

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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

the State and questions relating to revenue and economic development concepts and management. We also provide some suggestions about the Municipal Bond Bank. We explain our suggestions about the proposed constitutional amendment creating the Permanent Fund. And, finally, we embark on a discussion of the Permanent Development Fund.

We realize we are from the "lower 48" which has a history of telling Alaska and its people how it all should be done. What we offer is suggestions based on our experience in the public financial sector and private capital markets. Our task is to try to be of service, even at the risk of drawing conclusions and imparting suggestions which may be controversial or may be critical. We hope our forthrightness will be judged based on the value of truth behind it, not by its face and first impression.

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Credit Commentary (Report Appended)

We are not comfortable with Alaska's present fiscal situation. And we understand neither is the Commissioner of Revenue and the present government. But neither are we comfortable of mortgaging the future, by spending today future oil revenues. Fiscal responsibility is essential in Alaska. Just as we are experiencing in New York, other Eastern States and certain cities in the "lower 48", we think Alaska can and must learn from some of these follies. We are heartened by the approach which the present Alaska Administration is taking to return to a balanced budget and shortly thereafter to considerable surpluses.

However, we want to caution that the debt per capita must be reduced and the size of government, especially in personnel, should not rise. Governmental bodies can no longer rely on the debt markets to fund their priorities. Governments can no longer expect note sales to be refunded by long term bonds for the bond market is not always receptive. Nor can Governments continue to rely on medium or poor quality management. We have seen what many years of bad management has wrought in Government operations and with it more and more people on Government payrolls. Unless and until Alaska can balance its budget, reduce its per capita debt, generate general fund surpluses, and implant top quality management, there will not be the opportunity for a successful Permanent Development Fund, for it will not have the strong foundation necessary for its operations.

Municipal Bond Bank (Report Appended)

The Municipal Bond Bank is conceptually a good vehicle to assist many of the Alaskan communities in having access to the debt markets. However, the Alaska Municipal Bond Bank has some serious deficiencies. They are bond anticipation note authorization, State moral obligation which is a dead issue in the market place, and no State control. In fact, the Alaska Municipal Bond Bank's deficiencies accent the lack of management and control we are experiencing in many governments and feel exist in Alaska. It appears evident in the State's fiscal situation, its present development programs and the Bond Bank. More importantly, the lack of management and control are having con-

siderable negative impact on government debt issuers' ability to arrange financing.

One Commission for Capital Allocation and Control

We believe it mandatory that the State establish one commission to be responsible for the following areas and details:

1. Authority over all debt authorizations -- by the State with general obligation debt; by the State's agencies; by those municipalities who issue apart from the Bond Bank; and by the Bond Bank.
2. Authority over the priorities for all spending. Without this number 1 would be non-operable. Total capital Allocation Authority.
3. Management and financial controls in terms of accounting and monitoring systems of all in number 1 above. Standard accounting practices must be universally adopted. The State must have the authority to audit the books of all government units.
4. The State must schedule all public sales, regardless of the issuing unit. The State must approve all offering circulars, which must be uniform.
5. With numbers 3 and 4, the State must establish and manage a local government financial advisory group for fiscal and debt management and to assist in the day-to-day operations of local subdivisions. Through such a department in this State Commission, the State's financial managers would know the financial conditions of all the subdivisions and would not be called on to bail out a subsidiary, which bail-out may have substantial impact on the State's own financial condition. The

State would know the financial demands being put on the subdivision.

This fiscal management and control commission would have an enormous task and equally enormous power and responsibility to all of Alaska's constituents. While we believe in smaller government payrolls, we feel that the creation of this commission will absorb other departments, divisions and commissions presently existing, and in the long run provide for better operations and minimal net increase in people working in government.

One may notice that we equate the State Government and its fiscal and management responsibility to a large private commercial and industrial corporation. The State is the parent and head office. Its agencies and local subdivisions are its subsidiaries. A subsidiary out of control and not supervised can bankrupt the parent. It is happening in many parts of the "lower 48". But in North Carolina and South Carolina very strong and wide sweeping capital allocation and management control commissions have proven very successful and operable.

We realize these suggestions may sound shocking and may be awesome to fulfill. Indeed, they may be, but we know through bitter experience they are very worthwhile and necessary objectives, which can be realized.

New Municipal Finance Regulations

Concurrent with these recommendations are the requirements being placed upon both governmental issuers and Municipal Securities dealers by the new Municipal Finance Regulating subdivision of the Securities and Exchange Commission. Although these regulations are only in draft form at this time, uniformity of accounting and uniform offering circulars

will be required. Full disclosure, similar to private issuers, is going to be the norm. And securities underwriters will be required to analyze prospective issues for their representation and financial soundness. Just as with the State of New Jersey which provided inadequate papers last week, any issuer may find access to the marketplace closed due to "incapable" or "bad" management.

Governor's State of Alaska "Mini-Hoover" Commission

It seems to us that the timing of these recommendations to the State of Alaska is very propitious, inasmuch as the Governor has created a "Mini-Hoover" commission to look into the operations and management of the State Government. If this commission were to analyze the functions of the principal Governmental departments keeping in mind better management, increased centralization, and tight control as the prerequisites of good government, we would suggest that the departments presently labelled Commerce and Economic Development, Public Works, Revenue, and Community and Regional Affairs be consolidated into one major commission. Moreover, the capital spending and aid programs of other departments would have to be approved by this "super" commission. Of course, we would hope that these recommendations, if considered reasonable, be forwarded to the Governor's "Mini-Hoover" commission for study. That commission must realize that no longer will the electorate and investors allow government to just "bump along" with inadequate, or barely adequate, management, systems and control. And certainly whatever recommendations this "mini-commission" makes to the Administration and

Legislature must incorporate the overt change, and requirements placed upon Governments and their subdivisions, by Federal laws, Federal Agencies, national securities dealers and investors, and, of course, lawyers of varying responsibilities.

Management

Once it is fairly well understood why the centralization and the systems and controls, required to allow it all to work, are needed, the necessity of outstanding (no exaggeration) management is paramount. For too long this nation has suffered from the weak or less than highly competent people being elected to government or wishing to be appointed to government. (In the case of Alaska, this may not at all be the case.) Government and the private sector have finally come to realize that the two sectors must work more closely together. Today, we and similar institutions are being called upon to give advice to, and design packages for, Governments. Our advice and products are:

1. Not new as in so many cases they are traditional in private enterprise;
2. Costly services to provide, due to emergency time frame requirements; and
3. Very difficult to implement due to the traditional lines of communication, the history of legislation already in existence, and the cumbersome apparatus that inherently has grown through poor management.

We would recommend that the State of Alaska would have less need over time for costly private advisory and design services, if fairly early-on it adopted a fiscal and management approach based on

the shock waves and warnings just coming to the fore and receiving initial analysis nationwide. The response would allow the State to have the expertise and systems in-house to manage itself well.

Permanent Development Fund

The foregoing discussion impacts directly on the Permanent Development Fund (PDF) and is essential in establishing the PDF framework. We feel there is no apparatus presently established in Alaska to achieve the goals of the PDF. We believe the PDF should be part of the super-commission, incorporating all economic development, commerce, revenue, and community and regional affairs. Certainly, the PDF's purpose is to diversify the economy. This requires most of the capabilities and analysis the commission would be doing for the State and its subdivision even if there were no PDF opportunity.

But let us present to you our views on the PDF. At the outset, we must all realize that the PDF opportunity afforded Alaska is unique among the States of the United States and among most of the nations and supra-national organizations of the world. In fact, the only similar opportunities exist in Saudi Arabia, Venezuela, and perhaps Iran. The similarity is not due to oil, although oil created the opportunity. Rather, these nations have a genuine positive flow of funds, generated by private commercial and industrial enterprise; these nations do not have immediate applications but have long term real economic development opportunities

and needs; and these nations, which are only a few of those which seek funds for development, are the only ones who have their own equity, if they utilize it properly.

A.) The State of Alaska's Permanent Development Fund's Uniqueness

It is important to understand Alaska's uniqueness here, because of the desire of so many people and institutions to study or allude to many development vehicles already established in the world. To cite just four examples: The World Bank, Asian Development Bank, Inter-American Development Bank, and the Development Bank of Puerto Rico. All of these have a great need for capital. None of them has its own source of equity. Each has received "equity" in the form of capital contributions, but mostly guarantees and promises to pay from its constituents, most of whom, in turn, have incredible short falls in capital, little access individually to the world capital markets, and yet huge economic development requirements. Therefore, we must be very careful, in our desire to establish the best vehicles for Alaskan economic development, that we do not borrow from established organizations methods which are neither warranted nor applicable.

The success of the economic development in Saudi Arabia, Venezuela, or Iran and Alaska will depend on the government's ability to join with private enterprises in economically sound and financially feasible projects. Government by definition is a user of funds. It cannot on its own generate funds. And taxes alone are not sufficient as a developing government's only source of funds. So long as Saudi Arabia and Alaska's PDF join with proven private enterprise corporations in private development projects,

then these development entities should be successful (assuming good management). In the right private development project, by definition, the PDF should profit and the economy would diversify.

Additionally, for a development project's success, it must export (or deliver) its product to a viable market. Nations with rapidly expanding exports attract the capital. Alaska must do the same in joining in private enterprises which will provide exports and diversify the economy.

B.) Corporate Structure:

We believe it is so very important for Alaska to create through the PDF a group which is corporate in nature, well-managed with high paid personnel, profit seeking in goal, and long term entrepreneurial in scope. The PDF would provide the capital for an Alaskan Development Corporation (ADC) to commence establishing the expertise to develop the economy further. The ADC could create a Development Bank (DB) which would make loans to the projects. The ADC could create a Finance and Investment Company (FIC) which could package project loans to be participated out (sold) to institutional lenders (insurance companies, state pension funds, savings banks, and major commercial banks) in the "lower-48" and perhaps in other areas of the world. The same investment arm could manage a series of investments in a trust or mutual fund, so that smaller institutions and individuals could buy into it. The significance of the FIC is that it would be attracting capital by offering certain assets. With Alaska, institutional lenders are dealing in an unknown caused by distance, size, type of terrain, etc. If institutional investors could buy loans (perhaps insured by PDF)

from proven management who has servicing and financial know-how capabilities, we believe added capital may be found for sizeable Alaskan commercial projects.

