

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
116 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

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

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

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

Construction

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

Further, investments by Native corporations and greatly expanded oil and gas exploration and development will generate

large projects, all of which auger well for the construction industry.

Visitor Industry

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

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

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

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

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

Forest Products

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

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

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

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

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

Fishing

The long-run outlook for Alaska's fishing industry is optimistic as the industry diversifies and its business management techniques become increasingly sophisticated. The major

long-range potential for Alaska's fishing industry may very well be with bottom fish. Increasing demand from Japan, rapidly rising world prices, and improving market acceptance throughout the United States are inducing more and more Alaska fishermen to harvest bottom fish.

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

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

Summary

To summarize the outlook for Alaska's basic industries, the three most rapidly growing industries in the 1980's will be

petroleum, construction, and the visitor industry. By early in the next decade these industries will surpass the fishing industry in importance as a source of employment. The fishing industry is expected to grow moderately. The hardrock mining and forest products industries are likely to experience some growth but in slightly more erratic patterns and uncertain rates. Finally, agriculture remains a long shot.

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

Anchorage

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

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

Social Effects

Economic growth has always been accompanied by social costs.

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

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

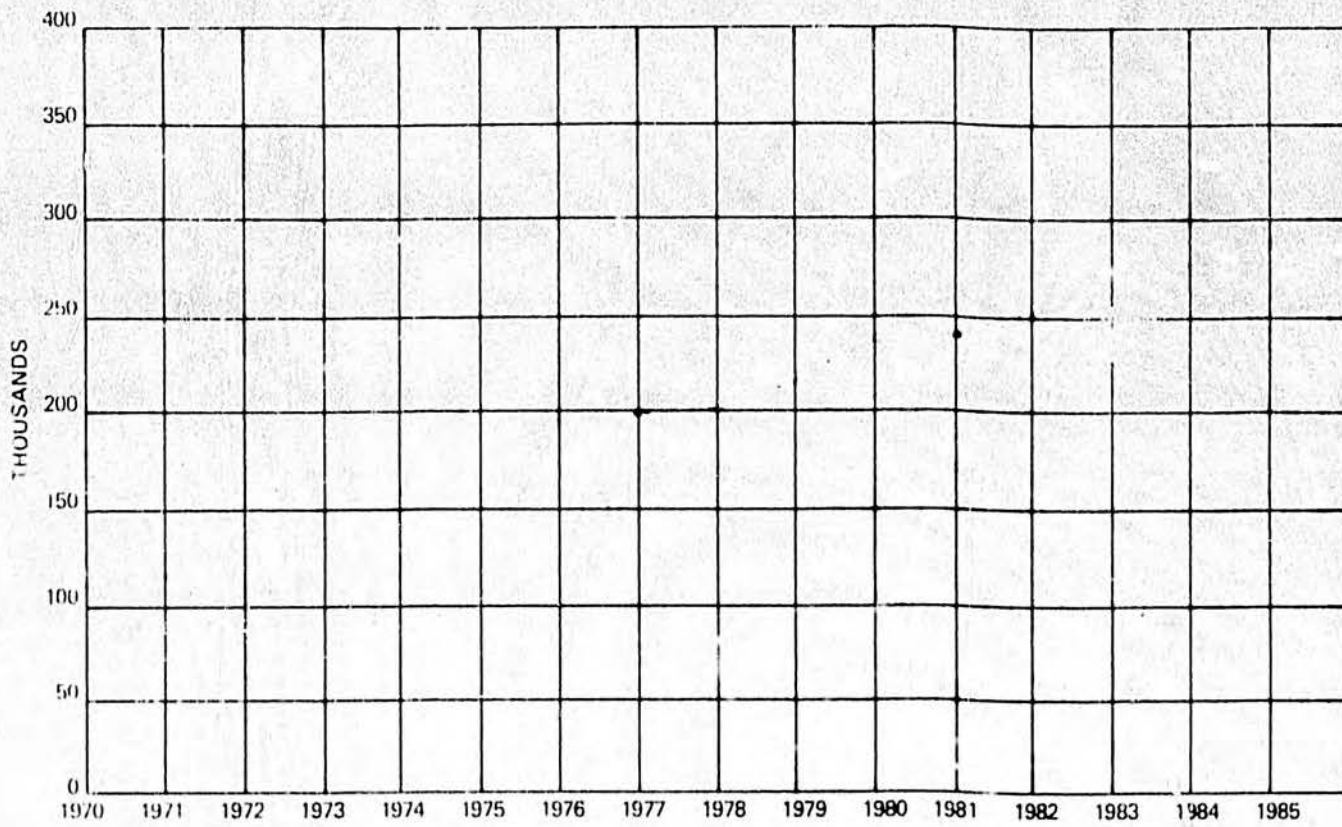
One social benefit will be a more stable structure to our economy. Heretofore Alaska's major industries have been highly labor intensive, highly seasonal, and highly subject to cyclical fluctuations. Now, however, certain areas in Alaska have the opportunity to break out of this pattern as a result of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

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

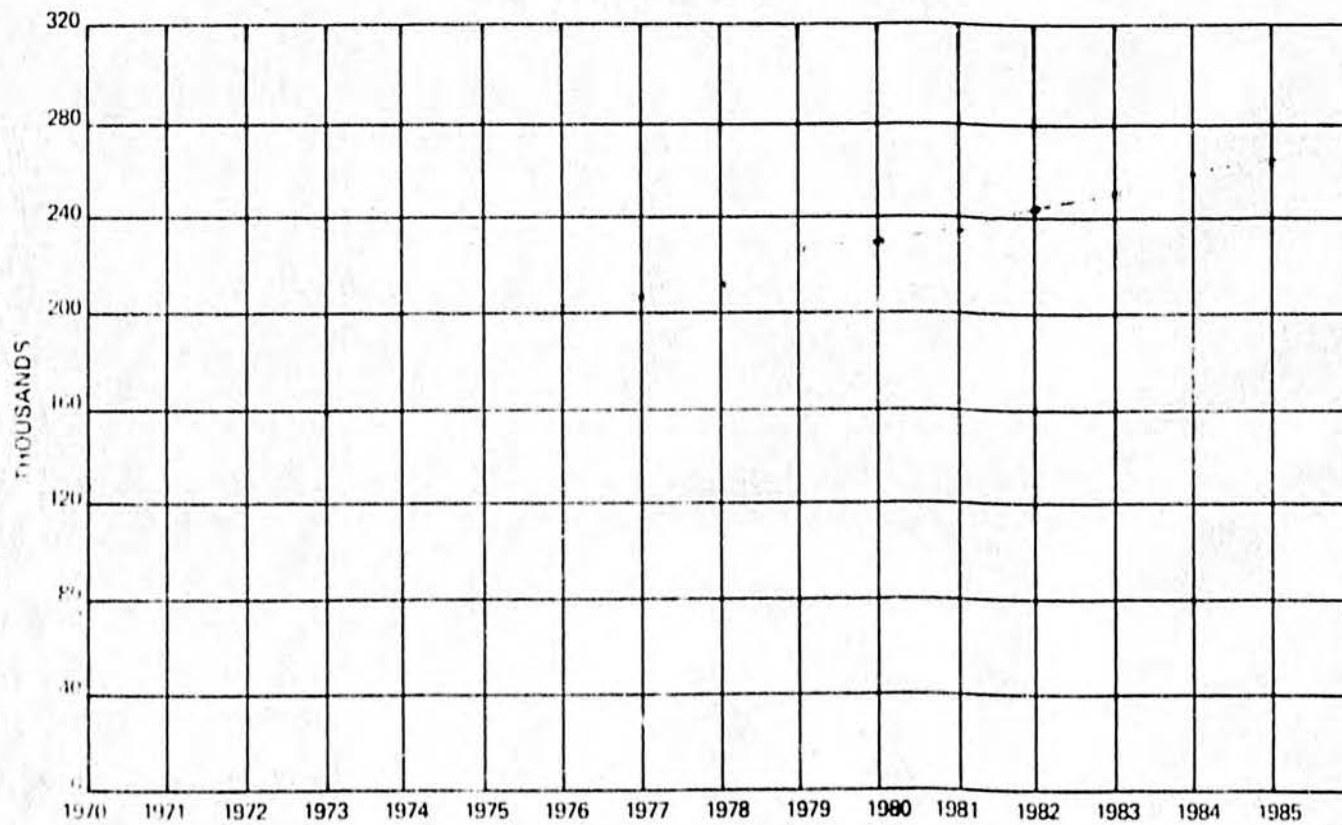
State revenues and few people, Alaska has an opportunity to enjoy relatively profuse public services without a commensurately great tax burden on local families and businesses.

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

**ALASKA EMPLOYMENT FORECAST
(Excludes Uniformed Military)**



ANCHORAGE POPULATION FORECAST





Alaska Pacific Bank

Working Paper #4

October 13, 1976

POLICY IMPLICATIONS

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

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

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

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

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

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

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

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

Alaska Pacific Bank

Working Paper #5

October 13, 1976

REGIONAL SUMMARY

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

SOUTHCENTRAL

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

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

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

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a \$660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a \$6 million barite

grinding mill for drilling mud used in offshore oil and gas exploration. Also, in connection with anticipated OCS exploration in the Gulf of Alaska, the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

INTERIOR

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

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

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

ARCTIC AND WESTERN

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

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

SOUTHEASTERN ALASKA

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

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

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

Alaska Pacific Bank

Working Paper #6

November 5, 1976

INTERFACE OF THE PERMANENT FUND WITH THE ALASKA BANKING SYSTEM

Relative to consumers in other states, Alaskans enjoy access to a broad banking system. Exhibit A indicates that on a per capita basis there are more separate banking institutions in Alaska than in all of the other western states. Further, as indicated on Exhibit B, Alaska communities of over 10,000 people have twice as many banks as the United States average. Finally, as indicated on Exhibit C, some extremely small communities in Alaska are served by banks.

The map labeled Exhibit D indicates the broad geographical disbursement of Alaska's commercial banking system. A specific listing of the location of Alaska's banks is on Exhibit E. Note that there are over 100 banking offices in Alaska.

Commercial banks are only a part -- and indeed a small part -- of Alaska's total financial industry. Exhibit F is a partial list of other financial institutions doing business directly in Alaska.

As you can clearly see from these exhibits, Alaska consumers

have available to them a relatively broad geographical disbursement of commercial banks and a very wide variety of types of financial institutions with which to deal.

The information that I have presented to this point is primarily background data. The most important element of the Alaska banking system in terms of the Permanent Fund is the role which Alaska banks have played as conduits for channeling funds from large, long-term investors to Alaska's families and businesses.

Over 80% of the money which finances the purchase of homes in Alaska does not come from Alaska bank deposits. It comes from large institutional purchasers of mortgages. These institutional investors are comprised basically of (1) federal agencies (Federal National Mortgage Association and Federal Home Loan Mortgage Association) and (2) "outside" savings institutions, and (3) union pension plans.

The banks originate the mortgages, that is, they take the application from the borrower, perform the credit analysis, do all the paper work, etc. Then the banks sell the mortgages to these large investors and service the mortgages for a fee. Servicing includes accepting the payments, making the tax and insurance payments, etc. The borrower deals solely with the bank and is not even aware of the institutional investor who purchased his mortgage.

Another way in which the Alaska banks serve as conduits for

the flow of funds into the Alaska economy is through loan participations with "outside" banks. This situation normally arises when a customer comes into his bank in Alaska and requests a loan that exceeds the lending authority of the particular Alaska bank. The bank then presents the loan to an outside bank with which it has a correspondent relationship for consideration by the "outside" bank to lend the amount of money which exceeds the Alaska bank's authority. This is a very common practice, and it goes on everyday. Exhibit G is a partial list of United States financial institutions participating in loans in Alaska.

Probably the most significant investor which injects funds into Alaska's economy through the Alaska banks is the State of Alaska. The state General Fund, the Public Employees' Retirement Fund, and the Teachers' Retirement Fund currently hold over \$100 million of loans and mortgages which were purchased from Alaska's banks.

Additionally, the Small Business Administration has been a substantial purchaser of Alaska's loans.

The relevancy for all of this for our discussion today is that the Alaska banking system is structured and has operating procedures established for serving as an effective conduit for the flow of funds from large investing agencies to Alaska's families and businesses. The Alaska banking system has a considerable amount of experience in this procedure and perceives this as one of its important roles.

The investing agency benefits from this system by receiving the knowledge, skills, manpower, and entire mechanism of, I think, an extremely efficient group of institutions set up to perform this very function. The large institutional investor pays a fee for this service which obviously the institutional investors to date have felt was more economical than setting up their own organizations to take loan applications, process the paper work, etc.

The conclusion then, it seems to me, is that if a portion of the Permanent Fund is allocated toward loans to consumers, families, or Alaska businesses and organizations, it appears to make sense to do this through an efficient system of financial institutions already set up to perform this function.

Further, I think that consideration should be given toward allowing Alaska banks to participate in large economic development type loans. Some Alaska banks already participate in major financing in the state which actually was originated between the corporate headquarters of national firms and a major bank "outside." The advantage of having the participation by the Alaska banks is twofold: (1) the Alaska bank can offer an understanding of the environment within which the loan is being made and (2) the Alaska bank provides a certain amount of local supervision of the loan by maintaining surveillance over the activity which the loan is financing.

I think that most bankers, in Alaska are quite enthusiastic over the Permanent Fund because they are aware of the tremendous

good that can be forthcoming from this vehicle. They certainly do not perceive it as a threat. It should be kept in mind that commercial banks are in business to make short-term commercial loans -- hence, their name. The Permanent Fund, on the other hand, as indicated in my very first working paper presented to you, should have a long range orientation. Its very name implies this and, indeed, the Alaska voters had this in mind when they approved it. So, operated as I think they ought to, the Permanent Fund and the Alaska banking system should not be in a competitive posture.

As an added service to the Permanent Fund, however, the Alaska banking system offers an efficient, conduit through which the Permanent Fund could channel certain of its investments.

EXHIBIT A

NUMBER OF BANKS* PER 100,000 PERSONS

<u>State</u>	<u>Number</u>
ALASKA	3.75
Idaho	3.43
Washington	2.79
Oregon	2.32
Nevada	1.60
Hawaii	.88
Arizona	.83
California	.77
Utah	.55

*Number of separate institutions

Source: "Blue Chart - A comparative position table of the non-reserve city banks and the reserve city banks in the Twelfth Federal Reserve District," The Pacific Banker and Business.

EXHIBIT B

AVERAGE NUMBER OF COMMERCIAL BANKING ORGANIZATIONS
PER CITY IN U.S. AND ALASKA

(1970)

	Size of City			
	<u>5-10,000</u>	<u>10-15,000</u>	<u>15-30,000</u>	<u>30-50,000</u>
Total U.S.	1.99	2.41	2.83	3.29
Alaska	2.50	5.00	--	6.00

Sources: 1970 Census of Population, Advance Report, Final Population Count, Bureau of the Census U.S. Department of Commerce. American Bank Directory, Spring and Fall Editions, 1970, Fall Edition 1973. Operating Banking Officers, January 1, 1970, FDIC. Standard Metropolitan Statistical Areas of the United States, 1967, Bureau of the Budget, Executive Office of the President. Subsidiary Bank of Bank Holding Companies, Dec. 31, 1969, Federal Reserve Board.

