project Director.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

- (A) The Contractor shall maintain accurate records of the time worked, and such other records as may be required by the Project Director. The records of time worked are subject to inspection by the Agency or the Project Director at all reasonable times.

- (C) The Contractor will perform other tasks as may be defined by the Project Director.

CLAUSE II. - PERIOD OF PERFORMANCE

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- (B) The Contractor shall be available to provide the testimony or briefings required under Clause I(B) in September, November and December, on dates specified by the Project Director.
- (C) Unless extended by written agreement, this contract expires on December 31, 1977.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be The Honorable Clark Gruening, Chairman of the Committee on the Alaska Permanent Fund (House).

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

- (A) Contractor's compensation for the work specified in Clause I(A) shall be \$7000, except that this amount shall be reduced by 10% if the work specified in Clause I(A) is not delivered by the date specified in Clause II(A) (16 September 1977), and by a further 1% of the contract price for each day of further delay.
- (B) It is contemplated that the work specified in Clause I(B) shall require three trips to Alaska, not to exceed six days per trip, for which compensation shall be paid at the rate of \$300 per day, including time spent in travel to and from Alaska. The Contractor shall be reimbursed for the expenses of travel provided that: (1) the travel is approved in advance by the Project Director, (2) the costs of air travel shall be reimbursed at coach class rates, and (3) food and lodging shall be reimbursed on the basis of state per diem rates. Total compensation for the work specified in Clause I(B) and related travel expenses shall not exceed \$9000.
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- (E) Billings for all work and requests for reimbursement of expenses shall be submitted to the Project Director.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

- (A) The Contractor shall maintain accurate records of the time worked, and such other records as may be required by the Project Director. The records of time worked are subject to inspection by the Agency or the Project Director at all reasonable times.

(B) All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Project Director.

CLAUSE VI. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE VII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

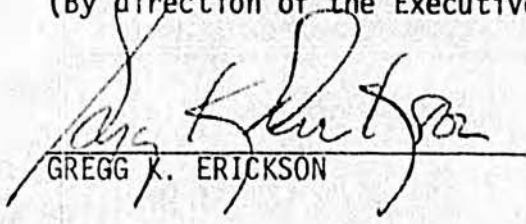
IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY  
(By direction of the Executive Director)

\_\_\_\_\_  
BELDEN DANIELS  
4 Sentry Hill Place  
Boston, Massachusetts 02114

Date

  
GREGG K. ERICKSON

7/28/77  
Date

Accepted:

Approved as to form.

  
CLARK GRUENING, Chairman  
House Special Committee on  
the Permanent Fund (House)

8/11/77  
Date

  
AGENCY LEGAL COUNSEL

7/28/77  
Date

ACADIAN FINANCIAL RESEARCH, INC.  
303 Marsh Street  
Belmont, Massachusetts 02178  
November 13, 1977

Dr. Belden Daniels  
4 Sentry Hill Place  
Boston, Massachusetts

Dear Dr. Daniels:

As you requested, I have reviewed the Committee Draft of the proposed bill for the State of Alaska Legislature. Given my inherent time constraint, you should consider these comments as preliminary in nature and conceptual in focus. Furthermore, they address only investment related issues germane to the Permanent Fund.

Important general goals to seek in this legislation include the following:

1. An investment mandate which allows the fund's managers (internal and/or external) enough autonomy to seek appropriate investment objectives without unnecessary or counterproductive restrictions. This mandate should avoid "legal list" as well as many other more subtle forms of investment constraints.
2. Flexibility to hire the most competent outside professional capabilities available including money managers, consultants, and other necessary sources of specialized support services.
3. Autonomy to hire internal staff of high caliber without excessive constraints on selection procedures, compensation levels, tenure, etc.
4. Enough continuity and longevity among Trustees to ensure that the "learning curve" will be allowed to operate properly.