So the PDF has its management corporation (ADC), bank (DB) and finance and investment company (FIC). These three corporations would analyze projects, help design them financially, lend money, arrange a private placement on the project, sell loans, raise debt in the marketplace and work with a private lender/investment banker to attract capital.

In different ways, not well organized nor well managed, fragments of this type operation are happening with some international and Federal government entities. Alaska could do it, if the statutes are passed and management put in place.

C.) PDF Specifics:

We would recommend the PDF also address the following:

1. Only participate in major developmental activities, both non-renewable and renewable resource oriented. There are at least ten programs in Alaska for small development projects. Incidentally, we believe all the present programs, especially the 6 State ones, with which we are familiar, should be reviewed, moved into the super-commission, and perhaps be revamped or dissolved.
2. The projects should be capital intensive, although any project development which diversifies the economy, will attract people and, in some cases, must for its success.
3. The PDF can best fulfill its role with long term loans in

partnership with private industry and private lenders, rather than take equity participations, as a general rule. Equity participations do not provide a scheduled return and any liquidity is represented by the private company's dividend policy or the stock market.

4. The PDF should finance "missing links" in an otherwise viably forecasted project.

5. No organization should be an equity holder in PDF or its subsidiaries. Private lenders should maintain their identities by continuing their policies of making sound loans. This opportunity will arise by participating with the DB and FIC in making loans jointly.

6. The PDF must create a task force/steering committee to study the economy and geography so as to establish its priorities and feasibilities. We are apprehensive if the State Investment Advisory Committee has the time and/or expertise to be the task force or the steering committee for PDF's inception.

7. The PDF must necessitate that the Native Corporations develop their major projects in concert with the PDF.

8. The Native Corporations may be able to gain from the PDF enterprise by creating new villages and ancillary services.

9. The PDF may also have to establish a subsidiary to expand education, energy resources, and other necessities which indirectly diversify the economy. Whatever these may be, the PDF must charge private market rates. (However, most ancillary services should be left to the Native Corporations and municipal subdivisions.)

10. The PDF should not make grants or non-interest bearing loans.

11. The PDF should be designed, established, and managed so as to insulate itself best from vested interests and political suasion.

12. Various ways of effecting leverage of PDF's equity capital. One area is insurance, whereby the PDF insures the issuance and principal investment in PDF/DB bonds or loans. Also, the debt to equity ratios must be considered.

13. Any statutes involving State Government financing and lending should be reviewed in light of Internal Revenue Service regulations on interest rate arbitrage.

D.) PDF Legislation

We have appended suggestions to the proposed legislation creating a PDF. Our comments supporting our proposals are:

1. "A Minimum" of 10% allows the legislature, upon the presentation of the PDF's management, to appropriate more funds, rather than a legislative debate commencing as to the interpretation of "10%" vis-a-vis the final sentence of the paragraph.

2. "directly and indirectly" as there may be (we believe there are) real possibilities to perform in ways which are known as "indirect" but which have a direct impact on furthering economic development - e.g. loan guarantees, insurance of loans, selling loan participations, arranging private placements, etc.

3. "For projects relating tosuch principal.....section." We believe the language should be more specific than "investments", but wish to insure that funds may be invested in U. S. Government securities and money market instruments so as to provide an amount of liquidity for

the PDF's operation and earnings while awaiting the investment in a development project.

4. "Transfers.....pledged." We believe the PDF can expand its capital through the raising of debt - private and public. We believe through the combination of outstanding management and borrowing, the PDF will increase its development financing capacity many times. However, this can only be done if income from its investment is available to service debt expense. Usually, a project loan's debt expense will be serviced by a direct pledge of that project's income. Therefore, PDF's income cannot automatically go to the General Fund. Moreover, we are strongly opposed to the legislature and administration leaning upon the PDF so as to be able to balance the State budget, which may incorporate irresponsible fiscal management. But we do believe PDF's income, not otherwise so encumbered, may be deposited in the General Fund, if PDF's management so wishes and the Legislature so approves.

We must point out, that we approve of brief and succinct constitutional legislation, only if the power exists in the constitution for the legislature to pass statutes which will allow for the greatest flexibility and utmost specifics for implementing the PDF and creating a financial management corporation. We admit to an ignorance of the provisions of the Constitution of the State of Alaska.

Conclusion

None of what we have presented here can be accomplished without consistent implementation of concepts to preserve the ecology and environment. We do believe there are viable compromises.

We also believe that over a time period of adjustment modern, economically diversified Alaska and its native population and culture can live in harmony. We feel the natives should and must continue to share in the new prosperity of Alaska. We think vocational schools are the most important educational feature in assisting the economy's development.

We suggest the task force/steering committee must have a budget sufficiently large enough to retain legal counsel, engineering consultants, financial advisors, and any type of specialist necessary to create the best list of priorities and feasibility studies and to place on-stream the management of the PDF and its subsidiaries.

If it is financially and constitutionally possible, we would suggest that the foundation work, necessary to have a PDF and its subsidiaries established in 1977, be undertaken all during 1976, while awaiting the approval of the referendum by the voters next November. (Perhaps statutes can be passed in "escrow".) During 1976, the present economic, commerce, revenue and regional affairs departments should consolidate.

And lastly and most importantly, none of what should be done need be accomplished at the risk of panic or insufficient study. We endorse a policy of "go slowly".

ORGAN GUARANTY TRUST COMPANY
OF NEW YORK

A P P E N D I X

State of Alaska
Summary Credit Commentary
and
Critique of Legislation for
Alaskan Municipal Bond Bank

November 18, 1975 (Revised January 2, 1976)
Morgan Guaranty Trust Company of New York

The Economy

Alaska's position as the stage for America's petroleum version of the "gold rush" makes analysis of the State's economy quite problematical in nature. Extensive capital development has fueled the economy, population has sky-rocketed as people have flocked to the State for high-paying pipeline jobs and the State is already anticipating sizeable cash flows from oil and gas related revenues.

In the case of a state with a viable in-place economy, the oil factor would have been advantageous as an added windfall economic stimulant. Alaska's economy, however, has never had the legitimacy of diversity. Before the oil boom, Alaska's major industry was its fisheries - an industry highly susceptible to foreign competition and roller-coaster prices. Manufacturing was nil, significant wholesale and retail activities were limited by the lack of a sizeable population base, while tourism, lumbering and extractive mineral production were seasonal in nature because of the long and harsh winter. The only stable employment base was in the federal and state government areas, with the U.S. military being a significant employer.

Unfortunately, oil development per se will change little of the above. The spurt of capital development caused by pipeline construction activity is a temporary factor which has created at least as many problems as it has solved. Inflation, fueled by pipeline and oil companies willing to pay bonus money to get the workers they need, and compounded by the need to "import" most food items from the lower forty-eight states, has pushed Consumer Price Index numbers to a level approaching a 20% increase for 1975. Housing accommodations are in desperately short supply due to the influx of oil related workers; and ancillary services such as telephones, police, water, sewer, schools and electrical facilities are vastly overburdened. Other categories of employment are in short labor supply due to pipeline wage competition. Those on fixed incomes in the State are in deep trouble financially.

A potential side benefit of the construction of the pipeline and ancillary facilities will be in the opening of new areas in the State for the development of other extractive and regenerative resources. Exploration for and production of coal, copper, iron and gold and other minerals should increase. Lumbering and the development of fish hatcheries will become more economically viable as the access to new regions is eased and the world's need for raw materials grows.

Alaska's quandary is how to gauge the current hectic pace of economic development, and plan for orderly future growth. Two questions come to mind:

1. Are the gas and oil revenue projections of Alaska premature in light of the short-term possibility of a world glut in oil supply?
2. In what manner should Alaska proceed, should its projected wealth become a reality, in order to stimulate dependable economic diversity and viability?

Financial Operations

Alaska's debt burden of \$1,673.33 per capita is extremely high. As a basis of comparison, median State per capita debt of the fifty states is \$136, according to Moody's - substantially below that of Alaska. Since per capita debt is a function of population, the level will most certainly be higher after the exit of those people associated with pipeline construction. In addition, debt retirement is somewhat slow: 17.4% of outstanding debt matures in five years and 39.6% in ten.

High per capita debt is due to the fact that extraordinary capital expenses for the governmental services associated with pipeline development have been borne through the issuance of debt, drawdown of cash surpluses, and failure to increase State tax revenues. The State is also more heavily involved than is the case in the 'lower forty-eight' in the direct development or subsidization of local services such as schools, ports, and roads, resulting in more dependence upon State financing.

Slow debt retirement is perhaps a result of historic anticipated cash flows from oil related activities. In any event, past debt management policies have placed an undue burden upon Alaska's financial future.

General Fund expenditures have been far in excess of current revenues since the receipt of some \$900 million into the General Fund in 1969-70 as a result of a large oil lease sale. At June 30, 1975, a surplus of \$517 million remained in the General Fund, down from \$645 million the year before. Budgetary increases based upon a governmental policy of running vast deficits coupled with delays in completion of the Trans-Alaska Pipeline (postponing oil royalty revenues) have led the State to anticipate that the current General Fund surplus will be fully eroded by July 1, 1976. In an effort to increase General Fund receipts, a 20 mill tax on the value of oil and gas reserves has been enacted for fiscal 1976 and 1977. This tax is being levied to offset anticipated severance tax revenues which have been delayed as a result of corresponding delays in pipeline completion. Revenues from this source are estimated by the State at \$211.7 million for 1976. In addition, the State intends to hold an additional oil and gas lease sale with regard to the Beaufort Islands area near Prudhoe Bay in 1976. The State speculates some \$250 million in revenues from this source.