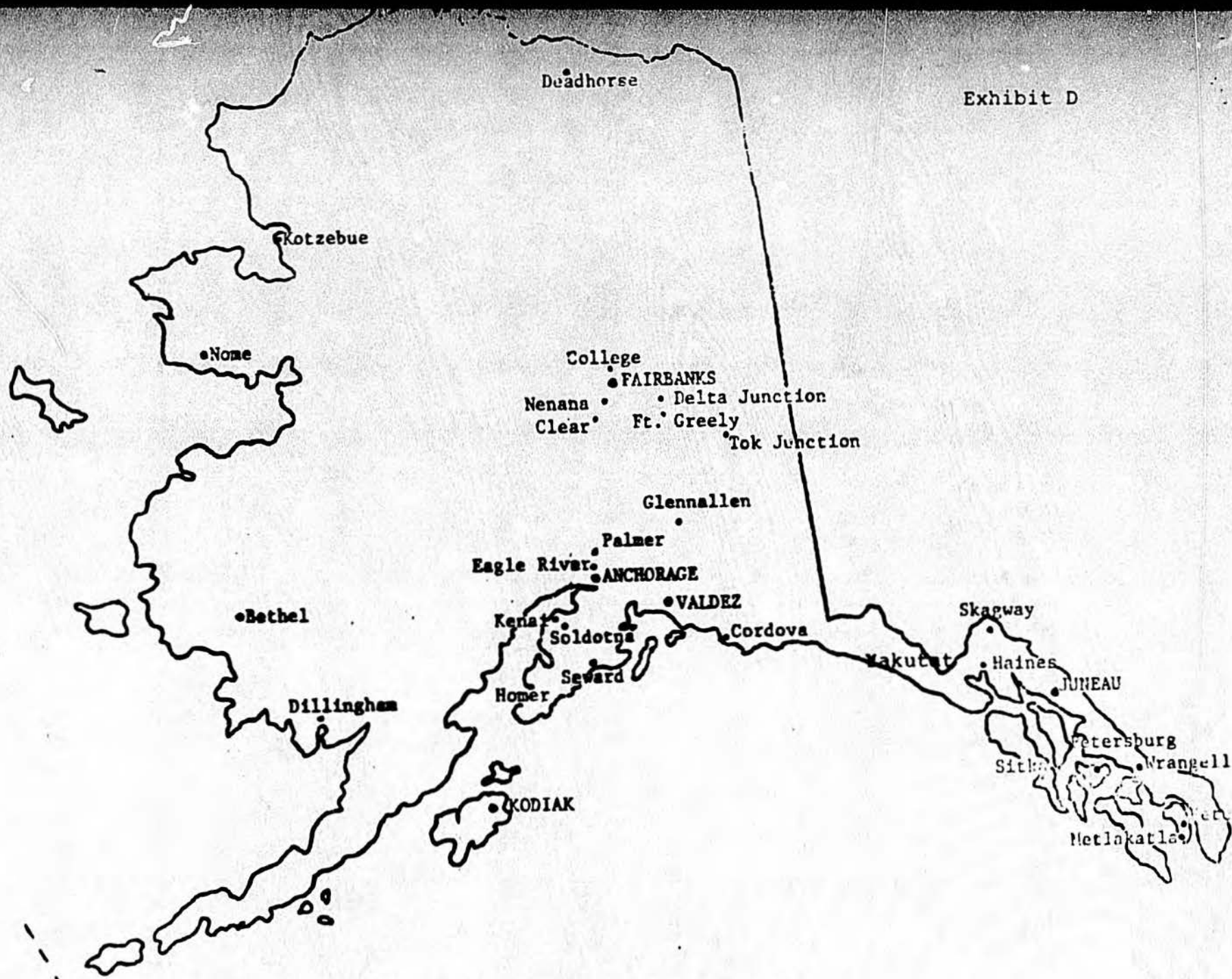
EXHIBIT C

ALASKA COMMUNITIES WITH COMMERCIAL BANKS

<u>Community</u>	<u>Population*</u>
Deadhorse	163
Yakutat	190
Tok	214
Wasilla	300
Nenana (Clear)	362
Glennallen	363
Skagway	675
Delta Junction	703
Dillingham	914
Valdez	1,005
Metlakatla	1,050
Homer	1,083
Palmer	1,140
Cordova	1,164
Soldotna	1,202
Haines	1,351
Seward	1,587
Kotzebue	1,696
Fort Greely	1,820
Wrangell	2,029
Petersburg	2,042
Barrow	2,104
Adak	2,249
Bethel	2,416
Eagle River	2,437 (incl. Anch. Borough)
Nome	2,488
Sitka	3,370
College	3,434 (incl. Fairbanks Bor.)
Kenai	3,533
Kodiak	3,789
Ketchikan	6,994
Juneau	13,556
Fairbanks	45,864
Anchorage	126,333

Source: Research and Analysis Section, Employment Security Division,
State of Alaska, Department of Labor, June, 1971.

*1970 census



ALASKA COMMUNITIES WITH COMMERCIAL BANKS



EXHIBIT E
ALASKA FINANCIAL INSTITUTIONS

BANKS	Main Office Location	Main Office City	Other Offices	No.
<u>Commercial Banks</u>				
National Bank of Alaska	Anchorage	4th and E Dimond Fifth Avenue Spenard Ft. Rich. Gov't Hill Airport Mall Russian Jack Sand Lake	Adak Cordova Dillingham Fairbanks (2) Glennallen Homer Juneau (2) Kenai Ketchikan (2) Kodiak (2) Metlakatla Petersburg Sitka (2) Skagway Soldotna Valdez Wasilla Wrangell	33
First National Bank of Anchorage	Anchorage	646 W. 4th 5th Avenue Eagle River Eastchester Elmendorf Northern Lgts. Parkway S. Center	Bethel Cordova Fairbanks Haines Juneau (2) Kodiak Palmer Seward Sitka Valdez	19
Alaska Statebank	Anchorage	442 W. 5th Drive-in Br. Mt. View Northern Lgts. Tudor	Fairbanks (2) Kenai	8
Alaska National Bank of the North	Fairbanks	Head Office Airport Rd. Eielson Int'l Arpt. University	Anchorage (3) Barrow Deadhorse Delta Junction Kotzebue Nenana Nome Tok Valdez	16

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
Alaska Bank of Commerce	Anchorage	712 W. 4th Airport C Street Drive-in Eagle River Tudor Boniface O'Malley	Palmer Wasilla	10
First National Bank of Fairbanks	Fairbanks	Cushman College Cushman & Gaffney Ft. Wainwright Gavora Mall	Clear Eagle River Ft. Greely North Pole	9
First National Bank of Ketchikan	Ketchikan	Head Office Totem	Anchorage Craig Petersburg	5
Peoples Bank & Trust	Anchorage	644 W. 8th Sand Lake University Center		3
B. M. Behrends	Juneau	Head Office Mendenhall	Hodnah Yukutat	4
Security National Bank	Anchorage	Head Office		1
United Bank Alaska	Anchorage	Head Office		1
Alaska Pacific Bank	Anchorage	Head Office		<u>1</u>
<u>TOTAL NATIONAL BANKS</u>				83
<u>TOTAL STATE BANKS</u>				<u>27</u>
<u>TOTAL COMMERCIAL BANKS</u>				110
<u>Savings Banks</u>				
Alaska Mutual Savings Bank	Anchorage	5th & F Airport Heights Eagle River		3
Mt. McKinley Mutual Savings Bank	Fairbanks	Third Avenue		1
<u>TOTAL SAVINGS BANKS</u>				<u>4</u>
<u>TOTAL BANKS</u>				114

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
<u>Savings & Loan Association</u>				
First Federal Savings and Loan	Anchorage	305 W. 5th Dimond Muldoon Spenard	Kenai Kodiak	6
Alaska Federal Savings and Loan	Juneau	301 N. Franklin	Ketchikan Sitka Palmer Valdez	5
Arctic First Federal Savigs and Loan	Fairbanks	Head Office Downtown Steese	Anchorage Craig* Petersburg* Wrangell*	4
Home Federal Savings and Loan	Anchorage	535 D Street		1
<u>TOTAL SAVINGS & LOAN ASSOCIATIONS</u>				<u>16</u>
<u>TOTAL BANKS & SAVINGS & LOAN ASSOCIATIONS</u>				<u>130</u>

*Agency only

EXHIBIT F

PARTIAL LIST OF FINANCIAL INSTITUTIONS DOING BUSINESS IN ALASKA

Commercial Banks

National Bank of Alaska
First National Bank of Anchorage
Alaska Statebank
Alaska National Bank
Alaska Bank of Commerce
First National Bank of Fairbanks
First National Bank of Ketchikan
B. M. Behrends Bank
Peoples Bank and Trust Company
Security National Bank
United Bank Alaska
Alaska Pacific Bank

Savings Banks

Alaska Mutual Savings Bank
Mt. McKinley Mutual Savings Bank

Savings and Loan Associations

First Federal Savings and Loan
Alaska Federal Savings and Loan
Arctic First Federal Savings and Loan
Home Federal Savings and Loan Association

Credit Unions

AF & S Federal Credit Union
Alaska Command Federal Credit Union
Alaska Teamsters Federal Credit Union
Anchorage City Employees Federal Credit Union
Anchorage Teachers Federal Credit Union
CAA8 Federal Credit Union F301
Starliner Federal Credit Union

Leasing Companies

NBA Leasing Corporation
UCB Leasing Corporation
Bank of California Leasing Corporation
Crocker-McAllister Leasing Corporation
First Bank Leasing Corporation
Chandler Leasing Corporation
IDS Leasing Corporation
Liberty Leasing Company, Inc.
Professional Leasing Company
Booth Computer Corporation
Rockwood Computer Corporation
IBM Corporation

EXHIBIT F Cont'd.

Mortgage Companies

Ballard and Associates
Coast Mortgage Company
Commonwealth
Cronin Mortgage Company
First Chicago Realty Services Company
Kassler and Company
Lomas and Nettleton
Metropolitan Mortgage and Security of Alaska, Inc.
Spokane Mortgage
T-K Mortgage-Investment
First Bank Mortgage

Finance Companies

Household Finance Corporation
Lectro Alaska Finance, Inc.
Beneficial Finance Company
Pacific Finance
AGC of Alaska Sales and Service
GMAC
Chrysler Credit Corporation
Ford Motor Credit Corporation
Friendly Ford
CIT Corporation
Northwest Acceptance Corporation
Westinghouse Credit Corporation
General Electric Credit Corporation
Safeco Finance Company
Deere Credit Corporation
Credit Alliance Corporation

Investment Banks, Advisors, and Money Managers

Brown Brothers Harriman and Company
Schroeder Capital Corporation
Scudder, Stevens, and Clark
Loomis and Kennedy
Lehman Brothers
Wells Fargo Bank Trust Department
Union Bank Trust Department
Bank of America Trust Department
Seattle-First National Bank Trust Department
Trust Company of the West

EXHIBIT G

PARTIAL LIST OF U.S. FINANCIAL INSTITUTIONS WHICH BUY OR PARTICIPATE IN ALASKA LOANS

Commercial Banks

American Security and Trust Company	First City National Bank of Houston
Bank of America	First Western Bank and Trust
Bank of California	Mellon National Bank
Bank of Hawaii	Morgan Guaranty Trust Company
Bank of the Southwest, Houston	National Bank of Tulsa
Brown Brothers Harriman & Company	Pacific National Bank of Seattle
Chase Manhattan Bank	Peoples National Bank of Washington
Chemical Bank New York	Rainier National Bank
Citibank (First Nat'l City Bank, N.Y.)	Republic National Bank of Dallas
Continental Illinois National Bank	Seattle-First National Bank
Crocker-Citizens National Bank	Security Pacific National Bank
First National Bank of Chicago	Texas Commerce Bank
First National Bank of Dallas	United California Bank
First National Bank of Oregon	U.S. National Bank of Oregon
	Wells Fargo Bank

Savings and Loan Associations and Mutual Savings Banks

Gibraltar S. and L., L.A.	Prudential Mutual Savings Bank, Seattle
Old Stone Bank, Prov., R.I.	Washington Mutual Savings Bank, Seattle

Insurance Companies

Beneficial Standard Life	Prudential Life Insurance Company
Equitable Life Insurance Company	Standard Insurance Company
New York Life Insurance Company	