Dr. Belden Daniels  
November 13, 1977  
Page 2

Specific points in the proposed legislation which, in my view, require careful review and possible revision include the following:

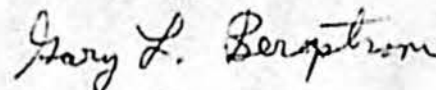
1. Section 24.20.660 STAFF. Should explicit recognition of the need for outside investment managers, consultants, etc. be included in this section or elsewhere?
2. Section 37.13.010 FINDINGS. Sections (2) and (4) are not well stated or particularly meaningful. Perhaps they should be combined into one succinct statement of the fund's goal or this goal should be delegated to the Board of Trustees.
3. Section 37.13.110 EMPLOYMENT OF PERSONNEL. What are the practical restrictions of operating with "exempt service under AS 39.25"? Does this place a severe limitation on the recruitment of qualified personnel? If so, can this restriction be eliminated?
4. Section 37.13.130 POWERS AND DUTIES. Part (a)  
The board should be required to exercise the judgment and care of a "prudent expert" rather than "a person of ordinary prudence". Moreover, management of assets of this magnitude is quite different than the management of an individual's own affairs and this should be explicitly recognized.
5. Section 37.13.130 Part(e)  
What is the operational interpretation of "income-producing investments"? This provision could exclude major classes of attractive investments.

Part (f)

As written, this section would be inimical to achieving appropriate investment objectives. It should have major alterations or be deleted entirely if politically feasible.

I hope your trip to Alaska goes well and I look forward to a call from you within the next week.

Very truly yours,



Gary L. Bergstrom  
President

GLB/amc



Alaska State Legislature  
House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback  
Chairman

Pouch V, State Capitol  
Juneau, Alaska 99811  
(907) 465-3715

October 6, 1977

TO: Representative Clark Gruening, Chairman  
House Permanent Fund Committee

FR: Representative Alvin Osterback, Chairman  
Interim Committee on Resource Matters

RE: Meeting with Dr. Belden Daniels

Attached is a memo I sent to the staff and consultants who are doing work on the bottomfish project with the Interim Resources Committee.

My office talked with Mike Doogan about the possibility of arranging some time with Dr. Daniels when he is in Juneau with the Permanent Fund on October 20. Mike said he would check with you and call Diann Nelson.

It would be very helpful to me if Dr. Daniels could be spared for a day or so to work with our research team. I will be accompanying the State's Trade Mission on Fisheries to Denmark, and am leaving Anchorage tomorrow morning - so, if at your earliest convenience you could let Diann Nelson know if we will be able to use Dr. Daniel's expertise on October 22, it would be really appreciated.

Attachment

*Alvin Osterback*



Alaska State Legislature  
House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback  
Chairman

Pouch V, State Capitol  
Juneau, Alaska 99811  
(907) 465-3715

October 6, 1977

TO: Kathy Hathaway  
John Williams  
Dr. George Rogers  
Jim Baldwin  
Ken Vassar

FR: Alvin Osterback, Chairman  
Interim Committee on Resource Matters

RE: Meeting with Dr. Belden Daniels

Earlier in the Interim, Rep. Gruening agreed to loan this Committee some time with Dr. Belden Daniels in assisting us with the various areas of research which were being done on the bottomfish project. Dr. Daniels will be in Juneau on October 20 with the Permanent Fund Committee. We are hoping that Rep. Gruening will be able to allow us a day of Dr. Daniels time on Oct. 22 to help us tie together the research which has been done.

If it is possible for you to have your research available at that time for Dr. Daniels to go over, it would be deeply appreciated. If that is not possible, a rough draft of what has been done would be helpful, or possibly a verbal recitation of your ideas.

The staff will notify you of a definite time and place for the meeting if we are able to set it up. Thank you for your assistance.

*Al Osterback*

MEMORANDUM

TO: Representative Alvin Osterback  
Chairman  
Interim Committee on Resource Matters

10/12/77

FROM: Mike Doogan *MD*  
Administrative Assistant  
House Special Committee on  
The Permanent Fund

SUBJECT: Meeting with Dr. Belden Daniels

I spoke with Dr. Daniels last week about your request to meet with him and asked him to take the matter up with the Chairman who is currently on the East Coast.