Conclusion

Alaska's high per capita debt level and slow debt retirement is disturbing in light of the State's extreme level of budgetary imbalance. Anticipation of oil royalty revenues in future years (by borrowing against such revenues) is extremely dangerous in light of general economic questions being raised about the near-term cost viability of Alaskan oil. Pipeline cost overruns, question-mark Federal tax and energy policies,

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and a potential world oil glut can all contribute to a questionable short-term economic and financial future for the State. There is no doubt that Alaska's oil and gas reserves will eventually pay off significantly, but heavy current debt service requirements coupled with continued severe budgetary deficits could result in financial difficulties over the next three years. Maintenance of General Fund surpluses and a mandatory balanced budget would be a preferable policy as the future of Alaska's economy comes more clearly into focus.

Critique of Legislation for
Alaskan Municipal Bond Bank

The following comments result from a review of Alaska's Municipal Bond Bank legislation.

We are generally opposed to the use of the financing vehicle afforded by the legislation establishing the Alaska Municipal Bond Bank Authority. While we agree in principle that Alaskan municipalities will need assistance in entering the municipal debt market, we do not feel that this legislation offers a method of assistance commensurate with sound public finance. The following examples of the Act's deficiencies are cited:

1. The legislation allows the issuance of bond anticipation notes to provide municipalities a means of temporary financing. The current municipal market is evidence of the financial danger inherent in the sale of bond anticipation notes should it become impossible to fund such notes with the sale of bonds. The gap has narrowed substantially between documented disclosure requirements necessary for the sale of notes as opposed to bonds, and sound long-term financing is recommended should an option to sell notes or bonds exist.

2. The legislation makes it quite clear that Bond Bank obligations are not an obligation of the State, yet on the other hand it allows the establishment of a reserve fund for the benefit of bondholders. The reserve may be funded by legislative appropriation or from the proceeds of the sale of the bonds. Deficiencies in the fund may legally be made by the legislature through the use of a "moral obligation" certification/appropriation procedure.

The moral obligation pledge no longer provides the marketing advantage it once had. In addition, despite the fact that the bonds are not a direct obligation of the State, the moral pledge creates what can be construed as a contingency obligation for the State - an obligation which is unnecessary in a State with an already high debt load.

3. The legislation mentions little or no control over the debt policies of the participating municipalities. Recent municipal finance experience has demonstrated the value of State overview of municipal finance activities.

It is suggested, therefore, that this legislation be amended: to eliminate the power of the Bank to issue bond anticipation notes; to remove the moral pledge of the legislature to fund reserve fund deficiencies; and to provide for the establishment of a State administrative vehicle to overview and approve the financial planning and debt management of Alaskan municipal governments.

TEXT OF PROPOSED STATE OF ALASKA CONSTITUTIONAL AMENDMENT
TO CREATE A PERMANENT FUND

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

SECTION 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

Dedicated funds. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in Section 15 and except when required by the Federal Government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

SECTION 2. Article IX, Section 15, Constitution of the State of Alaska, is amended by adding a new Section to read:

State of Alaska Permanent Development Fund. A
minimum of 10% of all mineral lease rentals, royalties, cash bonuses
and mineral severance taxes received by the State shall be placed in a
State of Alaska Permanent Development Fund, the principal of which shall
be used solely, directly or indirectly for projects relating to the
industrial and economic development of the State. Such principal not
invested in aforesaid projects shall be invested in accordance with
Section . Transfers may be made from the Permanent Development Fund
to the General Fund in an annual amount not to exceed such annual income of
the Permanent Development Fund, net of all such annual income otherwise
pledged. Such annual income not so transferred to the General Fund shall
become part of the principal of the Permanent Development Fund. The
legislature may appropriate additional amounts to the Permanent Development
Fund which shall become part of the principal of the Fund.

SECTION 3. The amendments proposed by this resolution shall be placed before the voters at the next statewide election in conformity with Article XIII, Section 1, Constitution of the State of Alaska, and the election laws of the state.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

September 15, 1977

MEMORANDUM

SUBJECT: Updated Revenue Impacts of Pump Station No. 8 Explosion.

TO: The Honorable Clark Gruening, Chairman
House Permanent Fund Committee

The Honorable Russ Meekins

FROM: Richard G. Haggart *RGH*
Research Analyst

This memorandum is in response to your request that we update our memorandum of July 15, 1977 discussing potential impacts on state revenues arising from the explosion at Pump Station No. 8. Since July 15 two major changes have occurred in the underlying assumptions used to calculate the revenue impacts contained in that memorandum:

1. The length of the delay in getting Pump Station No. 8 back on line is now known with greater precision. According to both industry and government officials with whom we have spoken, it now seems most likely that Pump Station No. 8 will go back into service about March 1, 1978, and that as a result, fiscal 1978 average daily production from the North Slope will be about 720,000 bbl/d - down from the pre-explosion estimate of 940,000 bbl/d.
2. Wellhead values for Prudhoe Bay oil, which had to be estimated in July, are now available for the months of June and July. For a variety of reasons which will be discussed below, these actual values are significantly lower than those previously estimated.

Pump Station No. 8 Impacts

Assuming that Pump Station No. 8 is back on line by March 1, the total delay entailed in terms of Prudhoe Bay production will have totaled approximately 8 months. As a result, Prudhoe Bay production for fiscal 1978 will be approximately 23% lower than it would have been if Pump Station No. 8 were to have been in operation. While further delays are clearly possible, we found no indications in our conversations with either industry or state officials that Alyeska's March 1, 1978 start-up estimate for Pump Station No. 8 is unreasonable.

Prudhoe Bay Wellhead Values

Prior to the start-up of actual production at Prudhoe Bay, most revenue forecasts assumed wellhead values in the \$7.25 to \$8.00 per barrel range, for purposes of calculating state royalty and severance tax revenues. Based on company returns filed for the months of June and July (the only returns available at this writing), wellhead values will be significantly lower than those previously forecast.

There are three primary reasons for these differences between actual and estimated wellhead values:

1. The companies are claiming field gathering and treatment costs as deductible against the state's royalty payments.
2. Tanker charges to all markets are higher than previously estimated.
3. Sales prices in all markets are lower than previously forecast.

All of these issues are currently in litigation. On September 2, 1977, the state filed Civil Action No. 77-847 against 18 North Slope companies and lease-holders requesting relief in regard to the matters outlined above. According to the Attorney General's office the state has a "good" case, although many of the issues are "close". Regardless of the eventual outcome of the suit, however, it seems likely that the state cannot avoid suffering at least the short-term revenue losses outlined above - even if the revenues are recouped, by court order, in later years. The specific areas effecting the state's wellhead values are discussed in more detail below.

Table I contains the wellhead values which were asserted by the three largest North Slope producers in June and July.

As can be seen from Table I, there are in essence two wellhead values. The value under the first column (LACT meter value per-barrel value) is the basis on which state severance taxes are calculated. The amount in the third column (net value per-barrel) is used by the producers as the basis for computing state royalties. The difference between the two values is contained in the second column of Table I - representing so-called field gathering and treatment costs.

The question of which of the two values to use for calculating state royalties (the recently enacted severance tax clearly sets forth the point of taxation at the LACT meter, and consequently that issue is not in dispute) essentially centers around the definition of the phrase "at the well" as used in both the state royalty statute and in the Prudhoe Bay leases. The companies contend that gathering and treatment costs which occur after the oil physically emerges from the ground should be deducted before calculating the royalty value, while the state contends

that such costs should be borne by the companies and that royalties should be based on the value of oil in "good and merchantable" condition.

Table II contains the tanker charges claimed by the companies for the month of June, 1977, as compared to previous estimates of the level of such charges. As can be seen from Table II, in all cases these charges are significantly in excess of those forecast previously, and according to Department of Revenue officials, are well above "reasonable" levels. Obviously, the level of tanker charges effects both state royalties and severance taxes.

Table III contains imputed West Coast sales prices for North Slope crude oil for the month of June, again, as compared to previously estimated levels. These values are calculated by adding the Trans-Alaska Pipeline tariff and the tanker charges onto the LACT meter wellhead values contained in Table I - a sort of reverse "net-back" process. As with the tanker charges, the sales prices for North Slope crude are lower than those previously forecast, and affect both royalties and severance taxes.

The net effect of these lower-than-expected wellhead values and of the pipeline explosion on state revenues and Permanent Fund contributions in fiscal 1978 are set forward in Table IV.

It should be noted that the figures contained in Tables I-IV are preliminary in the sense that only two months of production data from the Prudhoe Bay field are currently available. Data for August should be available approximately the first week in October, and monthly thereafter. As can be seen from Table I, shifts in wellhead values occurred between the months of June and July - Exxon's wellhead value declined marginally, while Sohio's increased significantly. Such shifts are likely to continue, as different mixes of tankers and destinations for Alaska oil occur in the months ahead. Likewise, some price fluctuations in lower-48 markets can be expected as the North Slope companies seek to market increasing volumes of crude oil at varying prices and discounts.

In sum, we expect that it will be necessary to revise and update the fiscal 1978 revenue forecast each month, at least until such time as overall cost and price patterns for North Slope crude oil stabilize to a greater degree than is presently the case. We do believe, however, that such changes will tend to be smaller than those which have already occurred. This is because the largest effect on fiscal 1978 revenues arises from the Pump Station No. 8 explosion. In addition, the variations in wellhead value that can reasonably be expected to occur for the remainder of the year are likely to be substantially smaller than was the difference between the estimated price in July, and the actual prices which have been posted.

DH:dh

Table I
Prudhoe Bay Wellhead Values and Field Costs for Three Companies
June - July 1977

<u>Company and Month</u>	<u>Value at LACT* Meter¹</u>	<u>Field Costs</u>	<u>Net Value Per Barrel²</u>
ARCO			
June	\$7.55	\$0.636	\$6.914
July	\$7.55	\$0.636	\$6.914
Exxon			
June	\$6.954	\$0.528	\$6.426
July	\$6.954	\$0.528	\$6.411
Sohio			
June	\$6.24	\$0.66	\$5.52
July	\$6.65	\$0.66	\$5.93

* Lease Automatic Custody Transfer; i.e., the measuring device used as a transfer point for the oil from the unit operators to the Alyeska Pipeline Company.