Alaska Pacific Bank

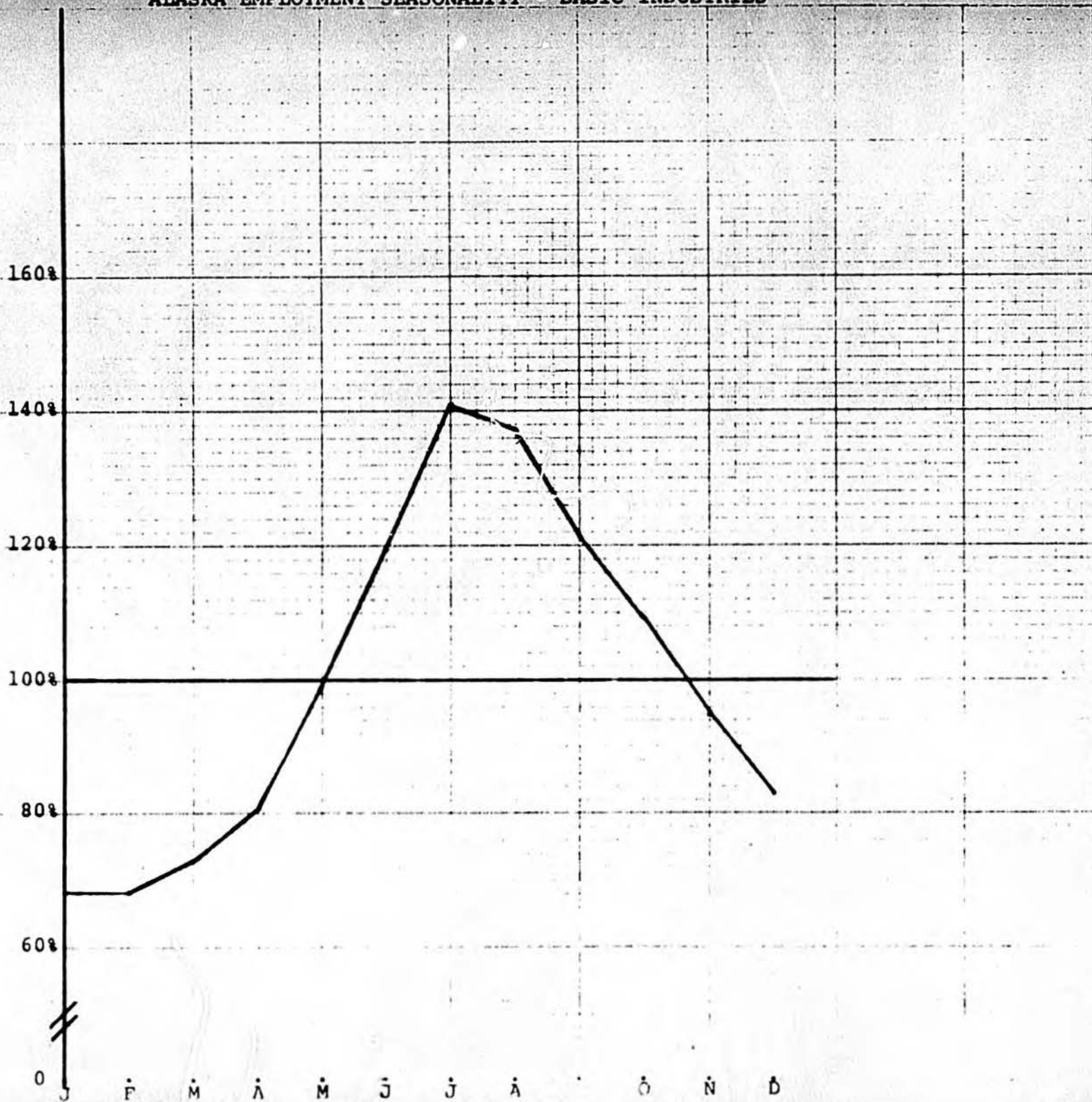
Working Paper #7

December 16, 1976

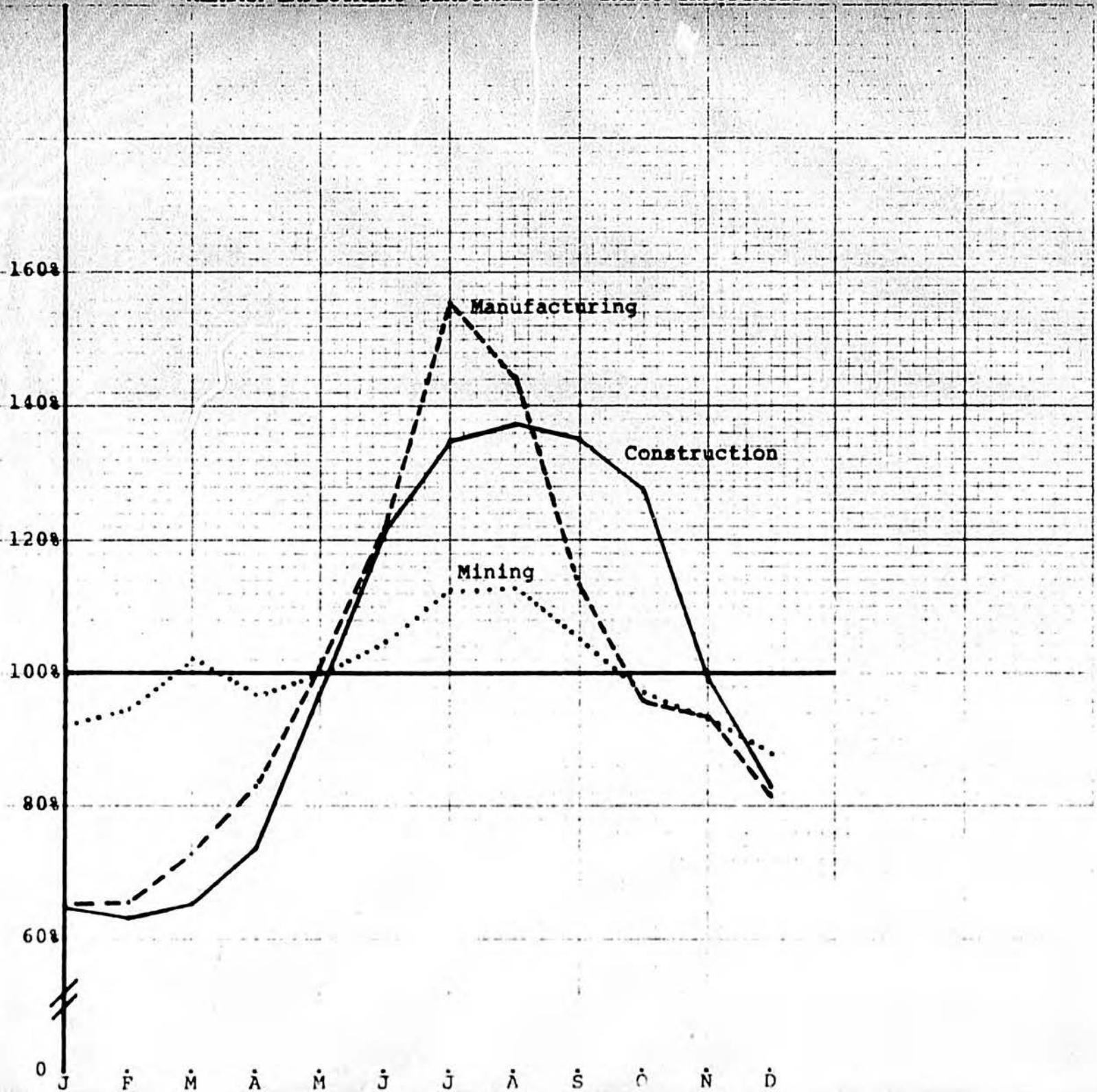
ALASKA EMPLOYMENT SEASONALITY

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

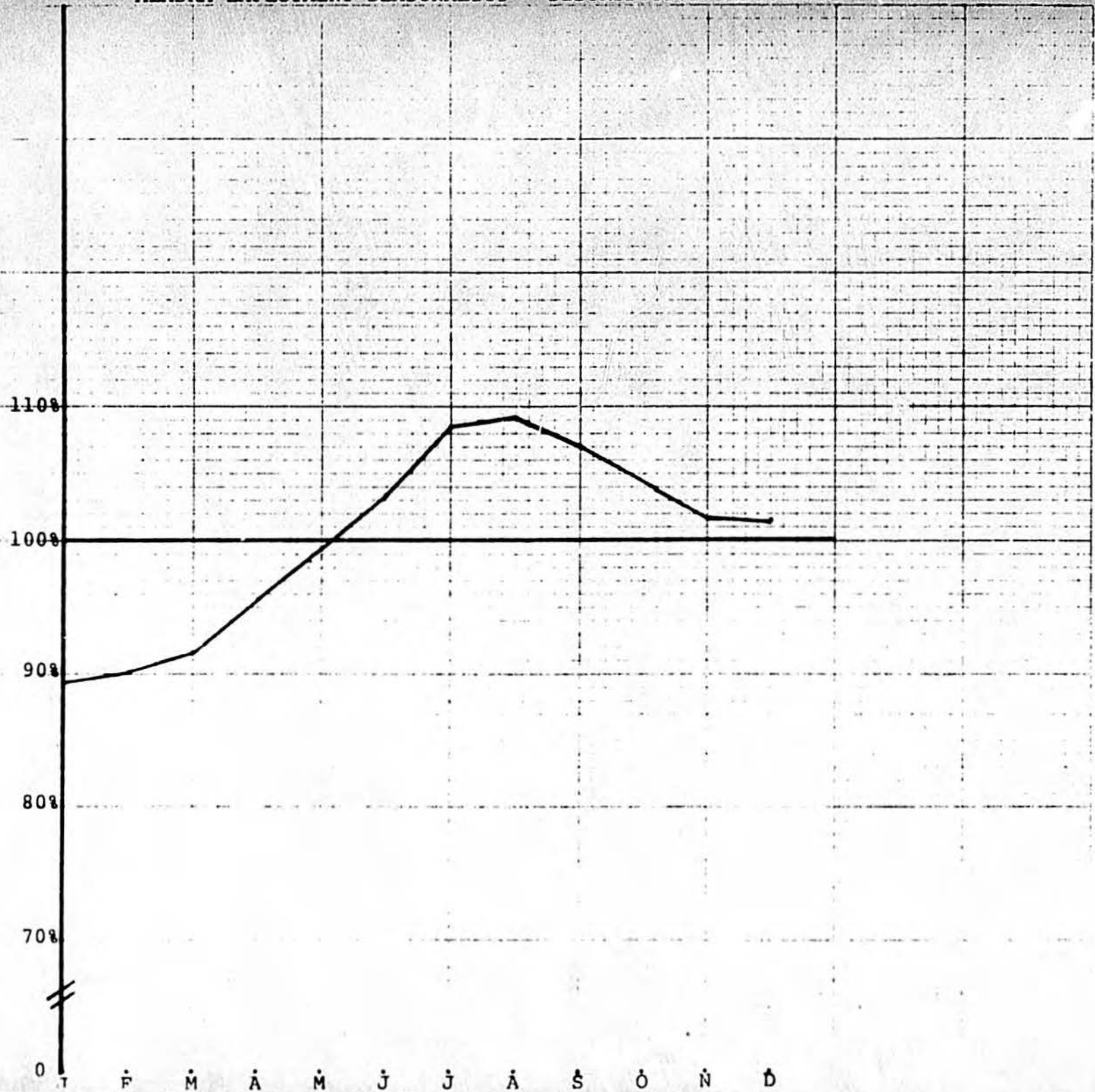
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



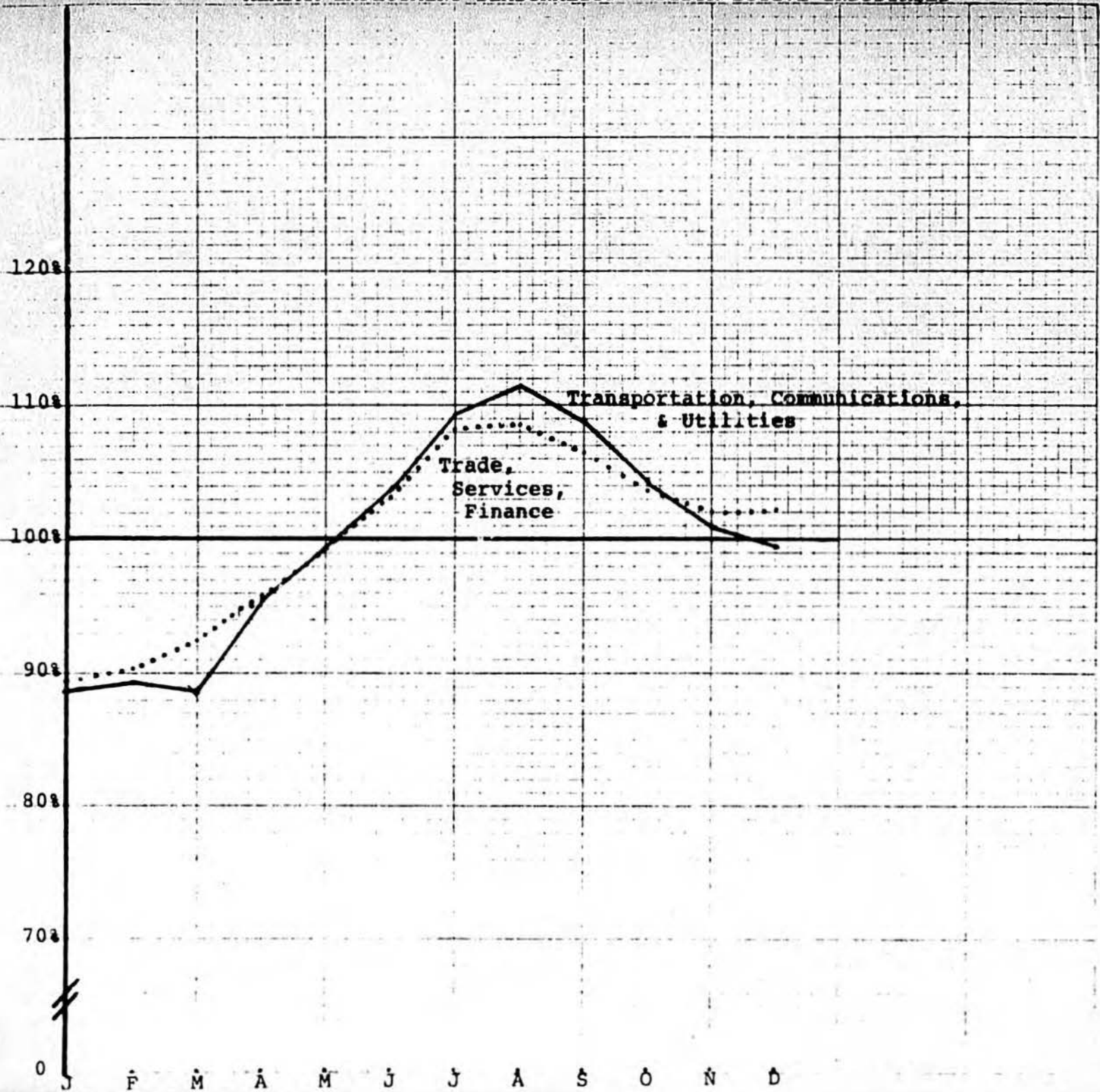
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



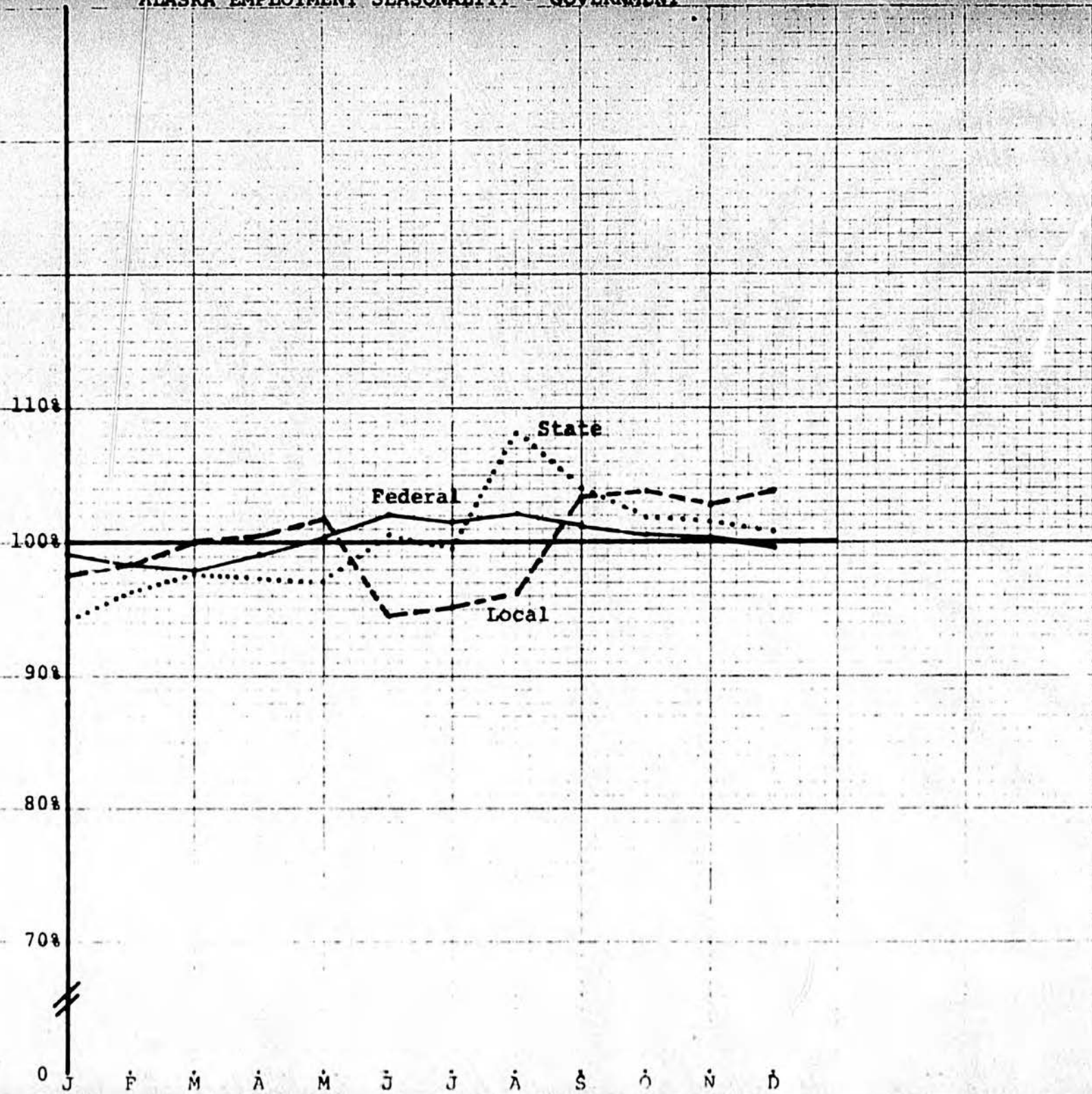
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES



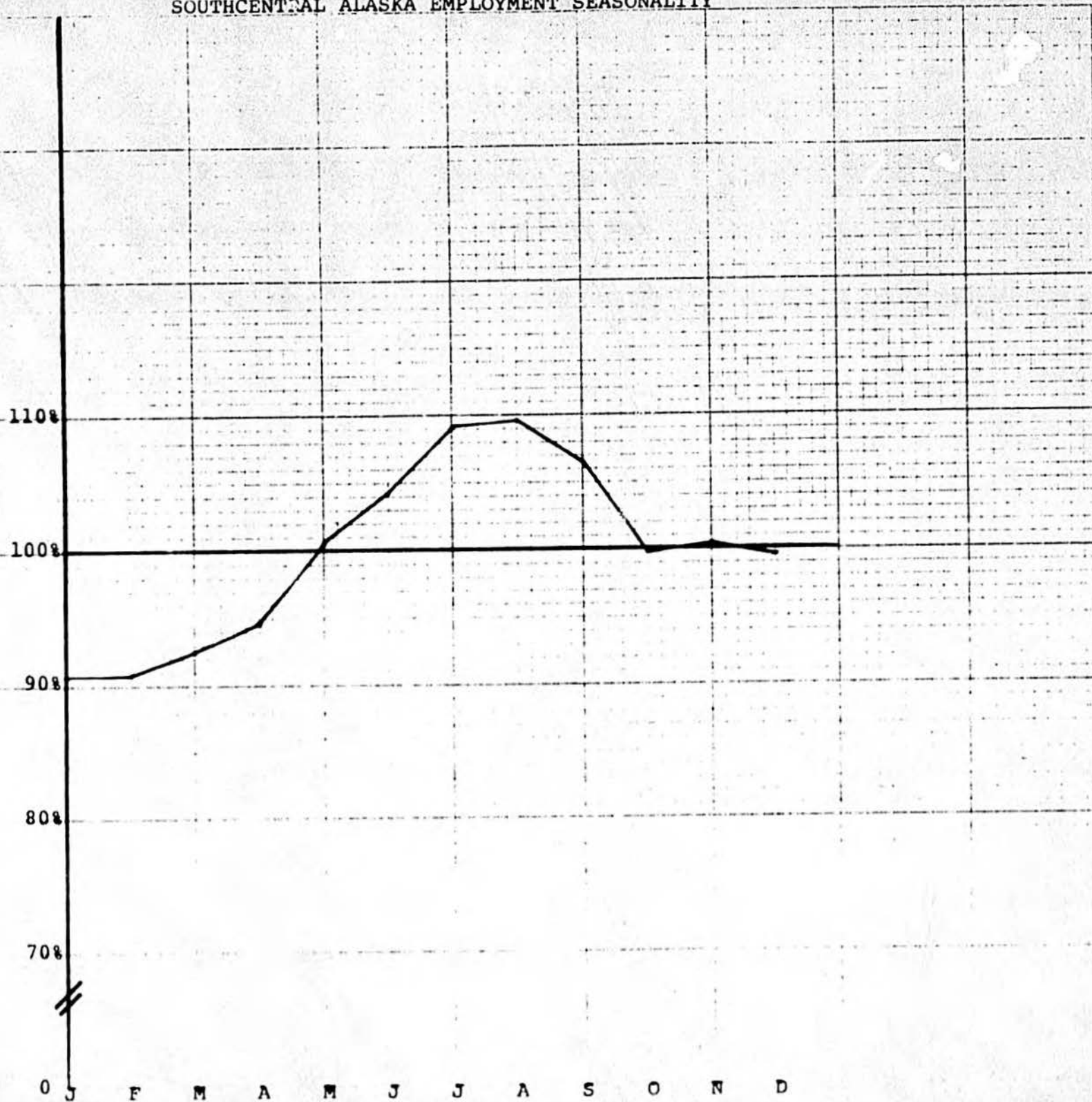
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES



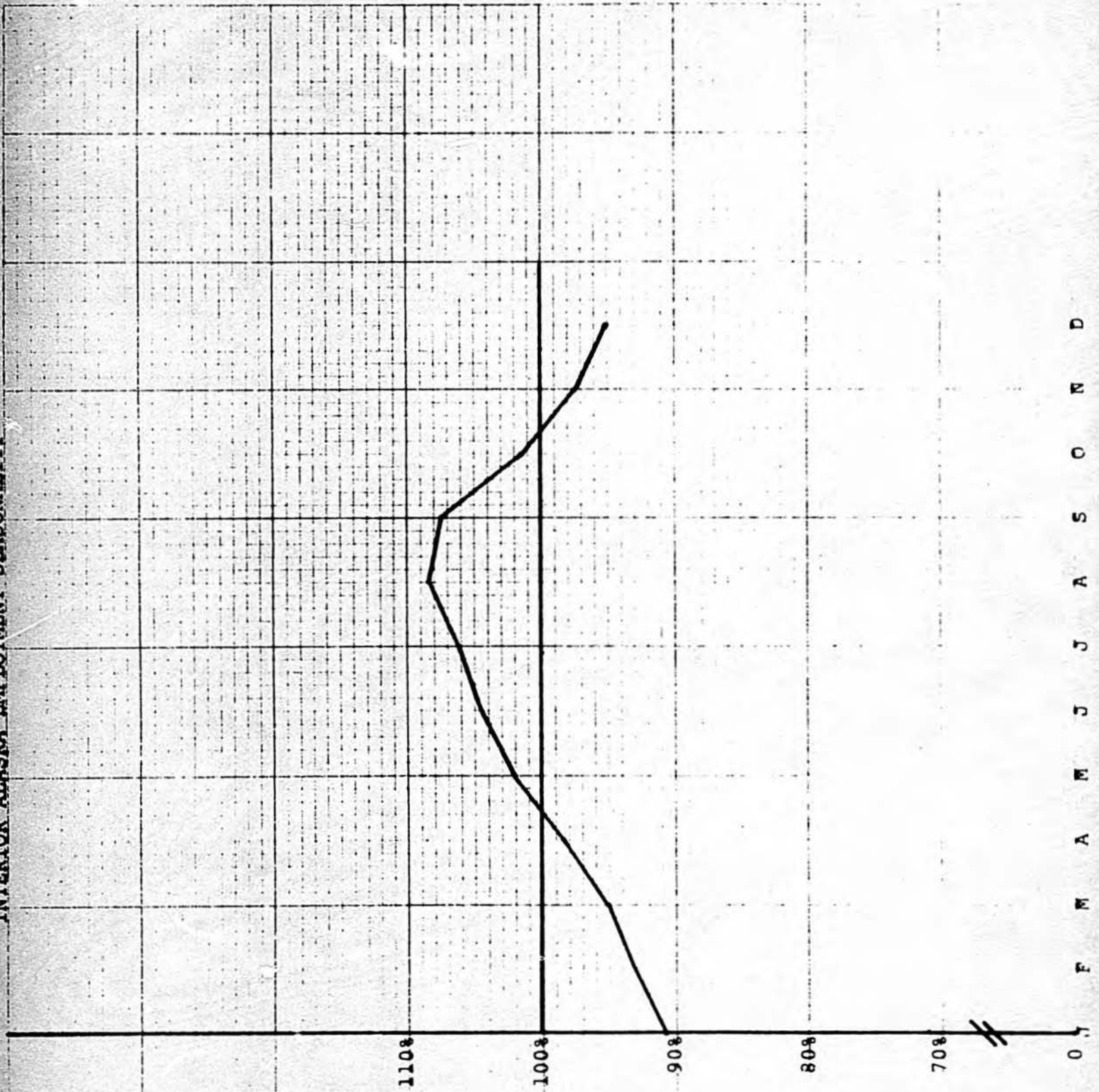
ALASKA EMPLOYMENT SEASONALITY - GOVERNMENT



SOUTHCENTRAL ALASKA EMPLOYMENT SEASONALITY

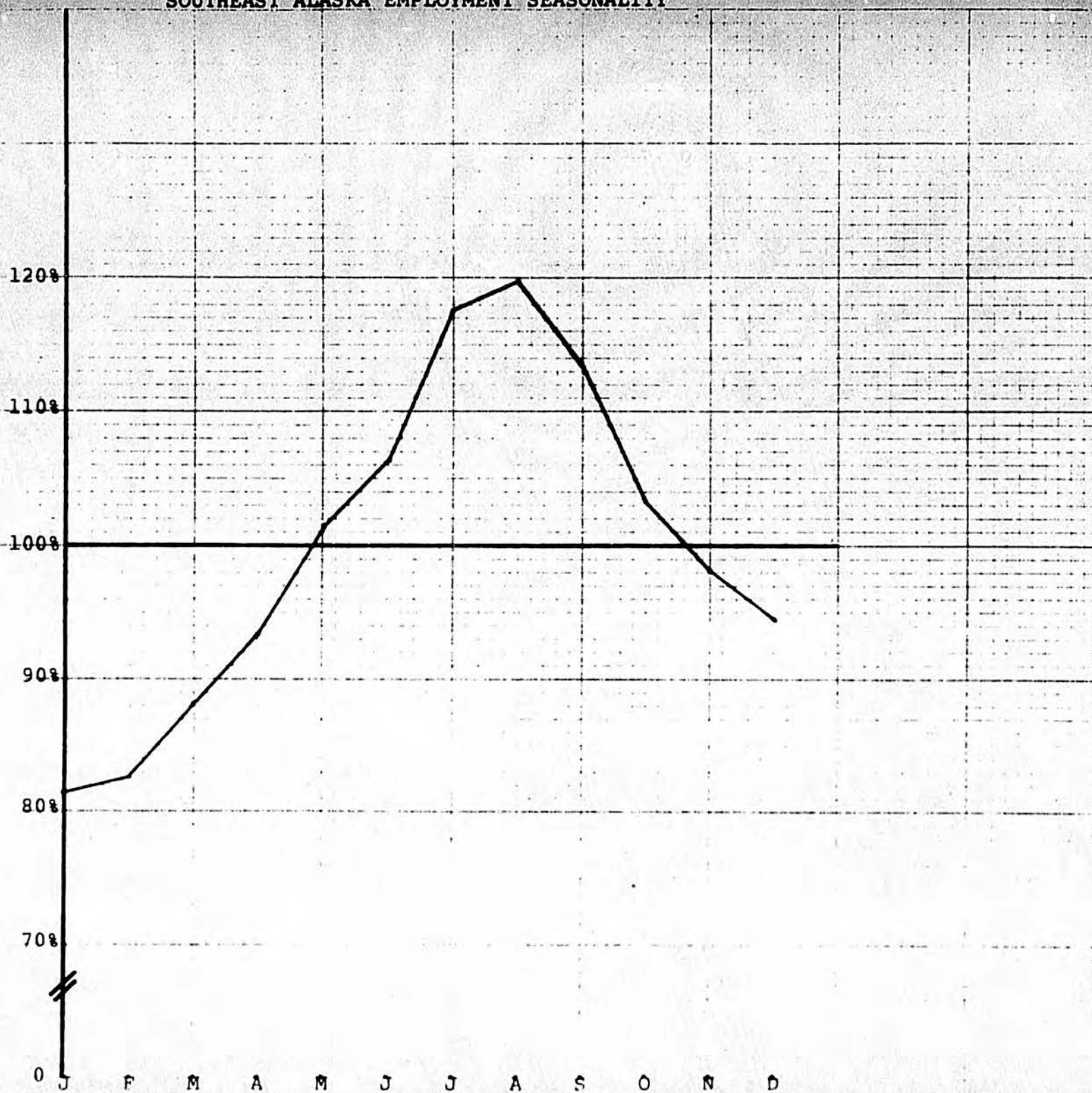


INTERIOR ALASKA EMPLOYMENT SEASONALITY

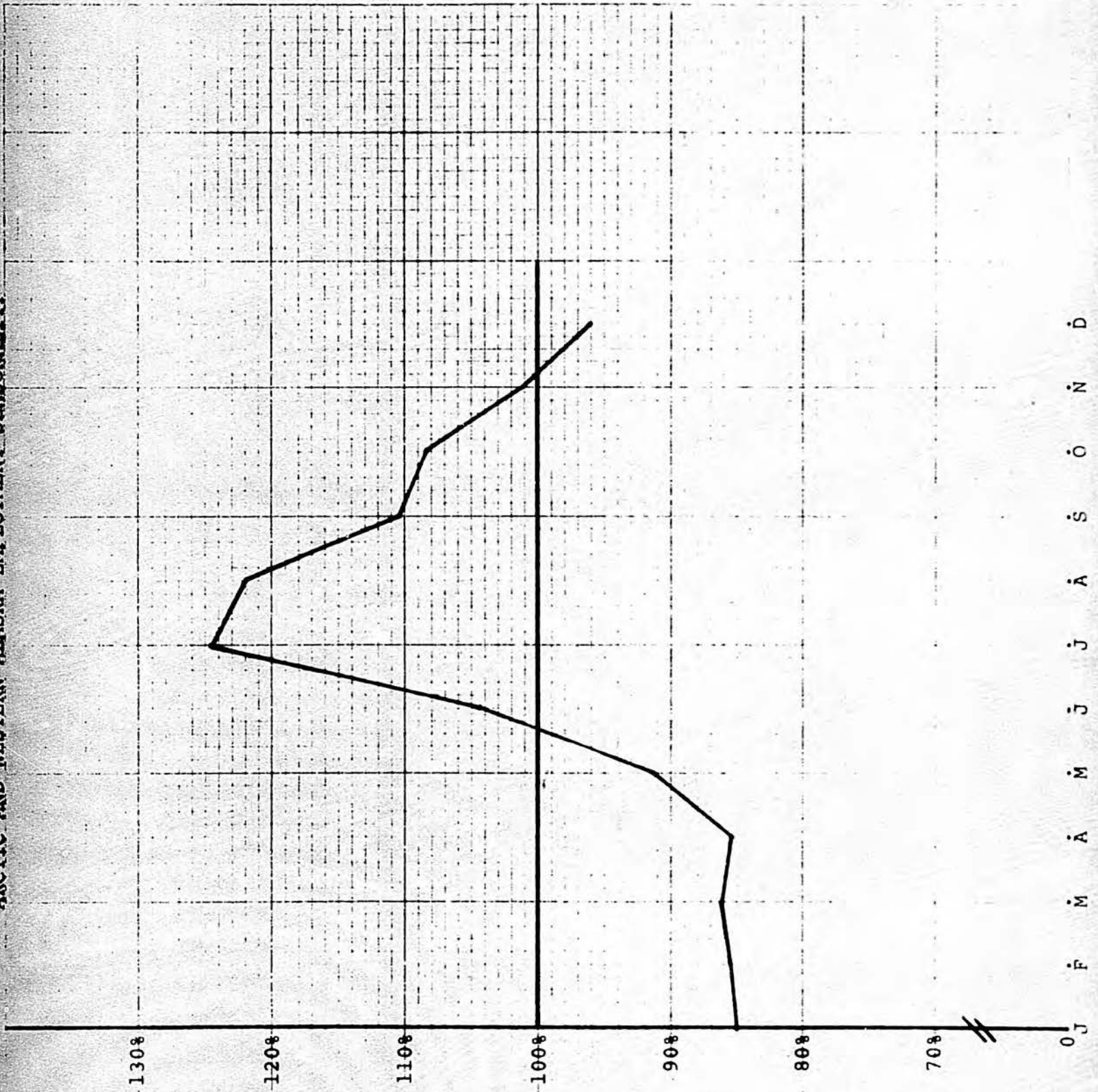


F M A M J J A S O N D

SOUTHEAST ALASKA EMPLOYMENT SEASONALITY



ARCTIC AND WESTERN ALASKA EMPLOYMENT SEASONALITY



AlaskaPacificBank

COST OF LIVING DIFFERENTIAL

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

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

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

Government growth crowds out investment

European studies show the adverse impact of large public outlays

"I tend to feel that an over-large public sector is a sign of incipient decline," says Edmund Stillman, director of Hudson Institute Europe, an independent Paris-based affiliate of Herman Kahn's U.S. think tank. This view arises from ongoing research led by Hudson economist Richard Ensor. Hudson's findings tend to show that overall growth is the lowest in countries where the government sector is largest. That raises the strong suspicion that large and growing