Dr. Daniels called to say that he had done so and asked me to notify you that he will be arriving in Juneau around noon October 20. It is his intention to contact your office and try to work out an arrangement that fulfills your requirements.

I spoke by telephone with Kathy Hathaway of your office on this date and relayed the above information. I trust this arrangement will fulfill your request in your memo to the Chairman of October 6.

MD:LAD

cc: Rep. Clark Gruening  
Dr. Belden Daniels

December 20, 1977

Belden Daniels  
Council for Community Development  
Four Sentry Hill Place  
Boston, MA 02114

Dear Belden:

Your final payment under your contract with the committee will not be \$2,115.15.

Why, you ask?

Because, Legislative Affairs tells me, there is not that much money left in the contract. I am informed that after subtracting the cost of your trips to Kotzebue and Fairbanks, originally paid with committee TR's, the balance is \$1,838.71.

So, your final payment will be \$1,838.71, bringing your total payment under the contract to \$19,500, the contract maximum.

As a precaution, I have requested a breakout on charges against your contract from Legislative Affairs to be sure that their charges against the contract are accurate.

I trust this is satisfactory from your end. If it is not, I suggest that you pursue the matter with the Chairman, since any additional payments can be made only after an amendment to the contract.

In closing I make a final plea for Page 51 of your first report if it has not already been sent. The printer in Juneau is up to his ears in uncompleted

Belden Daniels

-2-

December 20, 1977

copies of that report, awaiting the arrival of Page 51. If it has not been sent, please send an original Page 51 to me at the Anchorage office, my home (926 West 19th, Anchorage, AK 99503) and care of Ms. Cindy Bryson, Division of Administrative Services, Legislative Affairs Agency, Pouch Y, Juneau, AK 99811. Just to be sure.

Sincerely,

*Mike*

Mike Doogan  
Administrative Assistant

MD:LAD

# 11

MODELS AND OPTIONS  
FOR THE  
ALASKA PERMANENT FUND:  
FUNCTIONS, REGIONALIZATION AND ACCOUNTABILITY

Report Number Two  
September 14, 1977

Belden Hull Daniels  
Department of City and Regional Planning  
Harvard University

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MODELS AND OPTIONS FOR THE ALASKA PERMANENT FUND:  
FUNCTIONS, REGIONALIZATION AND ACCOUNTABILITY

September 14, 1977

INTRODUCTION: Some Models and Options

My first report of July 11, 1977 raised many questions concerning the purposes, functions, sources and uses of funds, management and accountability of the proposed Alaska Permanent Fund, based on the accumulated experience of several hundred development banks over the last one hundred years.

This second report takes the next step, and provides a beginning look at a number of development banks whose experience and functions seem particularly relevant to potential public purposes of the Permanent Fund. In selecting development banks to analyze in detail, I have been guided by two factors: first, institutions which would compliment reports already prepared for the State Investment Advisory Committee by Price Waterhouse and White, Weld; second, institutions whose purposes and functions seem particularly relevant to key potential Fund goals.

Each of these institutions have been analyzed and compared in terms of: I. Purposes; II. Sources of Funds/Capitalization; III. Uses of Funds/Operations; IV. Management; V. Accountability; VI. Evaluation; and VII. Relevance to the Alaska Permanent Fund.

In addition to this look at functional models for the Fund, two key structural issues are outlined in some detail, based on domestic and international experience: regionalization; and accountability to the taxpayers, legislature, and executive. In both instances, a conceptual approach is developed out of a range of

domestic and international experiences. This experience and the conceptual framework will probably raise more questions for your further consideration.

Again I would like to note that as an outsider, I feel competent to suggest detailed operating experience which may be relevant to the Permanent Fund's purposes, but not competent to suggest what those purposes should be. There is an old Asian proverb which says that after one trip to India foreigners write a book, after two they talk in quiet whispers, after three, they say nothing at all. This is my second trip to Alaska.

It is with special gratitude that I thank my research associate, Mitchell Rosenberg, for his extraordinary care in helping to prepare this report. One of the pleasures of teaching and working is witnessing younger colleagues and friends grow in competence to encompass their vision. I wish Mitchell well in his year in Germany.