¹ This value is used for calculating state severance taxes.

² This value is used for calculating state royalty payments.

Prepared by:
Legislative Affairs Agency
Research Division
15 September 1977

Table II
Actual vs. Estimated North Slope Oil Tanker Charges
for Three Companies
June 1977

<u>Company</u>	<u>(\$/bb1) June Charges</u> ¹	<u>(\$/bb1) Estimated Charges</u> ²
ARCO	\$0.88	\$0.60
Exxon	\$1.10	\$0.75
Sohio		
West Coast	\$0.89	\$0.75
Gulf Coast	\$3.47	\$2.00

¹ It should be noted that tanker charges for June are likely to be higher in most cases than they will be in subsequent months. This is due to the fact that some companies are engaged in short-term chartering as the oil flow builds--a process which is likely to be more expensive than utilizing either long-term charters or the company's own tanker capacity.

² Based on Department of Revenue, Legislative Affairs Agency Research Division and miscellaneous private sector estimates.

Prepared by:
Legislative Affairs Agency
Research Division
15 September 1977

Table III
Imputed and Estimated Sales Price for North Slope Crude
by Three Companies
June 1977

<u>Company</u>	<u>Imputed Sales Price</u> ¹	<u>Estimated Sales Price</u> ²
ARCO	\$13.34	\$13.50-14.00
Exxon	\$13.15	\$13.25-13.75
Sohio ³	\$13.05	\$13.25-13.75

¹ Calculated by adding the LACT meter value contained in Table I, the tanker charges contained in Table II, and the Interstate Commerce Commission's interim Trans-Alaska Pipeline tariffs.

² Based on estimated tanker charges contained in Table II and representative West Coast prices of imported crudes of similar quality to Prudhoe Bay.

³ Sohio's imputed sales price represents a weighted average received for crude oil sold on the West Coast and the Gulf Coast. Sohio's weighted average tanker charges for both destinations (not included in Table II) was \$2.11 per barrel.

Prepared by:
Legislative Affairs Agency
Research Division
15 September 1977

TABLE IV

Revenue and Permanent Fund Impacts of TAPS Thru-Put Delays and Revised Wellhead Values
Fiscal 1978 (\$Million)

<u>Production or Wellhead Value Assumptions</u>	<u>Total Revenue¹</u>	<u>Expenditures²</u>	<u>Permanent Fund Contribution³</u>	<u>Permanent Fund Balance⁴</u>	<u>General Fund Balance⁵</u>
Based on memo of 7/15/77 (940,000 bbl/d)	\$978.5	\$853.8	\$87.2	\$89.6	\$690.2
Pump Station Restart 3/1/78, Revised Wellhead Values (720,000 bbl/d)	\$822.7	\$853.8	\$60.0	\$62.4	\$593.6
Pump Station Restart 3/1/78, Revised Wellhead Values and Modified Tariff ⁶ (720,000 bbl/d)	\$813.9	\$853.8	\$58.4	\$60.8	\$587.2

¹ Basic revenue data taken from memorandum of July 15, 1977, and adjusted to reflect differing throughput and wellhead values.

² Expenditures taken from July 15, 1977 memorandum.

³ Permanent Fund contribution level is set at 25% of state royalties from Prudhoe Bay and Cook Inlet oil and gas production.

⁴ Permanent Fund balance includes previous year's carry-forward.

⁵ General Fund balance includes previous year's carry-forward and reflects any deficit in the year. Also deducted are payments to the Native Claims Fund equal to 2% of the gross value of royalties, leases and bonuses.

⁶ Tariff effects due to Pump Station No. 8 explosion have been estimated to be approximately \$0.19 per barrel. North Slope companies have not filed for any such revision however.

Prepared by:
Legislative Affairs Agency
Research Division
15 September 1977

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-455-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

July 7, 1977

SUBJECT: Permanent Fund and Revenue Forecasts

TO: Hon. Clark Gruening, Chairman, House Permanent Fund Committee

FROM: Richard G. Haggart *RGH*
Research Analyst

Enclosed are five (5) copies of our analysis of the State of Alaska's revenue outlook, and associated effects on the Permanent Fund. As you requested, the analysis is divided into three "cases": Case I which postulates low petroleum income coupled with high state expenditure levels, Case II which postulates moderate or "concensus" levels of petroleum income and expenditures, and Case III, which postulates relatively high petroleum income and relatively low state expenditure levels.

Each of the three Cases has four separate sheets -- one each for Permanent Fund contribution levels of 25%, 50%, 75% and 100% respectively. Because the computer print-outs and the Case titles are somewhat unobtrusive you should caution anyone reproducing the material to be sure they are assembled in the proper order, to avoid any potential confusion.

Obviously, a number of assumptions went into the three case studies. These assumptions are contained in a supplemental memorandum which is now being prepared and which will be forwarded to you as soon as it is complete. Because of the complex nature of these forecasts, as well as the numerous assumptions that went into them, we believe it would be very desirable to include the supplemental material when the forecasts are distributed, at least as appendices. The objective here would be to allow those who are interested to reconstruct our work and satisfy any curiosity that might exist regarding methodology.

If you have any further questions let us know. In the meantime, Gregg, John and I look forward to seeing you and the Committee in Anchorage on the 15th.

RGH:dh
Enclosures

STATE FINANCIAL AND OPERATING DATA 1978-1985
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.2	\$31.0	\$83.4	\$726.0
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$90.3	\$173.8	\$747.9
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$96.1	\$269.9	\$836.7
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$100.6	\$370.6	\$1,003.6
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$107.7	\$478.3	\$1,142.5
1983	\$839.3	\$43.9	\$257.0	\$99.9	\$324.5	\$1,564.7	\$1,375.1	\$116.7	\$595.1	\$1,215.4
1984	\$894.2	\$46.6	\$261.4	\$109.8	\$349.4	\$1,661.5	\$1,512.6	\$122.5	\$717.6	\$1,241.8
1985	\$918.3	\$44.8	\$295.9	\$116.8	\$379.3	\$1,755.2	\$1,663.8	\$127.7	\$845.3	\$1,205.6
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$640.1	\$2,478.8	\$11,094.4	\$9,764.1	NOT APPL.	\$845.3	\$1,205.6

CASE I: Low Income-High Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:
 legislative affairs agency
 research division
 july 6, 1977

Div. by .25
M.H. by .05

STATE FINANCIAL AND OPERATING DATA FOR FISCAL YEARS 1978-1985
 (FIGURES IN MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.8	\$162.1	\$164.5	\$644.9
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$190.6	\$345.2	\$576.5
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$192.2	\$537.5	\$569.1
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$201.3	\$738.8	\$635.4
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$215.5	\$954.3	\$666.6
1983	\$839.3	\$43.9	\$257.0	\$99.9	\$324.5	\$1,564.7	\$1,375.1	\$233.4	\$1,187.8	\$622.7
1984	\$894.2	\$46.6	\$261.4	\$109.8	\$349.4	\$1,661.5	\$1,512.6	\$245.1	\$1,432.9	\$526.5
1985	\$918.3	\$44.8	\$295.9	\$116.8	\$379.3	\$1,755.2	\$1,663.8	\$255.4	\$1,688.3	\$362.6
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$640.1	\$2,478.8	\$11,094.4	\$9,764.1	NOT APPL.	\$1,688.3	\$362.6

CASE I: Low Income-High Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:
 legislative affairs agency
 research division
 july 6, 1977

STATE FINANCIAL AND OPERATING BUDGET SYSTEM
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$163.3	\$44.5	\$225.8	\$942.6	\$853.8	\$243.2	\$245.6	\$563.9
1979	\$522.3	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$271.0	\$516.6	\$405.1
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$283.4	\$805.0	\$301.6
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$301.9	\$1,107.0	\$267.2
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$323.2	\$1,430.2	\$190.6
1983	\$839.3	\$43.9	\$257.0	\$102.3	\$224.5	\$1,567.1	\$1,307.5	\$350.2	\$1,730.5	\$100.0
1984	\$894.2	\$46.6	\$261.4	\$123.8	\$349.4	\$1,675.5	\$1,307.8	\$367.6	\$2,148.1	\$100.0
1985	\$918.3	\$44.8	\$295.9	\$146.3	\$379.3	\$1,784.8	\$1,401.6	\$383.1	\$2,531.3	\$100.0
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$626.1	\$2,478.8	\$11,140.4	\$9,229.7	NOT APPL.	\$2,531.3	\$100.0

CASE I: Low Income-High Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
 research division
 july 6, 1977

STATE FINANCIAL AND OPERATING DATA
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.8	\$324.3	\$326.7	\$422.2
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$361.3	\$688.0	\$233.7
1980	\$618.7	\$44.5	\$193.2	\$58.8	\$302.4	\$1,217.7	\$966.9	\$384.5	\$1,072.6	\$100.0
1981	\$741.0	\$41.9	\$226.7	\$82.4	\$322.0	\$1,414.1	\$1,011.5	\$402.6	\$1,475.2	\$100.0
1982	\$803.2	\$59.2	\$251.8	\$107.4	\$315.2	\$1,516.9	\$1,085.9	\$431.0	\$1,906.2	\$100.0
1983	\$839.3	\$43.9	\$257.0	\$134.3	\$324.5	\$1,599.1	\$1,132.2	\$466.9	\$2,373.2	\$100.0
1984	\$894.2	\$46.6	\$261.4	\$163.1	\$349.4	\$1,714.8	\$1,224.5	\$490.2	\$2,863.4	\$100.0
1985	\$918.3	\$44.8	\$295.9	\$193.1	\$379.3	\$1,831.6	\$1,320.6	\$510.9	\$3,374.3	\$100.0
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$834.3	\$2,478.8	\$11,288.5	\$8,534.9	NOT APPL.	\$3,374.3	\$100.0

CASE I: Low Income-High Expenditure Model
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
research division
july 6, 1977