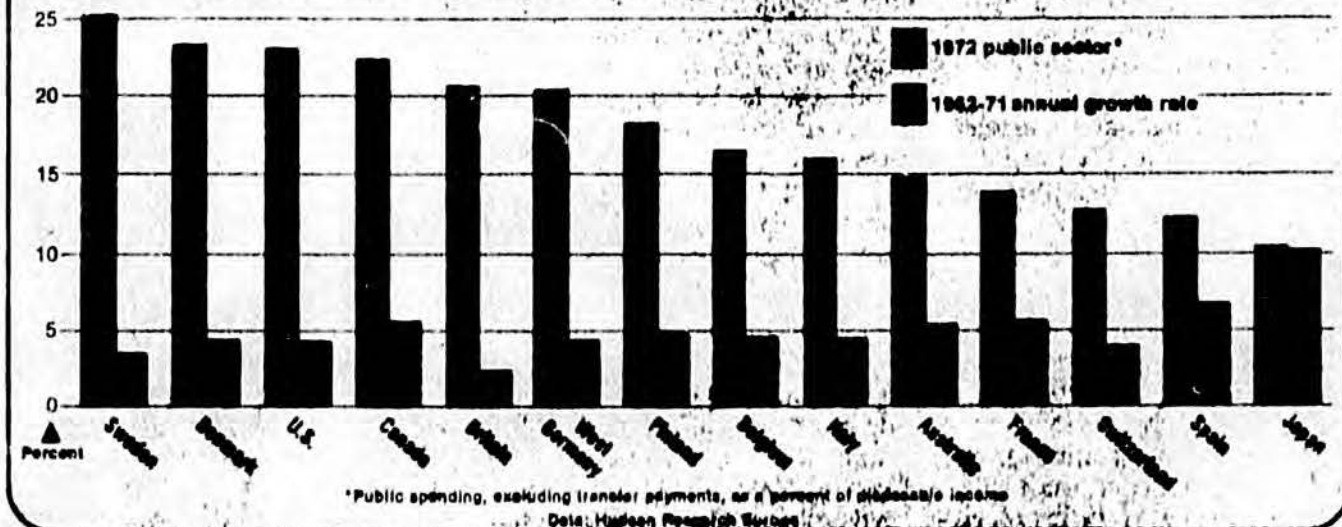
by the expanding government sector in Western industrialized countries has been massive—cutting attainable growth rates by as much as one-third in the past 15 years.

A major reason government grows rapidly is that higher public spending always proves effective as a short-term cure for recession. But since the level of public spending seldom falls after recovery gets under way, a ratchet effect comes into being. The long-term result, according to Alexandre Lamfalussy, chief economist for the Bank for International Settlements, is that "in many advanced countries, taxation seems to have approached or exceeded the limits of economic efficiency."

pendence, and welfare—are the most wasteful form of government expenditures, both Smith and the Hudson group found that such payments had far less impact on differences in growth rates than did government spending for goods and employees. Bacon and Eltis lay far less emphasis on transfers than on the huge growth of government payrolls, and Smith stresses the fact that transfers do not actually tie up productive resources in the production of socially designated services. This distinction has important implications for public service employment proposals in the U.S.

Wage-push inflation may provide an important warning signal that government is growing too fast. When expanded

The larger the public sector of an economy, the slower its real growth



public spending actually causes slower economic growth.

The Hudson findings are one example of an impressive body of European research pointing to this same conclusion. In Britain, which has had slow growth for the last 60 years, two Oxford economists, Robert Bacon and Walter Eltis, have documented the case against a growing government with impressive attention to the detailed impact of specific public policies on the industrial structure. Similar implications have also emerged from a study by David Smith, principal research officer in economics at England's National Westminster Bank. And the Organization for Economic Cooperation & Development is preparing a study on the same subject for publication early next year.

The new studies differ in detail, but in general they conclude that the toll taken

Three other major themes of the new studies:

Differences in the size of the government are not the only factor explaining differences in growth rates among countries.

Any economy's "natural" growth rate depends basically on the growth of its labor force and the productivity of its workers. Both vary over time and between countries because of a variety of cultural, technological, and other factors, of which the size of government is only one. Still, David Smith's study estimates that differences in public-sector size accounted for fully 35% of the overall variation in growth rate in his 19-nation sample during the 1960s.

Not all public programs are equally harmful to growth. Though the traditional view is that transfer payments—such as social insurance, unemployment com-

public services are provided freely, the principal test of their desirability is whether people will pay the resulting taxes without demanding higher wages. "Those who control public expenditure create the public sector that they believe to be correct," Eltis says dryly. "But the workers have shown an unwillingness to pay for the level of services that public officials deem appropriate." He cites the increased militance of British labor that began in the mid-1960s as a vivid example of the hazards of an overblown public sector.

The mechanism by which a larger public share leads to slower growth is to be found in shrinking profits and falling investment—a gigantic non-monetary "crowding-out effect." Since there is a long-run relationship between an economy's stock of capital equipment and the level of output it can produce, any given

LEGAL NOTICE

U.S. POSTAL SERVICE
STATEMENT OF OWNERSHIP, MANAGEMENT
AND CIRCULATION
(Act of August 12, 1970, Section 3685, Title 39,
United States Code)

1. Title of publication: BUSINESS WEEK
2. Date of filing: October 1, 1976
3. Frequency of Issue: Weekly except for one issue in January.
- 3A. Annual Subscription Price: \$21.50
4. Location of known office of publication: 1221 Avenue of the Americas, City, County and State of New York - 10020.
5. Location of headquarters or general business offices of the publisher: 1221 Avenue of the Americas, City, County and State of New York - 10020.
6. Names and addresses of publisher, editor, and managing editor: Publisher, R. B. Alexander - 1221 Avenue of the Americas, New York, N.Y. - 10020; Editor, Lewis H. Young - 1221 Avenue of the Americas, New York, N.Y. - 10020; Manager Editor, Paul B. Finney - 1221 Avenue of the Americas, New York, N.Y. - 10020.
7. The owner is McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020. Stockholders holding 1% or more of stock are: Donald C. McGraw, Jr.; Harold W. McGraw, Jr.; John L. McGraw; William H. McGraw; June McGraw McElross; Elizabeth McGraw Webster; all of 1221 Avenue of the Americas, New York, NY 10020; Eye & Co. c/o State Street Bank & Trust Co., P.O. Box 5006, Boston, MA 02101; Sabat & Co. c/o Savings Banks Trust Co., 200 Park Avenue, New York, NY 10017; Batrus & Co. c/o Bankers Trust Co., P.O. Box 706, New York, NY 10015; Ronis & Co. c/o Bankers Trust Co., P.O. Box 704, Church Street Station, New York, NY 10008; Sine & Co. c/o Bankers Trust Co., 16 Wall Street, New York, NY 10015; Myers & Co. c/o State Street Bank & Trust Co., P.O. Box 5006, Boston, Mass. 02101; American National Insurance Company, P.O. Box 2064, Church Street Station, New York, NY 10008.
8. Known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities: None.
9. Permission requested
10. Not applicable
11. Extent and nature of circulation:

	Average No. Copies Each Issue During Preceding 12 Months	Actual No. Copies Of Single Issue Published Nearest to Filing Date
A. Total No. Copies Printed	823,181	816,546
B. Paid Circulation		
1. Sales through dealers and carriers, street vendors and counter sales	11,427	17,141
2. Mail Subscriptions	750,490	725,490
C. Total Paid Circulation	761,917	742,631
D. Free distribution by mail, carrier or other means, samples, complimentary, and other free copies	26,670	31,627
E. Total Distribution	788,587	774,258
F. Copies Not Distributed		
1. Office use, left over, unaccounted, spoiled after printing	1,727	1,531
2. Returns from news agents	24,866	25,756
G. Total	823,181	816,546

I certify that the statements made by me above are correct and complete.

McGraw-Hill, Inc.
R. B. Alexander, Publisher

growth rate requires that a certain proportion of total production must be invested in new capital goods. If, for instance, it took \$3 worth of capital investment to produce \$1 worth of annual output, then a 4% rate of growth in productive capacity would require that 12% of each year's net national product be set aside for new investment. If the higher taxes resulting from higher government costs eat into profits and private savings to the degree that investment of his 12% proportion becomes impossible, growth will fall below the 4% rate, even if labor force and productivity growth remain favorable.

The Link. The Hudson group feels that it has statistical evidence of a significant causal relationship between a rising income share for public spending and a lower share for private investment. This linkage is stronger in some countries than others, Hudson's Stillman concedes, and in some cases the slow growth of an aging economy could cause higher

Public spending grows because it is a short-term cure for recession

public spending, rather than vice versa. Nonetheless, he believes that "nonmarket spending, (as opposed to investment in self-supporting public enterprises) is the preemptive factor in overall economic growth."

The institute's *Hudson Letter* recently estimated the degree to which specific economies have been hurt by the rapid growth in government over the past 15 years. For Denmark and Sweden, the attainable growth rate has been cut by 1.3 to 1.5 percentage points; for Canada, Finland, Germany, and Britain, about 0.8 points; the other European members of OECD are assigned reductions of 0.4 to 0.5 points. France, which does not appear to have enlarged its public sector share, is the exception. Smith has arrived at similar estimates. He suggests the rule of thumb that "each 5% increase in the share of disposable income absorbed by state consumption implies a 1% drop in the growth rate."

Bacon and Eltis have focused on the British experience, and believe that 1966 marked a costly turning point for that nation. Government responded to balance-of-payment difficulties with a plan to slow the growth of government purchases in order to free resources for use by industries that export or compete with imports. But it did not provide the proposed additional stimulus of a devaluation, and it also shelved a long-range economic plan to stimulate industrial expansion. It was in this offhand fashion, the Oxford economists say, that Britain's economic structure was nudged fatefully in the direction of rising public-sector costs. Without the encouragement of either strong export markets or the

industrial expansion targets of the discarded national plan, business cut back on private investment. Meanwhile, government departments steamed ahead toward employment goals that had been based on the assumption of a stronger economic recovery.

Employment. Despite recurring attempts to shore up the private economy, a spiral of rising public sector payrolls and falling private investment took hold. "Over the period from 1966 through 1974," Eltis notes, "the market sector was losing 175,000 jobs per year, and the public service sector was adding perhaps 120,000 per year. That means a smaller number of producers of marketable outputs in the private sector has got to support a larger number of tax-supported public employees."

Inevitably, taxes rose sharply. Amounting to nearly 30% of earnings, the average British worker's tax burden is now proportionately higher than that of a bank manager or university professor in 1963. And deficits have also mounted.

The point is not that public services should be eliminated, but that either their growth must be kept in balance with private output or people should be prepared for a growth slowdown. "As per capita incomes rise," Bacon says, "you would expect people to be prepared to give more of their own consumption to make room for public consumption. I think Sweden, prior to the latest election, was an example of this."

In fact, the Scandinavian countries, with their smaller, relatively homogeneous populations, have generally done a good job of basing public-sector expansion upon the agreement of union leadership to accept a fair share of realistically estimated costs. In England, on the other hand, discipline in the labor movement and accuracy in public-sector cost projections have both been lacking, according to the account in Eltis and Bacon's new book (*Britain's Economic Problem: Too Few Producers*). From 1966 to 1970, the public sector's pretax income rose by more than 15% as a ratio to that of the market sector. The consequence of the higher taxes that resulted was "nearly universal pressure for wage settlements in excess of 10%, at a time when the inflation rate was much less than this." Soon enough, of course, price movements had to catch up; by 1970 inflation was nearing 10%. And with government continuing to expand employment almost any time workers became available, the process accelerated. Consumer prices rose 16% in 1974 and more than 24% in 1975. Ironically, all of this occurred at the same time that British industry had succeeded in shaking off decades of apparent decline, raising annual productivity growth from 2.2% in the 1950s to 4.2% since 1961. Unfortunately, the balance had been

tilted too far—instead of faster total growth, a shift in resources to the public sector was the only result.

Resource allocation. Without having studied the British case in detail, American growth theorists are agnostic about the contribution that wage-push inflation has made to declining rates of investment. While conceding that such inflationary pressures can be one source of profit reductions, particularly in an economy as open to low-cost import competition as Britain's, Robert M. Solow of the Massachusetts Institute of Technology feels that the inflation and growth problems may proceed independently of each other. "Workers always want more take-home pay and more public services," he says, "whenever they can get them."

Growth depends on keeping public services in balance with private output

As for the slow growth problem, Solow notes that even without inflation, the public sector would take an expanding share of total resources in any case where policymakers continuously used fiscal stimulus to maintain relatively full employment, while relying on tight monetary policy to restrain occasional inflationary pressures. Even without wage-push, "you would automatically get a shift in the composition of output in favor of government purchases and away from interest-sensitive activities, such as private investment," says Solow, who is considered to be the ranking growth theorist in the U.S.

For the U.S., the immediate question raised by the new studies is over the wisdom of the public employment programs as a cure for high unemployment. Solow concedes that "the Bacon-Eltis argument could hold against a large public service employment program on an ongoing basis." Most American economists tend to feel comfortable only with relatively small public service employment proposals that either disappear or shrink in size whenever unemployment reaches low levels.

Thus far, it would appear that U.S. politicians will not repeat the excesses of their British counterparts in both the Labor and Conservative parties. Of the two Presidential candidates, Jimmy Carter has spoken strongly in favor of job creation efforts. But he has said that if tax-receipt gains lagged behind his projections, he would slow down the growth of social service programs.