My sense is that this second report, like the first, will raise more questions than it answers. For this reason, I have noted it a "discussion draft", and look forward to responding to the further issues it raises.

## I. FUNCTIONS

### A. ALASKA OWNERSHIP OF LARGE SCALE ALASKA ENTERPRISE

1. CANADA DEVELOPMENT CORPORATION  
Discussion Draft

September 14, 1977  
Page 3

#### I. PURPOSES

The CDC is an investment bank operating in the private sector of the Canadian economy. Created in 1971 by an act of Parliament, its initial capitalization was provided by the Canadian treasury in the form of a purchase of over \$250 million in common stock. Such an institution had been proposed by government officials as early as 1958 in response to concern over the high level of foreign ownership and control of Canadian business. This condition, they felt, discouraged the development of native entrepreneurial talent necessary for economic growth and job creation. The proposed use of financial mechanisms to achieve such goals met with strong opposition from the Canadian business sector and allied politicians. When the CDC bill was passed after 15 years of debate, none of these social objectives were included in the institution's statutory agenda.

#### Legislative Goals

The three main objectives of the CDC summarized in the act are:

- 1) to help develop and maintain strong, Canadian-controlled and managed corporations in the private sector of the economy;
- 2) to widen the investment opportunities open to Canadians; and

3) to operate profitably, in the best interests of all its shareholders, public and private.

The investment policies by which these goals are to be achieved were left purposefully broad in the act in order to accommodate conflicting views of the proper role for the institution in passing the legislation and to provide maximum managerial discretion. This is similar in concept and language to the draft of the Permanent Fund developed by the Investment Advisory Committee. However, the "Objects" section of the act, various documents of the debate prior to its passage, and statements of company officials provide a clear picture of the CDC's investment criteria and their rationale.

#### Management Interpretation of Goals

CDC management interprets its role as a provider of the equity capital necessary to mobilize Canada's material, human and capital resources to bring domestic industry up to internationally competitive scale in the long run. The management's investment policies following from this view are:

1) emphasis on large, longer-range development projects, particularly those involving upgrading of resources, a high technological base or good potential for building a Canadian-controlled presence in international markets.

2) Profit potentials must be commensurate with perceived risk. This is the one criterion mandated in the act, similar to the current draft of the Permanent Fund. As a rule of thumb, the Board proposed targeting investment to sectors in which predicted growth exceed twice that of GNP. Acknowledging the long-term nature of their mode of investment, the directors declare, "CDC is prepared to be patient, recognizing that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings buildup."

3) CDC in a manner again similar to the current Permanent Fund draft, does not seek to duplicate or preempt activities in the private capital market. Thus it does not lend, debt capital, presumably being readily available to large-scale enterprises in the Canadian private market. It is, however, prepared to play a catalytic role in joint ventures with foreign or domestic investors.

4) CDC seeks controlling positions, through the purchase of voting stock, in the companies in which it invests--this in order "to take measures necessary to protect and increase the value of its holdings." Such measures connote input into top-level strategic and corporate planning decisions, not day-to-day management. The Permanent Fund draft is unclear on this point.

5) CDC seeks to concentrate its activities in sectors where Canada holds competitive advantage on an international

scale or can achieve such position through consolidation of markets.

6) Roles the CDC specifically rejects include buyer-of-last-resort for faltering firms, buy-back agency for foreign-controlled firms or high bidder in take-over contests where foreign firms are involved.

In order to pursue these policies, CDC has been granted a very broad range of powers. It may invest in any asset or security, promote companies, lend or guarantee funds. It may even invest in firms not carrying on any part of their business in Canada when, in the opinion of the Board of Directors, such investment would further the aims of the company.

## II. SOURCES OF FUNDS/CAPITALIZATION

Authorized - CDC is authorized to issue 200 million common shares without nominal or par value, of which the first 30 million were subscribed by the Canadian government from 1971 to 1975 at prices averaging slightly over \$10 a share. The company is further authorized to issue up to \$1 billion in preferred stock with such convertibility, voting and interest features as the Board determines. CDC is under no statutory debt limit. Management has chosen a target level of 40 percent of paid-in capital, a conservative policy designed to compliment CDC's risk-oriented

investment policies. This scheme indicates a potential capitalization of \$5 billion.