STATE FINANCIAL AND OPERATING BUDGET, 1978-1985 ESTIMATIONS
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$86.3	\$83.7	\$751.3
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$119.8	\$208.6	\$927.5
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$140.4	\$349.1	\$1,340.0
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$153.2	\$502.3	\$1,944.4
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$166.4	\$668.7	\$2,616.6
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$186.7	\$855.5	\$3,397.6
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$197.1	\$1,052.6	\$4,239.3
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$212.6	\$1,265.3	\$5,208.6
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$1,265.3	\$5,208.6

CASE II: Medium Income-Medium Expenditure Model
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
research division
july 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 50% PERM. FUND
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$172.7	\$175.1	\$664.9
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$239.7	\$414.9	\$721.2
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$280.9	\$655.2	\$993.2
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$306.4	\$1,002.3	\$1,444.4
1982	\$1,205.6	\$39.2	\$251.3	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$332.8	\$1,335.1	\$1,950.2
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$373.4	\$1,708.6	\$2,544.5
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$394.2	\$2,102.8	\$3,193.1
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$425.3	\$2,528.2	\$3,945.7
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$2,528.2	\$3,945.7

CASE II: Medium Income-Medium Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
 research division
 july 6, 1977

50%
 .05 X

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 75% PERM. FUND
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$259.1	\$261.5	\$578.6
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$359.6	\$621.1	\$515.0
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$421.4	\$1,042.6	\$646.5
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$459.6	\$1,502.2	\$944.5
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$499.3	\$2,001.5	\$1,283.8
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$560.1	\$2,561.7	\$1,691.3
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$591.3	\$3,153.1	\$2,133.8
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.1	\$2,598.3	\$1,416.4	\$633.0	\$3,791.2	\$2,682.7
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$3,791.2	\$2,682.7

CASE II: Medium Income-Medium Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
 research division
 July 6, 1977

STATE FINANCIAL AND OPERATING BUDGETS
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$345.4	\$347.8	\$492.2
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$479.5	\$827.4	\$308.7
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$561.9	\$1,339.3	\$299.2
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$612.8	\$2,002.2	\$444.5
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$665.7	\$2,667.9	\$617.4
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$746.8	\$3,414.8	\$838.2
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$788.4	\$4,203.3	\$1,033.6
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$850.7	\$5,054.1	\$1,419.8
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$5,054.1	\$1,419.8

CASE II: Medium Income-Medium Expenditure Model
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
research division
july 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 25% PERM. FUND
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$93.5	\$95.9	\$785.7
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$136.1	\$232.1	\$1,004.9
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$173.2	\$405.4	\$1,627.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$187.3	\$592.3	\$2,442.6
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$212.4	\$805.3	\$3,426.3
1983	\$1,892.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$260.0	\$1,065.3	\$4,266.7
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$297.0	\$1,362.4	\$5,656.4
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$320.9	\$1,683.3	\$8,726.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$1,683.3	\$2,726.9

CASE III: High Income-Low Expenditure Model
(See Notes for Explanation of Assumptions)

Prepared by:

Legislative Affairs Agency
Research Division
July 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 & BOX PERM. FUND
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$187.1	\$189.5	\$692.2
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$272.3	\$461.9	\$775.2
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$346.4	\$808.4	\$1,224.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$374.7	\$1,123.2	\$1,252.2
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$424.9	\$1,608.2	\$2,622.4
1983	\$1,982.6	\$43.9	\$257.0	\$236.0	\$324.5	\$2,804.1	\$1,103.7	\$520.0	\$2,123.3	\$3,203.3
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$594.1	\$2,722.4	\$5,256.4
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$641.9	\$3,364.3	\$7,045.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.2	\$18,186.4	\$8,496.8	NOT APPL.	\$3,364.3	\$7,045.9

CASE III: High Income-Low Expenditure Model
(See Notes for Explanation of Assumptions)

prepared by:
legislative affairs agency
research division
july 6, 1977

STATE FINANCIAL AND OPERATING BUDGETS
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$280.7	\$283.1	\$598.6
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$408.5	\$691.7	\$545.4
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$519.7	\$1,211.4	\$221.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$562.1	\$1,773.6	\$1,251.8
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$637.4	\$2,411.1	\$1,220.5
1983	\$1,392.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$780.1	\$3,191.2	\$2,740.8
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$891.2	\$4,092.4	\$3,936.3
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$962.8	\$5,045.3	\$5,364.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$5,045.3	\$5,364.9

CASE III: High Income-Low Expenditure Model
 (See Notes for Explanation of Assumptions)

prepared by:
 legislative affairs agency
 research division
 July 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 - 100% PERM. FUND
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$374.3	\$376.7	\$505.0
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$544.7	\$921.4	\$315.6
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$692.9	\$1,614.4	\$418.1
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$749.5	\$2,364.0	\$671.4
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$849.9	\$3,214.0	\$1,017.6
1983	\$1,882.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$1,040.1	\$4,254.2	\$1,677.9
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$1,188.3	\$5,442.5	\$2,576.3
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$1,283.8	\$6,726.3	\$3,633.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$6,726.3	\$3,633.9

CASE III: High Income-Low Expenditure Model
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency
research division
july 6, 1977

Alaska Pacific Bank

Working Paper #1

August 25, 1976

STATE OF ALASKA PERMANENT FUND INVESTMENT OBJECTIVE OPTIONS

In accordance with the directive given to us, this first working paper focuses on identifying all of the possible investment objective options for the proposed permanent fund.

Our effort emphasized comprehensiveness and completeness. It was not our purpose at this point to engage in any analysis of the options. Nevertheless, in the accompanying list some preliminary, somewhat superficial analytical observations are made.

The options appear to fall into three general categories: those with a social orientation, those with an economic orientation, and those with a fiscal management orientation.

Social Orientation

I. Income Redistribution

The principle objective of the fund would be to serve as a vehicle for redistributing income from

high income earners to low income earners. This would imply a strategy of placing investments in the safest securities, with the income from these investments going to low income families on the basis of some sort of formula perhaps similar to those developed for the proposed Federal Negative Income Tax. Obviously, considerable actuarial work would be required to insure that the program were operated so it would not have to be supplemented by the general operating budget.

II. Subsidization of Lower Income Families

Here the fund would be utilized to guaranty or purchase loans up to certain amounts and for certain purposes. The program would be structured so as to provide financing to families who otherwise would have a difficult time obtaining funds. An example would be expansion of the State's home mortgage program.

III. Geographic Redistribution of Wealth

Under this objective the fund would invest principally in rural development programs, making capital available

for both public and private projects that otherwise would not be able to attract such capital. This objective tends to fly in the face of an important concept which should be kept in mind: just because financing is available for a particular project not necessarily make the project sensible from a long-run operational viability standpoint.

IV. Support of a Specific Designated Social Objective: e.g.,
Endowment to Finance the University of Alaska

This strategy, similar to the one pursued in Texas (Permanent University Fund), represents a rather dramatic commitment of state funds. It would seem that such a commitment would have to have some degree of flexibility, as it runs the risk of not coinciding with future social priorities.

V. Directly Increase the Quality of Life of All Alaskans
Through Various Subsidies

The structure of this program would be identical to that under II, except that the lower interest loans would be available all Alaskans regardless of income or their financial criteria. Naturally, such a program would run the risk of some rather dramatic disparities, such as an extremely wealthy individual receiving a state subsidized loan.

VI. Provide a vehicle to allow all Alaskans to participate more directly in the economic development of the state through an ownership position.

This would involve creating a private corporation, the stock of which would be given to Alaska citizens on the basis of some sort of criteria and formula. The corporation (e.g., Alaska, Inc.) would receive the revenues designated for the permanent fund and would have the power to declare dividends on the basis of its earnings.

The legality of such a vehicle is certainly opened to question. Further, establishing such a program would be an extremely complex matter. Such a vehicle might be implemented as a "general stock ownership plan" similar to an "employee stock ownership plan" recently authorized by Congress. In addition to the legal questionability and mechanical complexity, there are some major philosophical questions which such a program brings forth.

Economic Orientation

VIII. Subsidize small businesses through expansion of existing loan programs (Small Business Revolving Loan Fund, Commercial Fishing Loan Fund, and Tourism Revolving Loan Fund) and the development of new similar loan programs.

This program would likely take the form of loan guarantees or purchases to bring about lower interest rates.

Important note: subsidies only make economic sense if the activity directly and indirectly induced by the subsidy generates in the long-run revenue to the state government which exceeds the cost of the subsidy, thereby bringing about a net benefit to the state.

VIII. Vehicle to bolster, beef up, and make viable Alaska's traditional industries, particularly fishing and forest products.

Such a strategy would imply a variety of programs including loan guarantees and purchases, bond purchases, (e.g. "Industrial Bond Bank"), and direct ownership of major projects which effect substantially the viability of these industries (e.g., Quebec Industrial Development Assistance Act).

These programs should be pursued only if they sufficiently alter the very structure of these industries so as to create truly viable enterprises which in the long-run will generate tax and other revenues which more than offset the costs of these programs to the State.

IX. Vehicle to create a more stable and broadly based economy.

Under such an objective the highest priority would be placed on the financing (either debt or equity) of major projects which substantially alter the very structure of Alaska's economy.

Examples might include hydroelectric facilities, petrochemical plants, agricultural projects, hardrock mining ventures, etc.

The organizational structure and modus operandi might be similar to organizations such as The World Bank, the Asian Development Bank, and the Development Bank of Puerto Rico.

Fiscal Management Orientation

- X. Vehicle to provide cushion for possible future revenue down turns.

Under this program the fund would be invested relatively conservatively. Earnings would be re-invested separately in the safest securities, and the accumulation of such earnings would be available to fill any gap resulting from a momentary short-run decrease in revenue to the State of Alaska as a result of cyclical or other temporary factors.

- XI. Reduction in the state debt and/or the tax burden on Alaska's taxpayers.

Under this objective the fund would be utilized to buy back State of Alaska bonds, reducing the state's outstanding debt and thereby (1) lowering the interest payments of the State, and (2) improving the State's bond rating which in turn would lower the interest rate on future bond issues.