Meanwhile, Eltis, who is spending the year as visiting professor at the University of Toronto, is watching from his post across the border. He says: "Presumably, your American experts have looked carefully at the tax consequences of the proposals they put forth. If not, it's entirely irresponsible." ■



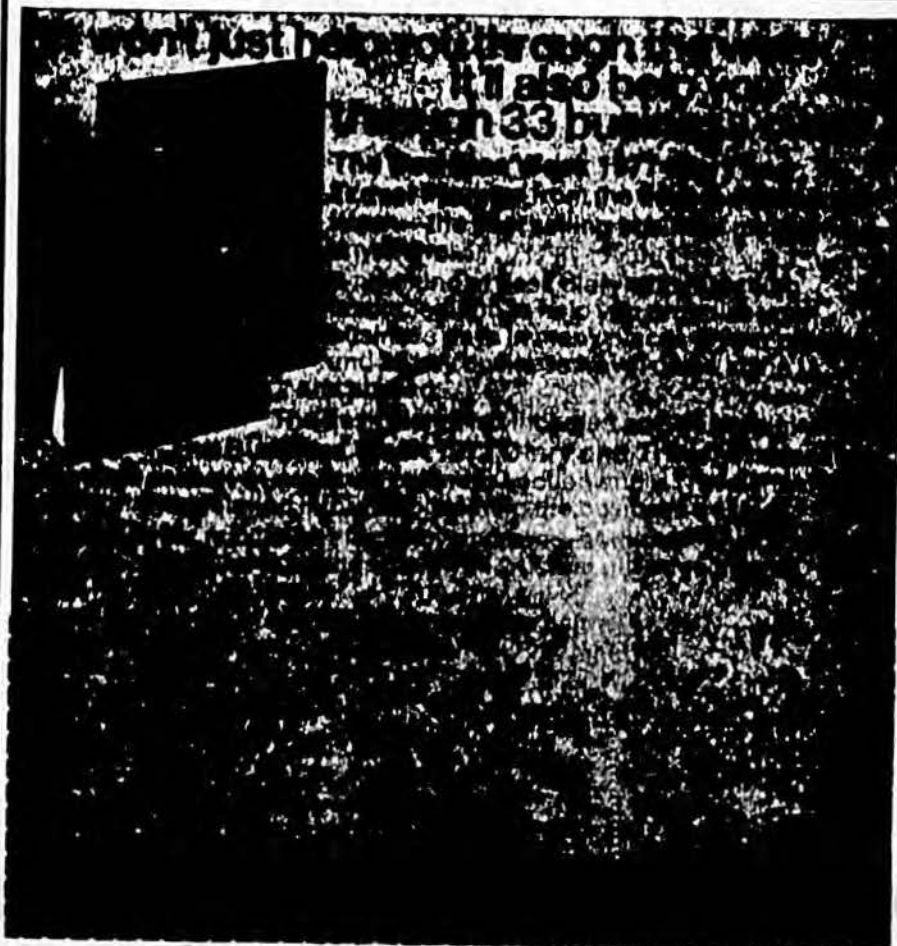
Corporate Headquarters banks on Robertshaw's computer control center for security checking and energy savings.

A decision-making computer automates Bank of Virginia Company's new suburban "home." Squeezes out the most heating and air conditioning from the lowest energy usage. Purges smoke and creates safety areas in case of fire. Surveys "sensitive" locations with closed circuit TV. And much more.

One example of Robertshaw's energy efficiency Special ducts collect the heat given off by lights. The computer calculates and directs the best way to use this energy—for heating or air conditioning. Automatically.

For more details on Robertshaw automation for your building, write to P.O. Box 26544U, Richmond, VA 23261.

Robertshaw 
CONTROLS COMPANY



H.L.
338.09

ALL

(CURRENT ISSUE FRONT DESK)

ALASKA
HISTORICAL LIBRARY

State Library

APR 20 1977

RECEIVED

#20

The Alaska Series Special Reports For Management

THE ALASKA "PERMANENT" FUND"

(billions in public policy)

The following report is the first of many reports which will follow policy developments of the "Alaska Permanent Fund." The first report deals with emerging ideas and concepts in the executive and legislative branches concerning the future management, goals, and the problems of such a multi-billion dollar fund.

Forthcoming reports will provide a background and history of the permanent fund, providing some background for key policy areas where Alaskans have problems with a "fund concept," and also will provide some comparisons with other similar funds and projections relating to the ultimate potential of the Alaska fund.

April, 1977

The State of Alaska may hold an estimated \$8.6-billion in surplus revenues by 1985. Required shares of oil and other resource revenue accumulating in the state's new Permanent Fund is expected to reach as high as \$7-million by 1985, while an additional \$2.6-billion balance is projected to accumulate in the state's general fund.

The \$8.6-billion assumes no new dramatic oil discoveries, or the leasing of potentially rich state owned offshore areas, such as the Beaufort Sea (adjacent to Prudhoe Bay).

Alaska faces difficult tasks in handling the growing excess revenues of the general fund in relationship to the state budget, and the growth of government, and also in setting up and managing the Alaska Permanent Fund.

However, it has now become obvious that the Permanent Fund is in itself one of Alaska's richest resources, and one which could have a strong relationship to future development in the state. It is further likely the Alaska Permanent Fund will accumulate so much capital that a significant portion of its investments must go outside the state for investment at "high but safe" returns, while the remainder will be made available through a variety of investment and consumer-loan programs within Alaska. However, serious philosophical issues will be generated around how the fund is developed, who controls the fund, how remote management should be from direct control of elected officials, and fund infringement into domains of banking.

THE ALASKA PERMANENT FUND IN PERSPECTIVE

Unlike many of his counterparts in other states, the Alaska policy maker has a distinct distaste for special funds in government. In 1955 the people of Alaska drafted a modern and highly streamlined state constitution, and one of its hallmarks was a prohibition against dedicated revenues. The new constitution created a highly centralized general fund concept, into which all revenues would flow, and out of which all expenditures would be budgeted. However, the prohibition excluded not only troublesome dedicated funds --funds where the revenue was tied to some particular spending function-- but also broadbased funds for the purpose of investing excess revenues.

The writers of the constitution did not anticipate the rose-colored world of excess revenues, and even after the entry into that charming world in 1969 Alaska policymakers were hesitant to tamper with the old prohibition for fear of creating a hazy and undisciplined line, one which would keep on moving, leading them back into the world of dedicated funds.

In 1976 a constitutional amendment modified the constitutional prohibition to allow a broadbased fund to accumulate (a minimum) of 25% of all incoming oil and other resource revenue from royalties, fees, land rents, and other bonus payments.

The only restriction on the permanent fund was that monies not be spent on the general operations of government. The funds only dedication was to maintain its principal and produce some income. The broadness of the amendment was also linked to another Alaskan "quality" --one of being double cautious not to "practice general law in the constitution."

In enacting the amendment it appears lawmakers did not see the fund as simply a savings account, nor did they see it as a super-development bank. At the point of initiation many lawmakers viewed the constitutional amendment, and the fund, as first simply a means of excluding a certain percentage of excess revenue from the province of normal operational state spending. The alternative structure created was left to the future as to apportionment of concept of the fund between trust fund, development bank, and source of small consumer loans for individual Alaskans.

BEGINNING WORK ON THE PERMANENT FUND

The legislature and executive are now just beginning the task of filling-in where the constitutional amendment left off. The amendment is intentionally broad, including almost anything that preserves the principal and earns some return.

The refined concepts of the permanent fund were left to "general law," and also intentionally subject to the revisions of future legislatures.

The 1977 legislative session will see a number of permanent fund bills introduced, and these bills will frame some of the permanent fund issues. However, action on the permanent fund will be delayed until the 1978 session, with the permanent fund becoming the subject of a complex hearing and public seminar program during the legislative interim. Portions of the interim effort may be on a cooperative effort between the legislative and executive branches (the seminars ??), despite partisan differences. It is also likely that hearings will use complex TV-coverage via-satellite, with two-way communication for citizen participation from even remote locations.

Additionally, the legislature may approve a number of television public affairs productions, along the lines of "60-minutes" in order to project some of the conceptual issues to the public prior to hearings.

LEGISLATION GOES INTO THE HOPPER

Some of the emerging issues surrounding the permanent fund might best be discussed by discussing one of the legislative proposals. On March 3rd, Governor Jay Hammond intorduced HB-298 " . . . relating to management of the Alaska Permanent Fund" On the same day the House Special Committee introduced HB-300 providing for the same, and being very close to the concepts of HB-298 except for asserting legislative perogatives in fund management.

The governor's bill was the work of the State Investment Advisory Committee, and consulting work of Price Waterhouse & Company (Washington D.C.), and White, Weld & Company, of New York. A great deal of the consulting work appeared to revolve around the "development bank" concept, and the method of operation of other principal funds in the world --ranging from the World Bank to the Alberta Cultural Heritage Fund.

A "SUPER BANK" IN OVERALL FORM

The governor's HB-298 casts the permanent fund in the form of a "super bank" with a great deal of autonomy from the operations of the governor and the legislature.

The legislation creates an ALASKA PERMANENT FUND CORPORATION, a public corporation of the state, and while the corporation would be

be lodged within the State Department of Revenue, it would have an independent legal existence of its own. The serpateness tends to follow the World Bank pattern, providing an insulation from the political structure insuring loans will be based on sound economic criteria, even though social and many geographic-political factors will be weighed. In contrast the Alberta Fund is operated in a conventional government manner by their equivilant of our Department of Revenue.

The new legislation provides for 50% of all mineral lease rental income, royalty income, and bonus payments go into the permanent fund, an increase of 25% over the base 25% required by the constitutional amendment. It should be noted HB-300, the legislative version of the permanent fund, would provide that 100% of all bonus payments go into the fund. Additionally, it should be noted that oil and gas (and mineral) severance taxes "do-not" go to the permanent fund, but rather to the general fund. Further, due to the wording of the constitutional amendment, and the legislative history of the resolution, it is doubtful if severance taxes can constitutionally ever be put into the fund.

The constitutional resolution was specifically amended in the senate to exclude severance taxes, creating a definitive negative history that the legislature meant to exclude severance taxes, and other taxes, leaving the legislation only the future option of putting non-tax income in the fund. The action was an example of Alaska's caution in dedicating funds, with the lawmakers wishing to be sure a future legislature could not get "carried away" and catch the state in the mire of dedication of revenue.

SUPERBANK PURPOSE --FUDGING TOWARD FLEXIBILITY

While the current legislative forms of proposed management for the permanent fund are cast in the overall mold of "superbank," the goals and purposes fudge considerably towards and mix of "trust for the future" and current consumer benefits.

The purposes clauses of the legislation tends to shy away from any one concept, such as trust, development bank, or consumer bank. The bill's preamble reads: "The purpose . . . is to provide a means of conserving revenues from mineral resources . . . to the benefit of present and future generations of Alaskans. The revenues . . . shall be invested in income earning investments which will provide further benefits to the present and future generations of Alaskans.

The preamble further speaks to the diversification of the Alaskan economy by investments in renewable and non-renewable resources, smoothing cyclical patterns of growth in the Alaskan economy, encouraging participation of private capital, promoting . . . capital for community purposes, and supplementing private investment.

It appears that the State Investment Advisory Committee considered the more definitive possibilities of trust or development bank, and specifically opted to soften the declared purpose of the fund. Alaska is unique in relationship to its proposed permanent fund, because while Alaskans perhaps want a measure of control over their economic destiny --want a measure of development-- they are aware that the great asset of Alaska may be its small population divided into a high margin of excess wealth.

COMPROMISE TRUST/DEVELOPMENT BANK/CONSUMER BANK

The administration and legislative bills both option for a split concept in the permanent fund, probably representative of the multi-faceted view which most originating lawmakers and the public have of the permanent fund.

The legislation provides the fund "must" invest 40-per cent of the permanent fund in investment grade securities, a bone for the trust fund or savings account principle, and insuring a maintenance of income for future generations of Alaskans. Since the interest from the fund goes into the general fund, or at least can or cannot go into the permanent fund at legislative option, the earnings of a steadily growing 40 per cent could stand to back-stop general Alaska government operations at some future point should the government find itself in revenue jeopardy from exhaustion of tax-paying natural resources.

Second, the proposed legislation provides that not more than 30 per cent of the fund should go to provide a reasonable proportion of longer-term investment capital for financing expansion of productive enterprises, for which capital on reasonable terms is not available --hence, 30% development bank.

Third, the fund may go not more than 30 per cent for investment capital needs of community investment projects of municipalities (utilities) and private dwellings --hence, 30% consumer bank. It should be noted that Alaska is already deep into other consumer loan programs, such as the nation's number one student loan program, an extremely broad vets loan program, a number of fisheries loan programs, and others.

TOWARDS A BANK --THE POWER TO "BARROW"

The apportionment of money perhaps allocated a disappointing 30 per cent to development bank operations of the fund, but the pending legislation also confers the power to raise capital and barrow against the assets of the permanent fund --the power to expand the capital base of the development bank portion of the fund. Hence, the fund twists back from pro-trust in the larger 40% allocation of money to pro-superbank, with the legislation likewise conferring the power to grant debt guarantees, in addition to debt, in the case of the 30 per cent development bank portion of the fund.

THE STRUCTURE OF FUND MANAGEMENT

The overall policy board of the fund, called the PERMANENT FUND POLICY BOARD, would consist of the Commissioner's of Revenue and Commerce, and seven other members appointed by the governor. The seven gubernatorial appointments must be Alaska residents and not state employees. Terms would be four years and the issue of legislative confirmation remains a "difference" between the legislature and the executive. Further, members would only be removable for "cause," a familiar feature in boards and commissions of other states, but one foreign to the Alaska system where virtually all appointees serve at the pleasure of the governor. It is possible the policy board may end up serving "at the pleasure," based on the logic that lawmakers want responsibility firmly fixed on the governor, and that any "removal" from the policy board of a multi-billion dollar fund would be bound to attract thorough press scrutiny. The chairman of the policy board would be the President (actual manager) of the corporation (although he would not be a voting member).

The policy board would be charged with the broad policies of investment, with selecting the INVESTMENT COMMITTEE (the next layer of management), relations with the legislature and public, reviewing investments and performance, and providing for reports and audits of the fund. The policy board would adopt a five year plan, revised annually, and do the sectorial analysis of the Alaskan economy in order to guide investments into areas of economic need.

Beneath the policy board would be the PERMANENT FUND INVESTMENT COMMITTEE, consisting of the President (also Chairman of the Policy Board), who is appointed by the policy board and would serve at its pleasure, and four other members serving at the pleasure of the policy board.

The investment committee has sole responsibility for all investments, with the concept being one of "seperation and balance" of powers, with the investment committee not interfering in the overall policy decisions, and leaving that body to handle external political and special interest pressures. In the same vein the policy committee may not interfere in the individual decisions of the investment committee on individual loans, with the principle being insulating that investment committee from the pressures fielded by the policy committee.

Under the two board system the President --the executive manager of the fund-- is the link between the policy board and the investment committee, with the President being non-voting chairman of the policy board and a voting chairman of the investment committee. The concept is also one of fixing responsibility on the executive president.

The two board system points towards a procedure where the investment Committee would receive detailed proposals, and the staff produce a detailed analysis and recommendation free from external pressure.

The superbank management operation would have a great deal of discretion beneath the broad guidelines of the policy board. The staff could probably exercise a great deal of judgement in terms of providing all of the debt on a project, participating together with private capital, obtaining an equity share, or perhaps working with equity in such a way as to support offerings of local securities, in providing guarantees of private capital, and with other authorizing legislation, perhaps participate in an arrangement where interest rates are subsidized (the interest subsidy coming from a legislative appropriation in order to maintain the integrity of the permanent fund).