### Capitalization Goals

CDC wishes to finance further investment through the public issue of shares. Its aims in so doing are:

1) to decrease the government share of ownership to 10 percent within 10 years. The government currently holds 65 percent of all CDC stock outstanding.

2) to offer opportunities for equity investment in Canadian industries to Canadian investors. Political support is an expected by-product of such a policy.

Reliance on public support reinforces the profit criteria for investment, since continued growth will depend on investors' perception of CDC as a safe and profitable investment.

### Actual History of Capitalization

1971 - CDC was originally capitalized by the Canadian government's purchase of 25 million shares for a price of slightly more than \$250 million. The government increased its holding incrementally over the subsequent four years until it held about 30 million shares valued at slightly more than \$300 million in 1975.

1974 - CDC placed 10 million non-voting redeemable preferred

shares with institutional investors. These preferred shares sold for \$10 and carried a dividend of 5 3/4 percent. The proceeds of this issue were used, in part, to pay off bank debt incurred to finance start-up operating costs. The shares are redeemable at the option of the holder or CDC after five years.

1975 - CDC marketed 1.5 million preferred voting shares to some 20,000 individual, institutional and governmental investors. These shares sold for \$100 and carried an 8 percent dividend. They were convertible for 10 shares of common stock with further share bonuses for early conversion. They are redeemable at the option of the holder or CDC after five years. This was the largest public stock offering in Canadian capital market history.

Despite CDC's profit orientation, its performance has not yet inspired sufficient investor confidence to support the subscription of common stock on the basis of capital gains alone.

In 1975 CDC also issued about 950,000 shares of common stock to the Canadian government as the final \$10 million payment for the Crown Corporation, Polysar.

Outstanding debt of wholly-owned subsidiaries stood at \$250 million at the end of 1975.

### III. USES OF FUNDS/INVESTMENT OPERATIONS

CDC has used its funds primarily to invest in established

businesses either through buying the enterprise outright or through purchase of a significant portion of its outstanding securities. CDC's holdings in 1975, by industrial sector, were as follows:

Petrochemicals - CDC acquired Polysar Ltd., a manufacturer of rubber and petrochemical products, from the Canadian government. The negotiated price for the Crown corporation was \$62 million plus \$10 million if certain profit targets were met. As of year-end 1975, Polysar's assets were \$602 million. In 1975, CDC, through Polysar, joint-ventured with Canadian banks to finance the construction of the Petrosar naphtha cracking plant, a \$575 million, world-scale facility.

Mining - In 1973, CDC acquired, through tender, 30.2 percent of the stock of Texasgulf, Inc., the American-based energy and mining firm. At the time of this acquisition, 68 percent of Texasgulf's earnings were generated by enterprises located in Canada.

Oil and Gas - In 1975, CDC acquired 60 percent of the Canadian assets of Tenneco. These assets include gas and oil processing plants and vast areas of oil, gas and bituminous tar producing properties. These assets are valued at \$135.0 million.

Health Care - CDC has purchased several drug companies and research facilities in an effort to build a consolidated Canadian-

owned complex in the health care field. The flagship firm of Connlab Holdings Ltd. is Connaught Laboratories, a research facility formerly attached to the University of Toronto. Since the consolidation of these companies in 1974, Connlab has shown steady losses.

Venture Capital - CDC's directors have acknowledged the crucial role of financial support for technological innovation in economic development. They have not found it appropriate, however, to undertake the complex and time consuming services of venture capitalists themselves. Instead, CDC has purchased large amounts of stock in three existing venture capital firms, leaving their management free to administer the newly expanded funds. These firms invest in a wide variety of enterprises at the conceptual or early development phase.

Pipelines - CDC has advanced \$3.8 million to a consortium planning the construction of a North-South natural gas pipeline.