Further, under such a strategy earnings of the fund would be utilized to help pay for the State's operating expenses or for the distribution to local government for support of current operations.

General Comments

Upon considerable reflection on this matter, we feel that a subtle yet extremely important distinction must be kept in mind. The very name of this instrument which the Alaska voters will approve or disapprove -- permanent fund -- implies that notion of sustainability and perpetuity. Therefore, it seems to us that management of the fund in accordance with the intent of the Legislature and the Alaska voters would imply a long-range rather than a short-range orientation.

In this regard, it is important to acknowledge that often pursuit of short-run social objectives such as redistribution of wealth often is counter-productive to the extent that it can undermine the very factors that are necessary for their long-run continuation. Further, it should be acknowledged that pursuit of economic objectives, to the extent that they expand the tax base, often more

effectively contribute to the long-run maximization of social objectives.

It is this line of reasoning that at this point causes us to feel that pursuit of investment objective options VIII and IX would most effectively satisfy the intent of the Alaska voters if they approve the creation of the Permanent Fund.

It appears to us that the following activity is now appropriate for the State Investment Advisory Committee:

- (1) Select on a preliminary basis the objectives to be pursued, establish the priority for each.
- (2) Fully analyze the implications and effects of the pursuit of each objective.
- (3) Refine, consolidate, and perhaps reduce the objectives to be pursued, establishing a relative priority for each.
- (4) Determine certain more specific guidelines (e.g. investments inside and outside the State of Alaska, the fund's interface with the private sector, and the mix between short-run and long-run maximization of objectives).
- (5) Determine the organizational structure, administrative procedures, and other specifics required for implementation of the fund.

This working paper represents only our initial thinking on this matter and is intended solely as a basis for discussion which will

lead to a specific identification of further analysis to be performed.

A handwritten signature in cursive script, appearing to read "Robert R. Richards", written over a horizontal line.

Robert R. Richards

Alaska Pacific Bank

Working Paper #2

October 13, 1976

THE CURRENT STRUCTURE OF ALASKA'S ECONOMY

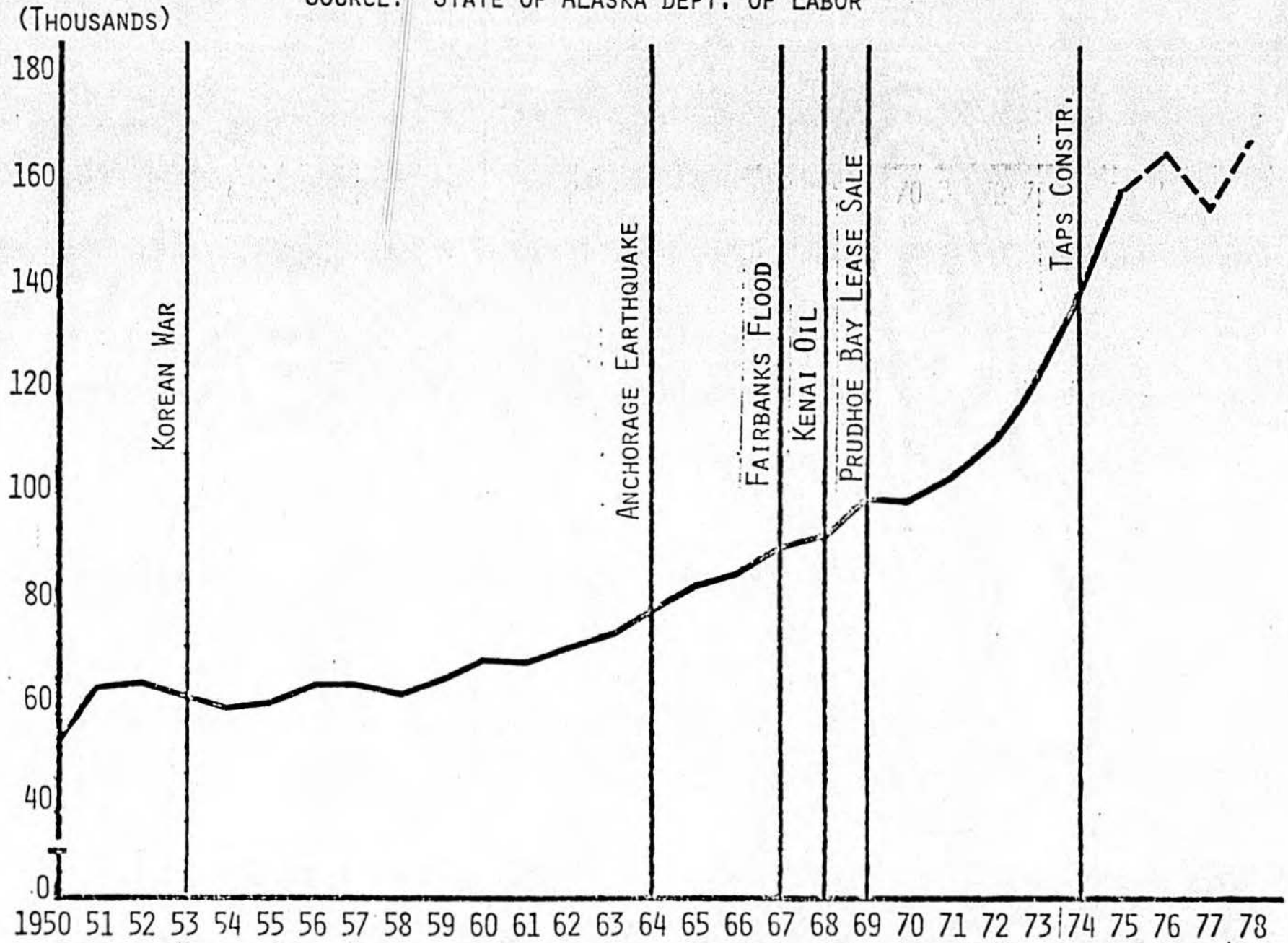
In accordance with the directive given to us, this second working paper defines the nature of the Alaska economy as it is today in order to better understand the economic climate within which any investment objective option for the proposed Permanent Fund would operate.

THE CURRENT STRUCTURE OF ALASKA'S ECONOMY
AS IT IS TODAY

Cyclicalilty.....
Seasonality.....
Diversification.....
Labor Intensity.....
The Public Sector.....