It should be remembered that the fund probably will be able to: 1) barrow to expand its development bank capital, 2) sell its securities and debt to other mortgage markets to recoup base capital, and 3) make investments in financial intermediaries who may be better able to manage small investments deemed to be too small to be under direct supervision of the permanent fund investment corporation.

The legislation as presently written follows normal development bank philosophy in declaring that the state corporation would never seek to control or manage a venture, regardless of financial condition. However, it is likely through its position the state would probably be aware of trouble on an early basis, and be able to 1) insist on various kinds of audits, 2) offer technical assistance, and 3) insist on timely consulting assistance and consulting management.

CONFLICTS OF INTEREST AND BOARD MAKEUP

The sophisticated superbank structure makes interesting drawing on organizational charts, but poses some serious issues in a state as small as Alaska.

Obviously the control of a multi-billion dollar corporation offers a source of great power, and likewise attracts greed from a multitude of special interests. One has only to look and see who sought to influence the State Investment Committee in their deliberations of the fund --the bankers.

The question will be posed in legislative scrutiny: "Where do we find people with knowledge and expertise to put on the policy board and investment committee who do not already have 'built-in' conflicts?" In larger states we might well find an abundance of people who have garnered excellent financial management experience, but long since departed those "special interest" institutions for academic life, or work in some large and more distant industry, where one might have reason to think the individual did not one day expect to return to their old occupation.

For example, one can expect the Alaska banker to have immediate conflicts over what are "reasonable terms" in the market, or a banker might not have an immediate interest in a project, but his rival is a participant in the package, or perhaps it might be the bankers "friendly rival." The potential for subtle bias on both the policy board and the investment committee is very high. Compounding the problem is the fact in the small Alaska structure it will be difficult to find knowledgeable board members without conflicts, and that same smallness may dictate that bank-employees may have to be prohibited from serving.

Playing with the structure of the superbank is a fascinating mental exercise until the more human issue of "who serves and where do they come from" is considered. Its sort of like a government finding a good director of banking or an insurance commissioner, if they have expertise it is likely they came from banking or insurance, who they are supposed to turn around and regulate. On the flip side of that coin, with political appointments being a precarious occupation, those so chosen likely expect to one day go back to their respective profession. The conflict is one of general institutional bias of both past association and expected future association, all of which stands completely separate from the problems of actual "hard" conflicts within the investment community.

It is possible that legislative interest could at first run strongly towards the superbank double-board structure, but at the end of the game the legislature throw-in the towel and simply opt for a permanent fund as a sub-unit of the Department of Revenue, or as a separate agency.

We must remember that Alaska in general has a love affair with a tight and highly centralized executive, and a phobia generally running against independent boards, commissions, and executive officials. The concept is one of fixing all responsibility with the governor and providing no place for that executive to pass-the-buck. In Alaska the governor is not only the sole elected executive official, but with only a few rare exceptions he has "no" officials, boards, and commissions which do not serve at his "sole pleasure." The centralized system with maximum accountability on the governor has worked well in Alaska and breeches in the system are not easily made.

A PROBLEM OF PUBLIC ACCOUNTABILITY

Another problem in structuring the fund is the accountability of permanent fund managers and policy makers to public officials, and therefore the public. The inter-relation of insulation from political and special interest meddling versus the need for accountability to the Alaska public stockholder is a difficult one.

The governor's proposed HB-298 puts the board on a staggered term appointment by the governor, but with removal only for cause, while the legislative bill requires "legislative confirmation," with removal also only for cause. There is a special set of constitutional problems in Alaska surrounding confirmation, which will be discussed later. However, it appears the governor's bill probably does not satisfy the issue of public accountability, since the policy makers and managers once appointed would not be accountable to the legislature, and only to a limited extent to the executive.

Consultants to the State Investment Advisory Committee recommended an elected Permanent Fund Policy Board as their way of solving accountability, but providing insulation from the legislature and executive (directly accountable to the public). However, a brief look back at Alaska's highly centralized structure (with no other elected administration officials except Lt. Governor), gives indication why this recommendation was not considered and simply would not "fly" in Alaska.

The next step is therefore confirmation of the policy board, providing involvement in the appointive process of both legislature and executive, but again Alaska's tightly-wound constitution presents some unique problems.

The Alaska Constitution grants confirmation power to the legislature for Department heads and certain other enumerated instances, but for years it was felt the legislature could provide by statute further offices to be required for confirmation. A 1975 Alaska Supreme Court decision has given the narrower view, again in line with Alaska's highly centralized executive concept, and there is some doubt as to whether confirmation of policy board members could be required if the corporation is a sub-unit of the Department of Revenue.

It is possible the legislature could set the Alaska Permanent Fund up as an entity in itself, virtually a department with corporate status, and therefore require confirmation of the President, and possibly the policy board. If the unit was set up under Section 26 of the constitution, which provides potential for exception from the straight-line executive accountability of the Alaska system (an appointive board with power of hire-and-fire over the departmental manager), then clearly the board would be available for legislative confirmation.

A third option which may be considered is to leave all policy board members serving at the pleasure of the governor, with or without the element of legislative confirmation. Such an option would make the governor publically accountable for their action in the Alaska tradition, with the protection of public questioning guarding against arbitrary removal of board members. In fact, in this day and age of public investigations, special prosecutors, public interest advocacy groups providing a special kind of public watchfulness, plus the scrutiny of the press, it is highly likely no other special protection and insulation for the fund policy board is needed.

THE WORLD OF THE PERMANENT FUND

All manners of potential can be dreamed up for the permanent fund, especially those portions assigned to a development bank concept or the so-called consumer bank.

First, a word about the consumer bank which will be discussed further in a forthcoming Alaska Series report on the history and evolution of the permanent fund (as a guide to understanding the fund in Alaska). The consumer bank is that portion of the fund which the individual Alaskan, the lone citizen, has some reason to think he might call on one day. Second, it is that portion of the fund which might participate in funding a community enterprise, perhaps some recreation function, or a unique utility, or some such entity with which the public might identify as a substantial permanent fund benefit reaching them "as a group."

The Alaska consumer bank has a history in the \$900-million bonus money and a variety of legislation which followed setting up loan programs ranging from an extremely liberalized veterans home loan program, a student loan program among the most liberal in the United States, a number of fisheries vessel and enhancement loan programs, to a state Municipal Bond Bank, and others. Many of these programs utilized what was called "mandatory purchase," a feature whereby the loaning program qualified and approved the loan, and the Department of Revenue was required to buy the loan with state excess revenues (revenues from the \$900-million).

It is likely for practical and political reasons that the permanent fund will have to allow for a portion assigned to public community loans, and other consumer loans.

It is possible that the so-called consumer loans might be loaned to an intermediary better able to administer the smaller loans, or that an automatic purchase system be set-up with a certain percentage of the fund assigned for legislated loan programs.

In the category of development bank there appear to exist many potentials, and also many potentials for conflict. The fund can provide a valuable source of total capital, cooperating capital, equity capital, guarantees, and etc. However, how the fund operates will draw both the bouquets and brickbats of both business and banker.

How will the banker feel about equity and participating capital in projects by-passing their banks? How about potential competitors in a field in relationship to a project in which the fund is a participant. For example, Alaska was brewing no beer of its own, all was exported, but when Alaska tried to grant a tax exemption to a potential brewery, the state and the brewery were mired in litigation with competitors selling beer in Alaska for several years.

Obviously the banker and the managers of the permanent fund may differ greatly as to when private capital is, or is not, available, and whether terms are "reasonable."

The fund may provide a valuable source of participating capital for the Native Land Claims Corporations, especially the more viable Village Corporations who might find that the fund is a key source for expanding their capital to the point where the smaller village corporation is viable.

It would appear that the permanent fund will prove an invaluable tool in providing frontier capital in Alaska's sprawling rural areas, where there is an underdeveloped economy in the extreme. However, such zones also represent a risky area of investment, and poses a difficult conceptual point for fund policy concerning acceptable risk (and the rules of investment).

The native corporation became a source of capital for these same underdeveloped areas, but those corporations also have found: 1) they must balance their portfolio with viable urban investments, and 2) that regardless of available capital frontier enterprise in an almost economyless zone is extremely difficult. Simply adding an associated investor in the form of the fund will not change the fact that any business emerging in the high-cost rural zones of Alaska is going to be a high risk operation.

The fund policymakers will have to wrestle with difficult rules of investment, balancing such aspects as broad social, economic, and political profits, against higher risk and loss of profits and capital (on occasion), and perhaps to what degree the higher profit and more secure portion of the fund portfolio --in the trust sector or more profitable urban bank structure-- should be gaged to offset expected loss from the frontier areas.

Both bills as introduced into the legislature currently declare for applicability of prudent-person rule, which could pose difficulties as the fund is applied to frontier loans.

Nevertheless, despite problems of investment in Alaska sprawling rural areas, it is obvious that Alaska now possesses, in native corporation capital and the fund, two extremely valuable economic tools.

Ten years ago in Alaska there essentially were no economic tools, or real hope of development capital, for the underdeveloped rural areas of Alaska and the peoples who live there.

The permanent fund and native corporation also have interesting parallels. The native corporation is a private firm with a unique social base of stockholders. It is not only motivated for profits but also social profits (jobs, business, etc. in rural areas). The fund is government with a probable twist in management and structure towards the private. Government's usual goal is social, but in the case of the fund it takes on the usual private purpose of "profits." The two unique structures may make good partners and understand each other better than many observers think.

FUTURE PERMANENT FUND REPORTS

The permanent fund will become the subject of a regular and ongoing series of Alaska Series Reports. The Series will follow the fund during the legislative interim as special committee actions begin to mold the policy and philosophy of the permanent fund, and in the near future will issue two brief reports. One of those reports will simply provide historical background of the fund, such things as why Alaska avoided a fund in 1969 when it received the \$900-million, and the gradual evolution to the present broadbased fund. The purpose of a report is simply to provide a source for observers to perhaps understand why Alaskans will shape the permanent fund in certain ways. The second report will simply make some comparisons of the Alaska Permanent Fund with other world monetary funds, and also deal with some financial projections dealing with the monetary potentials of the fund.

H.L.
338.09

RR/H.L.

#20

all
ALASKA
HISTORICAL LIBRARY

The Alaska Series Special Reports For Management

THE ALASKA PERMANENT FUND

and

OTHER SIGNIFICANT WORLD FUNDS

The following report provides a comparative review of other significant resource based monetary funds, and development banks throughout the World, in relation to the Alaska Permanent Fund. This report is the second in an initial three-part series dealing with the development of the Alaska Fund. This report discusses a cross-section of World Funds ranging from the handling of resource revenues by other U.S. states, to Arab nation oil funds, including European Development Banks, the World Bank, and classic regional development banks such as those of Mexico and Puerto Rico, and finally resource based funds, such as the Alberta and Venezuela funds, which have a kinship with the circumstances of the Alaska Permanent Fund.

The first Permanent Fund report dealt with crucial issues and options in the fund structure (April, 1977). The third report (June, 1977) will give a brief history of Alaskan attitudes toward government and "special funds," which likely will contribute to final shaping of the Alaska Fund. Successive reports will follow the actual development of the fund during the next several years.

May, 1977

CONTENTS

Structure of Development Banks and Funds.....	2
Severance Tax and Royalty Income Disposition by state (state's with royalty income).....	3
State's With More Specific Resource Funds:	
--Arizona.....	5
--Texas Permanent Fund.....	6
--Wyoming Funds.....	7
Regional Development Bank Type-Funds:	
--Puerto Rico.....	8
--Pennsylvania.....	9
--Swedish Bank.....	10
--Japan.....	11
--Mexico.....	13
World Bank Type-Funds:	
--The World Bank.....	14
--Inter-American Bank.....	16
--African Bank, Asian Bank.....	17
--European Bank.....	18
The Resource Based Funds:	
--Saudi Development Fund.....	19
--Arab Development Bank, Islamic Bank, etc.....	20
--Kuwait Bank, Comments on Arab Banks.....	21
--Venezuelan Fund.....	22
--Alberta Heritage Fund.....	23
--Comments on Alberta Fund.....	24
General Closing Comments.....	25

For the next year Alaska policymakers will be studying the potential philosophy, structure, and goals of the Alaska Permanent Fund. The 1978 legislature will be called on to give statutory definition to the fund, and that action will have a distinct impact on development, business and financial institutions, and the future economic and fiscal posture of the state.

In many respects the Alaska fund will prove to be unique, existing in a resource rich state, with a small but generally highly educated population, but with a climate tending to discourage an in-rush of new migrants.

The suggestion of the permanent fund naturally generates comparison with other significant funds. Therefore, in the following pages we will very briefly review and comment on other such resource-based funds in the United States, Canada, and other countries of the world. Such a review puts the Alaska Permanent Fund in perspective, and contributes to a feel for general philosophy and concept which Alaskans might wish to choose.

However, such a comparison leaves the impression that the Alaska Permanent Fund will not stand in the shadow of other similar funds, but rather has the potential of being among the more significant. The Alaska Permanent Fund will not only be a basic economic tool of Alaskan development and security, but will give Alaska standing and notice in the financial community, a rich resource in itself.

Development banks and special funds vary from the international world bank, to regional development banks, include development banks for the simple purpose of barrowing and relending (without any particular natural resource assets, and extend to a relatively small number of development bank funds, most akin to the Alaska situation, where the fund is heir to a significant income of natural resource revenue.

Generally the funds, or banks, fall into three categories, depending on their situation and activities.

- 1) International Institutions consisting of a membership a number of countries, with the purpose of fostering development and growth of a particular region. Example, The World Bank, Asian Development Bank, Inter-American Development Bank, etc. Such banks are usually a vehicle for industrial nation members (receiving no benefits) to channel funds to underdeveloped regions.
- 2) Government owned banks for the purpose of barrowing funds in the international market and translating then to target domestic development enterprise. Such banks barrow often from the international institutions (World Bank) and are a convenient vehicle for picking up government guarantees of such lending: Example, on a Alaska level the Alaska Housing Finance Corporation barrows mortgage money and relends those funds for housing through local banks (with state guarantees via an appropriated mortgage reserve).
- 3) Funds and banks restricted to a local geographic area, or to a specific industry, and based on resource assets. This group contains the smallest number of funds, such funds are relatively new, with the majority based in the Middle East, and are usually funded by resource related revenues. Basically, the Alaska Permanent Fund fits this category.

For purposes of review we will first discuss various state funds, pertinent funds of foriegn countries, and then the large international funds, since much of the permanent fund "proposed" concept derives there.

SEVERANCE TAX AND ROYALTY INCOME DISPOSITION BY STATE

Following is a quick review of how various resource producing states dispose of resource revenue from severance taxes and royalties. State's which will be discussed specifically are excluded from the list below. How tightly the use of such funds are dedicated is worthy of note.

ALABAMA: Timber severance taxes support State Conservation Department restoration activities.

Coal severance taxes pays debt on docks and seaport facilities revenue bonds. The fund is reportedly now bonded to maximum.

ARKANSAS: Revenue from severance taxes returned to local counties.

CALIFORNIA: 56% of severance and royalty income goes for capital programs in California's higher education system.

22% special projects --irrigation and navigable waterways.

8% to State Conservation Department

COLORADO: Severance tax goes into general fund.

IDAHO: Severance tax goes into general fund.