Looking over CDC's investments, it is apparent that they meet the institution's criteria of being in sectors where Canada holds a comparative advantage (natural resource extraction and processing) or which have experienced high growth (medical supplies and equipment). Unfortunately, statistics which would permit an estimate of CDC subsidiaries' presence in their respective sectors are not available. We can, however, get some idea of the

impact of these investments on the extent of Canadian control of these sectors by comparing 1968 statistics on total assets, Canadian and foreign held, in major sectors which appear in a 1973 government report on foreign investment in Canada to CDC's current holdings.

In 1968, assets employed in the petroleum/natural gas sector totaled \$9.2 billion, of which Canadians held \$3.7 billion (38 percent). Even given growth in this sector between 1968 and 1973, CDC's Petrosar undertaking is a sizable net addition to Canadian holdings in this sector. None of CDC's other undertakings have nearly so large a quantitative impact.

#### IV. MANAGEMENT

The Corporation is managed by a Board of 21 Directors drawn mostly from the business community. While the government holds over 50 percent of the stock, two Deputy Ministers are ex officio Board members with no voting power. The government may choose to appoint four Directors rather than casting its ballots at Shareholders' Meetings. Such power has not been exercised to date. The government has stated both publicly and privately that it does not intend to interfere with the affairs and management of the Corporation.

The Board's policies are administered by a highly profes-

sional central staff of twenty. Subsidiaries' production decisions are to be made independent of CDC input. The staff was kept small to encourage flexible response to problems. Specialized matters are often referred to consultants.

#### V. ACCOUNTABILITY

The CDC act, elements of Canadian corporate law and the political climate in which the Corporation was implemented combine to leave the CDC Board and staff in virtual total control of company operations and investment.

#### Legislative Accountability

By statute, CDC is not subject to Parliamentary oversight. Parliament's latitude for intervention is restricted to voting changes in capital authorization and certain exceptional by-laws concerning CDC's objectives. Given the Corporation's immense initial capitalization, it is unlikely that Parliament will have the opportunity to exercise any constraints on CDC short of closing it down.

CDC is not a Crown Corporation, i.e., a public corporation formed under the Canadian Financial Administration Act "that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs." Although it is publicly capitalized, it

is subject to no ministerial oversight or control. Rules governing disclosure for Canadian corporations have been widely attacked for being unduly lax; these are the accountability standards to which CDC is being held.

#### Executive Accountability

The federal government does hold a certain amount of de facto power through rules governing the distribution of shares. No association, a term defined operationally by the Board, may hold more than 3 percent of the outstanding voting stock. The federal government may hold 10 percent. Therefore, its voting position may always be dominant, given an absence of block coalitions. However, the government has chosen to maintain a hands-off stance towards CDC operations. Investment policies and priorities, for example, were set by the Board with no government input. With its current holdings, the government could exercise control through the removal of Board members, but has chosen not to do so.

The government has eschewed other control mechanisms which have been applied to mixed enterprises in Europe, where this kind of structure has a longer history. These mechanisms include having government officials as voting members of the Board of Directors, actively exercising voting shares, statutory regulation of investment operations and maintaining a permanent or intermittent

public body to audit the activities and reports of the public financial institution. The CDC act provides for none of these supervisory measures. According to most observers, such lack of government input and control eliminates CDC from use as a tool in any centrally planned economic development effort.

#### VI. EVALUATION

Recalling the three purposes of the institution (p. 3), how has CDC performed? Before attempting an answer, we must recognize that evidence is limited to skimpy annual reports covering only four years of operating experience.

Regarding the creation and maintenance of strong, Canadian-controlled industries, CDC has followed a policy of expansion and consolidation of existing firms. CDC's equity presence in Polysar allowed the company to incur debt to finance capital expansion at a much quicker rate than was realized under government ownership. In assembling Connlab Holdings, CDC seems to be creating a vertically-integrated drug complex covering research, production and distribution. What these policies will mean in terms of rationalization, investment and employment remains to be seen.

CDC has increased investment opportunities open to Canadians only marginally. Its one public stock issue was in the fairly large denomination of \$100/share and was apparently bought in