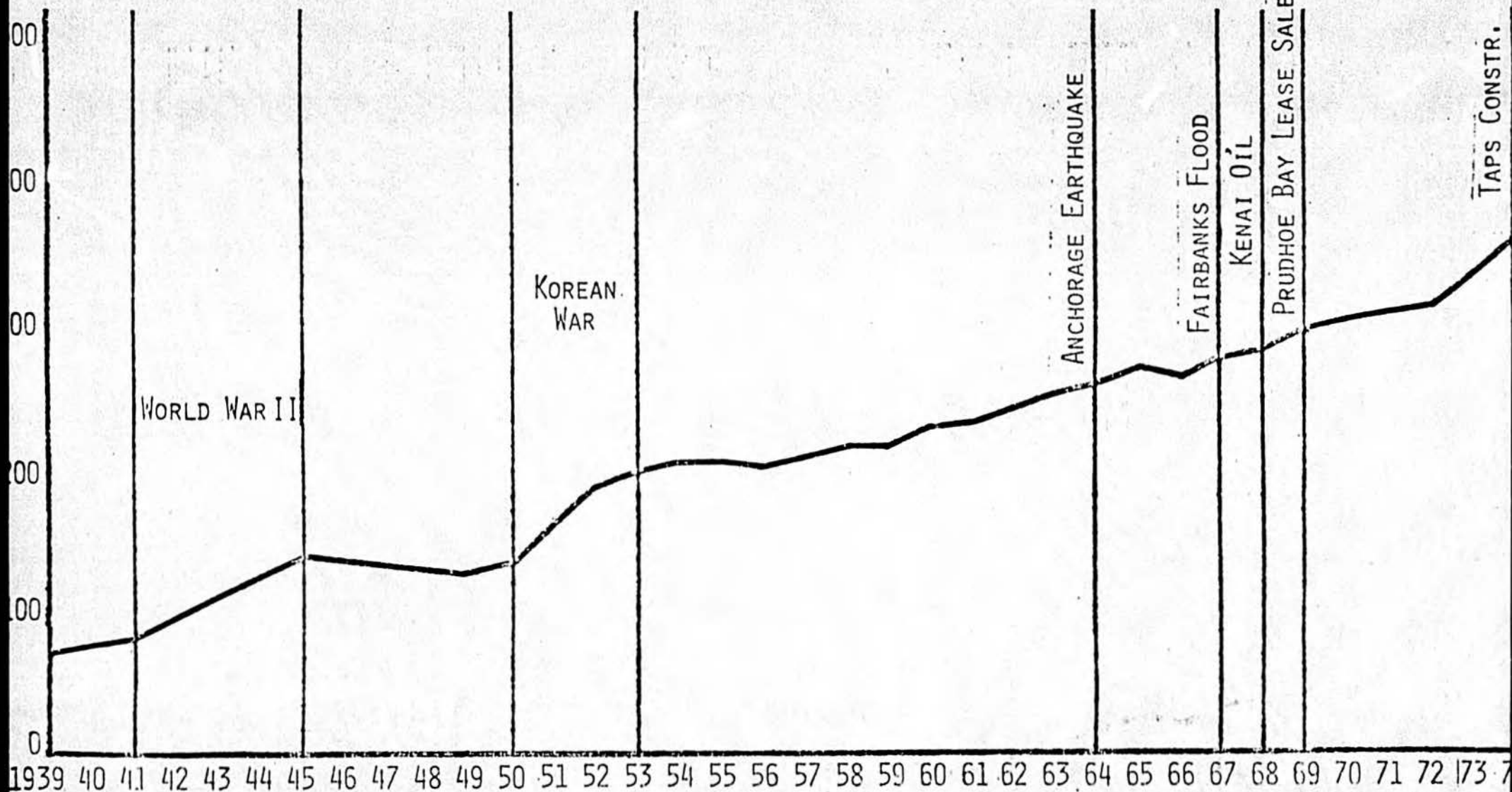
ALASKA CIVILIAN EMPLOYMENT

SOURCE: STATE OF ALASKA DEPT. OF LABOR



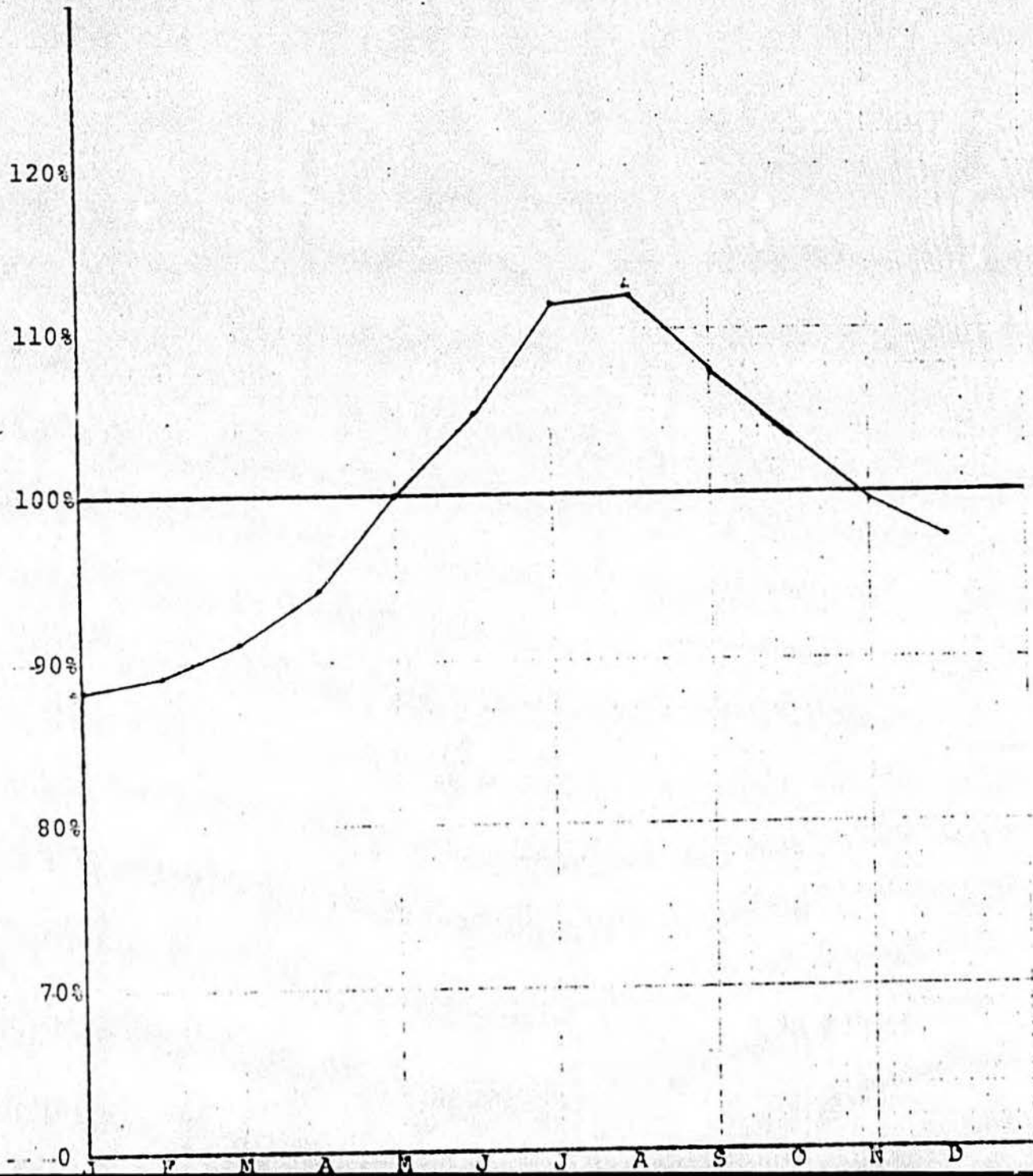
ALASKA POPULATION
(1939-1974)

(THOUSANDS)



(5)

1972
1973
data
series



Wage and Salary Civilian Employment Mix 1975

*Accounting
Personnel
Industry
Food Serv.
Construction*

<u>Alaska</u>		<u>% of Total</u>
Industry		
Trade, Services, Finance		36.4
Government		31.0
Construction		14.4
Trans., Comm., Util.		10.0
Manufacturing		5.5
Mining		2.7

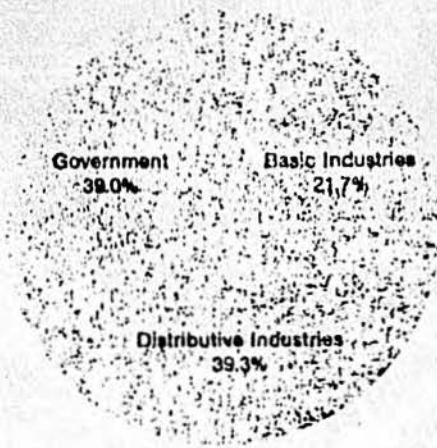
<u>United States Average</u>		<u>% of Total</u>
Industry		
Trade, Services, Finance		46.1
Manufacturing		23.6
Government		18.8
Trans., Comm., Util.		5.9
Construction		4.7
Mining		1.0

<u>Industry Group</u>	<u>% of Total</u>
Distributive	46.4
Government	31.0
Basic	22.6

<u>Industry Group</u>	<u>% of Total</u>
Distributive	52.0
Basic	29.3
Government	18.8

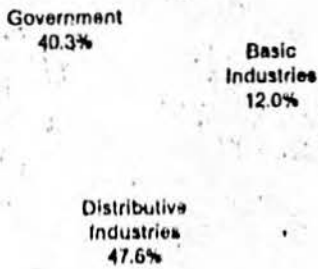
1975 #2

EMPLOYMENT MIX
ALASKA



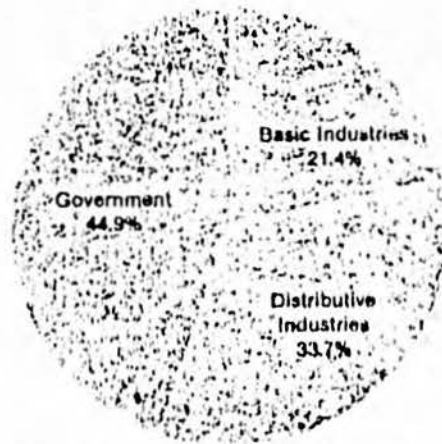
Source: State of Alaska, Department of Labor

EMPLOYMENT MIX
ANCHORAGE



Source: State of Alaska, Department of Labor

EMPLOYMENT MIX
FAIRBANKS

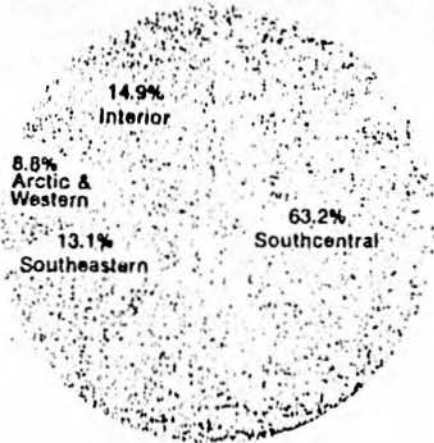


Source: State of Alaska, Department of Labor

1973
max wealth in terms of
output of goods & services
& net income from economic trans

Seasonality } skill level

GROSS STATE PRODUCT BY REGION



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

1973

ALASKA POPULATION BY REGION

<u>Region</u>	<u>% of Total</u>
Southcentral	54.5
Interior	17.4
Arctic & Western	16.3
Southeastern	11.9

PER CAPITA PERSONAL INCOME BY STATES 1974

State	Amount (\$000)
ALASKA	7,062
District of Columbia	7,044
Connecticut	6,455
Delaware	6,306
New Jersey	6,247
Illinois	6,234
New York	6,159
Hawaii	6,042
California	6,032
Nevada	6,016
Maryland	5,943
Michigan	5,883
Massachusetts	5,757
Washington	5,710
North Dakota	5,583
Ohio	5,518
Colorado	5,515
Kansas	5,500
UNITED STATES	5,448
Pennsylvania	5,447
Minnesota	5,422
Florida	5,416
Wyoming	5,404
Rhode Island	5,343
Virginia	5,339
Oregon	5,284
Iowa	5,279
Nebraska	5,278
Wisconsin	5,247
Indiana	5,184
Arizona	5,127
Missouri	5,036
Montana	4,956
Texas	4,952
New Hampshire	4,944
Idaho	4,918
Georgia	4,751
South Dakota	4,685
North Carolina	4,665
Maine	4,590
Oklahoma	4,581
Tennessee	4,551
Vermont	4,534
Utah	4,473
Kentucky	4,442
Louisiana	4,391
West Virginia	4,372
South Carolina	4,311
Alabama	4,215
Arkansas	4,200
Mississippi	3,803

*To adjust
for cost of living
different*

*29.6% higher
than U.S. average*

*Wyo. releases
= 90.70+*

LABOR INTENSITY BY INDUSTRY GROUP

Government

Trade & Services

Fishing

Tourism

Forest Products

Construction

Petroleum

Highly Labor Intensive

Moderately Labor Intensive

Capital Intensive

LABOR UNION MEMBERSHIP 1972
Percent of Nonagricultural Employment

<u>State</u>	<u>Percent</u>
West Virginia	41.3
Michigan	38.4
Washington	38.3
Pennsylvania	38.2
Hawaii	37.0
New York	36.2
Illinois	35.6
Ohio	34.8
Indiana	33.9
Nevada*	33.6
Missouri	32.9
Montana	30.7
Wisconsin	29.7
New Jersey	29.1
California	28.9
Minnesota	28.3
Oregon	27.9
ALASKA	27.6
Rhode Island	27.3
U.S. AVERAGE	27.2
Connecticut	26.1
Massachusetts	26.0
Kentucky	24.9
Maryland**	21.7
Delaware	20.3
Iowa*	20.0
Utah*	19.4
Alabama*	19.2
Maine	19.1
Colorado	18.9
Wyoming*	18.5
Tennessee	18.4
Vermont	17.7
New Hampshire	17.2
Idaho	17.0
Nebraska*	17.0
Louisiana	16.9
Arizona*	16.6
Arkansas*	16.4
North Dakota*	16.1
Oklahoma	16.0
Virginia*	15.5
Kansas*	15.4
Florida*	14.7
Georgia*	13.9
Texas*	13.5
New Mexico	13.2
Mississippi*	12.6
South Dakota*	11.8
South Carolina*	9.0
North Carolina*	7.5

* State has a right-to-work law.

** Includes Dist. of Col.

STATE OF ALASKA ESTIMATED REVENUE SOURCES
FISCAL YEAR 1977

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

STATE OF ALASKA ESTIMATED REVENUE SOURCES
FISCAL YEAR 1985

<u>Source</u>	<u>Amount</u> <u>(\$ Billions)</u>	<u>Portion</u>
Oil and Gas.....	\$2.0	71.4%
Other Sources.....	<u>0.8</u>	<u>28.6%</u>
TOTAL.....	\$2.8	100.0%

During the ten year period of 1964 to 1974, state and local government employment increased by nearly 15,000 employees.

Assuming the state average household size of 3.1 persons implies an increase in Alaska's population of over 45,000. The multiplier effect then adds another 22,000 people. This totals 67,500 people attracted to Alaska because of the expansion of state and local government. This is nearly twice the population impact of the construction, petroleum, hardrock mining, fishing and forest products industries -- the entire basic sector -- combined.

These employment increases reflect the general expansion of state and local government since 1969. In one year (Fiscal Year 1971) the level of State General Fund expenditures doubled. Over the past five years State spending has increased at an annual rate of 26.2%.

As a result of this expansion, the State of Alaska now spends 3.7 times as much per capita as the average state in the country, employs 2.9 times as many people per capita as the average state in the country, and has 4.7 times as much outstanding debt per capita as the average state in the country.

Alaska Pacific Bank

Working Paper #3

October 13, 1976

FUTURE DIRECTION OF THE ALASKA ECONOMY

SHORT-RANGE OUTLOOK

Alaska's economy is now entering a plateau period. Over the next two years, our economic growth will slow considerably.

Three factors are going to be responsible for the forthcoming slowdown in our rate of growth:

1. the substantial decrease in employment on the pipeline project;
2. the likelihood of more modest State spending increases; and
3. a holding back in the private sector because most businessmen and developers in Alaska are expecting a slowdown. (As in any business cycle anywhere, this in turn causes them to become more conservative and helps bring about the very slowdown they expect.)

To put some preliminary numbers on this slowdown, in 1975 civilian employment in Alaska rose 22% above the level of 1974. In 1976 the growth rate is expected to fall considerably to somewhere in the neighborhood of 10%. In 1977 employment is expected to decrease by about 5% - 10%. Employment should hold relatively stable in 1978, then in 1979 with substantial royalty and production tax revenues flowing to the State and a gas pipeline probably under construction, the rate of economic growth should pick up.

It should be emphasized that, despite this forecast of a slowdown, there is not going to be any sort of major bust in the sense of the post-gold rush collapse. These factors will prevent the forthcoming slowdown from turning into a bust.

First, we should keep in mind the huge underpinning of the Alaska economy: government. Over the past decade, federal spending in Alaska has risen steadily at an average annual rate of 10%. This is expected to continue. At the state government level large spending increases are occurring. The Fiscal Year 1975 appropriations provided for a 40.1% increase in expenditures over the level of Fiscal Year 1974; the Fiscal Year 1976 budget increased another 28%; and the Fiscal Year 1977 level of expenditures is expected to rise by nearly 20%.

This huge base of government spending and employment (indeed, providing nearly half the jobs in Alaska) presents a stable underpinning to our economy which helps to mitigate cyclical fluctuations in the private sector.

A second element to keep in mind when analyzing the possibility of a post-pipeline bust is the fact that this project is not a situation wherein on July 1, 1977, everybody is going to lay down their tools and go home. Rather, construction on the pipeline will continue into the early 1980's, gradually increasing the capacity to two million barrels a day.

Nevertheless, the fact remains that it appears at this point that in 1977 there is going to be a fall-off in the number of workers on the pipeline of approximately 18,000. Interestingly, this fall-off is not going to have the catastrophic effect that would appear on the surface. The workers living in the camps and working on the pipeline are having a more modest impact on Alaska's economy than expected. Forty percent of them send their payroll checks directly to the "lover 48" to a bank in their hometowns for deposit. Further, a substantial number of the local checking accounts of the other 60% are simply temporary or flow-through in nature.

The second factor, then, preventing a post-pipeline bust is the fact that the pipeline project has not itself

contributed as much to the present boom as it appears on the surface. Therefore, the winding down of the pipeline project will not have as great a "bust" effect as some believe.

The third element preventing a post-pipeline bust is the fact that it appears that most Alaskans are focusing on the longer range outlook. We know there will be construction of a gas pipeline, one route or another; we know that oil and gas exploration and development is just in its infancy and will grow substantially; we know that the economic impact from the Native Claims Settlement Act will be significant; we know that a certain expansion of LNG plants and of the petrochemical industry is highly probable; we know that there is a good chance of a major hydroelectric project and of the capital being moved; and we know of numerous other events likely to occur in the 1980's.

The relevancy of all of this is that there will continue to be anticipatory expansion in the private sector. In the very same way that the delayed pipeline in the early '70's did not squelch completely the plans of developers, I feel that the forthcoming slowdown also will not squelch completely the activities of developers who look beyond the valley to the strong growth anticipated for the 1980's.

To summarize the outlook for the immediate future: definitely the rate of economic growth will slow down, and there could be a slight downturn in 1977. But this slowdown will be (1) somewhat modest, not in any way resembling a bust, and (2) relatively short in duration.

LONG-RUN OUTLOOK

The decade of the eighties looks promising for Alaska's economy. Big oil and big government -- the factors underlying Alaska's prosperity in the seventies -- will again promote a great leap forward.

For at least the next decade -- and likely far beyond -- the petroleum industry will serve as the vanguard of Alaska's economic growth.

Petroleum Industry

The second major oil and gas project in Alaska following construction of the trans-Alaska oil pipeline will be construction of a natural gas pipeline. Although there is as yet no specific route approved for transporting the natural gas from Alaska's North Slope to U.S. markets, three routes have been proposed. Canadian Arctic Gas, Ltd., has applied to the Federal Power Commission for authority to transport the gas through Canada to Montana and onto the Midwest where it will connect with existing systems, terminating in Pennsylvania. El Paso Natural Gas Company is proposing to transport the gas from the North Slope to Point Gravina near Cordova, liquefy it, and ship the LNG to the West Coast. A third entrant, Northwest Pipeline Corporation of Salt Lake City,

has filed for permission to construct a pipeline parallel to the first oil pipeline from Prudhoe Bay to approximately Fairbanks, turn east, and enter Canada where it would connect with existing systems to transport the natural gas to the United States. The Federal Power Commission has announced its intention to rule on this matter by the end of the year. Undoubtedly final resolution of the route is expected to be performed by Congress. This is anticipated to be accomplished by fall, 1977.

Regardless of which route is approved, Alaska will feel a substantial impact during construction of a gas pipeline. Nevertheless, the trans-Alaska route, which would transport gas to tidewater, would be most conducive to development of a petrochemical industry in Alaska.

When looking to the future of the petroleum industry in Alaska, it should be kept in mind that the Prudhoe Bay project on the North Slope, which holds one-fourth of our nation's proved crude oil reserves and nearly ten percent of our nation's proved natural gas reserves, is simply one reservoir in one of Alaska's fifteen sedimentary basins. That is, development on the North Slope represents only the beginning as far as oil development in Alaska is concerned. No one knows for sure, but the guesses in the industry are that there is in the neighborhood of one hundred billion barrels of oil underneath and offshore Alaska.

Our nation's official commitment to pursuing greater energy self-sufficiency has placed a high priority on lease sales on the Outer Continental Shelf. Over half of the U.S. Outer Continental Shelf lies off Alaska. The first offshore oil lease sale in the Gulf of Alaska was held last April, and eight more sales are scheduled over the next two years as indicated in the accompanying table.

OCS SALE SCHEDULE FOR ALASKA

Sale Area	Call For Nominations	Sale Date
Lower Cook Inlet		November, 1976 to January, 1977
Gulf of Alaska (Kodiak Shelf)		February, 1977
Bering Sea (St. George Basin)		March, 1977
Beaufort Sea	July, 1976	October, 1977
Bristol Basin	September, 1976	December, 1977
Bering Sea (Norton Basin)	May, 1977	August, 1978
Gulf of Alaska (Aleutian Shelf)	July, 1977	October, 1978
Chukchi Sea (Hope Basin)	September, 1977	December, 1978

Source: Oil and Gas Journal

Another factor inducing oil development is the transfer of forty million acres of land from the federal government to Alaska's Native corporations. Most of the Native corporations which occupy potentially rich oil and gas basins have consummated exploration agreements with petroleum firms, as outlined in the table following.

NATIVE CORPORATION DRILLING CONTRACTS

Native Corporations

Arctic Slope Regional Corp.

NANA Regional Corp.

Calista Corp.

Bristol Bay Native Corp.

Koniag, Inc.

Doyon, Ltd.

Ahtna, Inc.

Chugach Natives, Inc.

Contracting Companies

Standard Oil

Union-Amoco

Texaco

Standard Oil

Shell

Phillips

Standard Oil

Louisiana Land and Exploration

Champlin

Asland

Amoco

Phillips

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

State Government

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

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

Hardrock Mining

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