KANSAS: All oil, gas, mineral revenue goes to general fund.

KENTUCKY: Severance taxes go to short-term investments, a portion to be divided semi-annually with counties for special projects, with all remaining money going to the general fund.

LOUISIANA: 90% for state general income, 10% to parishes (counties).

MINNESOTA: 10% of taconite tax to state general fund, 90% to counties where produced. All royalties to general fund.

MISSISSIPPI: Timber severance tax, 50% Forest Redevelopment Fund, 25% to state general fund, and 25% to counties.

N. DAKOTA: 35% of coal tax goes to Coal Impact Office, then allocated special projects where coal is mined.

35% to Land Board Trust Fund (2/3 for environmental studies, 1/3 invested with proceeds to general fund.

30% to state general fund, and 5% allocated to counties.

OHIO: 75% of severance taxes used for restoration of orphaned strip mining land.

OKLAHOMA: 85% to the state general fund, 15% allocated to counties.

UTAH: All funds to state general fund.

GENERAL FUND VERSUS DEDICATION

It is interesting to note that the major oil producing states listed, except California, all tend to keep resource revenue unrestricted and place the funds in their general revenue accounts (Colorado, Kansas, Louisiana, Oklahoma). The mining and timber states tend to restrict revenue to special areas of expenditure --usually restoration activities. In other instances mining and timber states apportion a major part of funds back to producing counties, or to all counties in general.

It should be noted here that Alaska has been a general fund state to the extreme, with virtually all revenue going to the general fund, and then having to be sought by each spending sector on a basis (presumably) of need and performance. Critics of highly restrictive, or dedicated funds, are quick to point out that proceeds of a dedicated tax is often more than sufficient at first, but then as growth and cost escalation takes place the funds are insufficient --yet the revenue has become an inflexible spending guide. Further, critics point out that some governmental units have become so mired in innumerable dedicated revenues that they could show an overall surplus but yet be on the verge of bankruptcy due to not being able shift revenues to areas of need. One of the reasons for the breadth of the Alaska Permanent Fund, and for the deletion of severance taxes from the fund, is due to Alaskans hesitancy to depart from their tightly centralized general fund system. On the other side, Alaskans perhaps learned that the "general fund rule" is most applicable to states with normal revenue flow, where a few percentage points of excess, or discretionary new, revenue is the norm.

Hence, Alaska finding itself in the unusual world of excess revenue, in part saw the wisdom of removing large portions of funds from the temptation of day-to-day government spending, but still cautiously sought to keep such funds in a "broad concept" free of inflexible dedication --and capable of changing somewhat with changing demands of the state.

STATES WITH MORE SPECIFIC RESOURCE FUNDS

ARIZONA:

Arizona has a number of funds, of which the most significant is the New Mexico Permanent Fund created in 1898. The fund has assets of 10-million acres, and \$675-million.

Income came originally from sale of state lands. Revenue currently is earned from oil, gas, and mineral royalties, income from land rental and grazing lands, and from capital gains on investments.

Management is exercised by the State Investment Council (governor, treasurer, commissioner of lands, finance officer, and four members appointed by the governor for five year terms.

Funds are invested from the permanent fund. Present apportionment is 18% equity, 32% corporate obligations, 50% U.S. government obligations.

Approximately 80% of the earnings of the fund go to the Arizona Public School System.

The second significant Arizona fund is the Severance Tax Permanent Fund, with capital of \$103-million, with earnings derived from petroleum and mining. Management is by the State Board of Finance (treasurer, governor, lt. governor, and three citizen members.

~~Funds are invested in Certificates of Deposit of State Banks, who in turn make capital loans to the private sector. General loan appropriateness is left to the banks, although participation in sizable loans by the banks requires approval of the State Board of Finance.~~

Presently \$94-million of the fund is in bank certificate of deposits maturing one-to-five years at a rate floating at the rate of short term treasury obligations plus 50 basis points.

The Arizona Severance Tax Permanent Fund can be looked at as a mild form of Development Bank operating at the discretion of the private sector.

TEXAS PERMANENT UNIVERSITY FUND

Texas is perhaps looked at as being synonymous with oil wealth, and in a vague sense its university fund is perhaps the best known of so-called state resource funds.

The Texas Permanent University fund has assets of 2.1-million acres of land in 19-west Texas counties and assets with a book value of \$781-million. The fund was established in the Texas Constitution for the purpose of supporting a university.

Funds come annually from oil, gas, and water royalties, gains on investments, mineral lease rentals, and proceeds of any land sold. Income is invested as principal, and then earnings apportioned 2/3 to the University of Texas and 1/3 to Texas A & M.

Management of the fund is by direction of the Board of Regents of the University of Texas via the State Treasurer who holds the funds. The Regents are appointed by the Governor for six year terms with confirmation by the State Senate.

Funds may be invested in bonds of the United States, State of Texas, or counties of the state, school bonds, or bonds of any city or state. The funds may be invested in securities guaranteed by the United States, and in bonds, debentures, and preferred and common stock issued by corporations. However, not more than 1% of the fund may go into a corporation, nor may the fund control more than 5% of the voting stock of a corporation. Additionally, firms in which stock is acquired must be listed on the stock exchange and must have paid dividends for five consecutive years.

Presently of the \$781-million held by the fund, \$279-million is in corporate bonds and \$254-million in common stocks.

The Texas fund might be best described as of the "trust fund," or savings account, variety, with funds going for a relatively narrow purpose. The funds go only for the University of Texas and Texas A & M, and then only for capital projects.

After Alaska had received the \$900-million in oil bonuses in 1969, the Texas fund was often pointed to as an example "of how not to go," and the fact that once such "motherhood funds" are constructed that they become virtually impossible to dismantle.

WYOMING RESOURCE FUNDS

The State of Wyoming has three resource based permanent funds dealing with: 1) the University of Wyoming, and income from university dedicated lands, 2) monies derived from severance tax on minerals, and 3) monies derived as government royalties in minerals.

THE UNIVERSITY FUND has lands of 34,492 acres and capital funds of \$8.5-million. Income is derived from lands dedicated to the University of Wyoming, with the State Treasurer being responsible for investment with proceeds being turned over to the Treasurer of the University.

WYOMING PERMANENT MINERAL TRUST FUND is a creation designed to retain monies collected from a severance tax on all minerals. The State Treasurer manages the funds and upon legislative approval ~~the funds may be used for~~ loans to local political subdivisions. The capital funds amount to \$51-million. Income earned on the fund is placed in the state general fund.

WYOMING GOVERNMENT ROYALTIES FUND has land assets of 3.1-million acres and an undisclosed amount of capital funds. Monies are derived also from income from the state share of federal leases in Wyoming (50%). Funds go 50% to public school systems, 35% to the state general fund, 9% to the University of Wyoming, and 6% to counties. The funds are deposited with the treasurer, but since the fund was only created in 1973 the legislature has yet to address management detail.

REGIONAL DEVELOPMENT BANK TYPE-FUNDS

The most typical regional development bank examples are based in Puerto Rico, Pennsylvania, Sweden, Japan, and Mexico.

GOVERNMENT DEVELOPMENT BANK OF PUERTO RICO

The development bank was created in 1948 as a public corporation to 1) act as a fiscal agent for the Commonwealth, municipalities, and public agencies, and 2) to make loans to private enterprise which will aid in developing the economy of Puerto Rico. The bank's charter provides that no changes in law may impair the obligations of the bank, and that the bank is exempt from the Commonwealth Banking Law.

In 1975 the bank had assets of \$782-million, was originally capitalized by legislative appropriation, but today its capital is received from operations, capital notes (some guaranteed by the Commonwealth), and lines of credit with U.S. and Commonwealth banks.

The governing body is a seven member Board of Directors appointed by the governor for four year terms subject to the approval of the Council of Secretaries of the Commonwealth.

The bank is responsible for the timing and sale of bonds by the Commonwealth and its agencies, and between 1944-75 arranged for \$11-billion in such borrowing. Additionally from 1944-75 the bank disbursed over \$337-million in loans in the private sector (47% manufacturing, 22% for commercial buildings, 6% for hotels). In 1976 the bank had \$165-million in business loans outstanding. The bank also issues its own full faith and credit notes (\$40-million as of 1975), and is the clearing house for checks in the Commonwealth.

In 1975 the bank negotiated a \$612-million note purchase agreement, guaranteed by the Commonwealth, with major mainland and Puerto Rican banks, to provide for a revolving credit line for the Commonwealth.

The Puerto Rican bank does not resemble what an Alaska Development Bank might look like, since the Puerto Rican bank takes on the comprehensive role of overall fiscal agent for the government in many respects, earns its profits from actual banking, and then seeks to reloan capital, and leverage capital, under a development bank concept designed toward Puerto Rican economic development goals. The bank is not a resource-based institution.

PENNSYLVANIA INDUSTRIAL DEVELOPMENT AUTHORITY

Created in 1973 the Authority has assets of \$266-million and capital of \$226-million. The purpose is to relieve unemployment and economic stagnation by promotion of research and development in critical areas.

The Authority is permitted to make mortgage loans to non-profit Industrial Development Agencies, who in turn use the borrowed funds to finance private industrial projects below market interest rates.

Monies have come from aggregate legislative appropriations of \$191-million between 1956 and 1975, from the proceeds of tax exempt bonds amounting to \$72-million, and from repayment of principal and interest on outstanding mortgage loans.

The Authority is managed by a board of six cabinet level officials and seven lay members appointed by the governor for seven year terms. Monies held are invested according to state statute.

The present Pennsylvania Authority portfolio consists of \$206-million in mortgages at interest rates ranging from 7/8 of 1% to 4% per annum, representing a considerable interest rate subsidy.

The Pennsylvania is a relatively narrow based Development Bank whose prime purpose is to borrow in the market and translate funds cushioned via state appropriations into industrial activity in areas of high unemployment. The authority resembles the Alaska State Housing Authority, or perhaps the Alaska Housing Finance Corporation (an ASHA affiliate), which the legislature appropriates a 2% mortgage reserve for to back a 98% borrowing in the market, with those funds being transferred into commercial banks for loaning under the guidelines of Alaska's moderate income housing finance program, Note: the Alaska Legislature gave AHFC \$2-million mortgage reserve already in 1977, which could back \$100-million in financing, with the corporations last loan package earning a good enough rate to float some mortgages below 8 per cent.

SWEDISH INVESTMENT BANK

Purpose to assist in financing industrial and commercial projects in Sweden consistent with national economic policies. Assets are \$672-million with capital of \$270-million. The bank depends on subscribed capital, reserves, net income, and cash flow from lending operations as a source of funds. The fund is not resource based.

The bank is governed by a Board of nine directors and nine deputy directors, with operational management resting with the Managing Director and staff. The staff is quite small consisting of 31 employees. Most staff consists of lending officers with previous investment banking experience.

The Swedish bank makes medium (5-10) and long-term (10-20) year loans and also guarantees loans, and is authorized to acquire equity. In 1974 the bank held \$487-million in debt against \$270-million in capital, for a ration of 35% capital to 64% debt.

It should be noted here that an Alaska Fund might also take its development bank portion of funds and increase, or leverage, those funds by acting as a barrower and relender. Hence, a \$2-billion development bank portion might yield a total of \$6-billion in total command of funds going into Alaskan field investment.

JAPAN DEVELOPMENT BANK

Established in 1951 the bank has assets of \$11.4-billion and capital of \$759-million. The bank's purpose is to supply long-term funds for industrial development and economic and social progress. Loans may be made for: 1) acquisition, construction, improvement of plant, 2) reclamation of land, 3) for acquisition of land and construction for urban redevelopment. Sources of funds are barrowings from the Japanese government, repayment of loans, and internal sources. Outstanding government loans to the bank are \$9.3-billion, with other sources being foreign currency barrowings, and funds from the World Bank (all guaranteed by the Japanese Government). The bank is authorized to barrow an amount equal to 10-times its capital and statutory reserves.

It should be noted that while the Japan Development Bank is not a resource based institution, meaning it has no annual inheritance from oil, coal, and etc., the Japanese Government has acted to back the bank with capital in a very strong manner.

The Japan Bank is managed by a Governor, Deputy Governor, and eight Executive Directors, but also appointed are two auditors and six Counsellors. The Governor, Deputy and Auditors are appointed by the Prime Minister for four year terms, with the Governor then appointing the eight executive directors and counselors for two year terms. The executive directors are assigned various management functions by the Governor, but final authority (and therefore responsibility) to make decisions for the bank in all matters resides exclusively with the Governor.

It would be interested to learn the theory behind the finality of all authority assigned to the Governor of the Japanese Bank, and to know if the concept resembles the fixing of responsibility as in the Alaska central executive system --the concept being that the clear fixing of responsibility in itself is a preventative against mismanagement and mis-use of office by the chief executive (and his underlings).

The Japanese Bank lends money for the large part below the market rate, with the maximum being 9.2%, and for usual terms between 10 to 15 years. Most of the banks lending operations involve financing in cooperation with private financial lenders, with the Japan Bank taking the intermediate and longer term maturities and private banks taking the shorter maturities. Until 1960 the banks lending centered around electrical power, shipping, coal mining, and the iron and steel industry, but since then has become more involved in urban development and pollution control. Categories of investment are as follows:

- 8% technological development
- 15% energy
- 21% ocean shipping
- 12% regional development
- 16% urban development
- 14% pollution control
- 3% quality of life projects

How well does the Japanese Bank perform --for the year ending in 1976 the bank earned \$105-million, with \$78-million going into statutory reserve and \$26-million going to the national treasury.

MEXICO "NATIONAL FINANCIERA S.A.

Established in 1934 for the purpose of financing Mexican economic development, the bank has assets of \$6-billion and capital of \$555-million. The institution is a mixed private/public institution, but by law the Mexican government must retain 51% of the stock. In actuality the government owns 68%, with remaining stock being owned by other Mexican institutions.

The declared purpose of the institution is: 1) create employment, 2) improve personal income, 3) expand regional development, 4) centralize industry, 5) promote exports, and 6) foster economic independence.

Source of funds are capital funds contributed by government, retained earnings, and cash flow from lending operations.

The Mexican institution is managed by a Board of Directors with the Minister of Finance as Chairman, with certain veto powers retained by the President of Mexico. The Director General manages the institution, which has a total of 1,600 employees.

The National Financiera may provide direct loans, give loan guarantees, and participate in equity. However, the principal activity is direct lending with \$4.9-billion outstanding. The Mexican institution is not resource based, but is heavily supported by government cash input and operates as a classic development bank.

THE WORLD BANK (Int'l BANK FOR RECONSTRUCTION AND DEVELOPMENT)

The best known of development banks, the World Bank was drawn up in agreements at the Bretton Woods Conference of July, 1944, with membership initially covering 29 sovereign states. The present membership is 127 states.

A bank of worldwide scope, rather than regional, the World Bank acts as a conduit of funds from economically developed nations to underdeveloped nations. The purpose of the bank is to facilitate investment of capital for productive purposes, supplement private foreign investment through guarantees or participation, and supplement private investment via loans from bank resources or borrowed funds.

The capital in the fund comes from member states and borrowings in U.S. and international capital markets, plus profits from operations, and resale of loans. The bank presently has assets of \$29-billion, and paid-in capital of \$3.1-billion. The bank operates with a 73% debt and 26% capital stock retained against guarantees and investments.

The World Bank is interesting in that it also has affiliated institutions such as the International Finance Corporation and the International Development Association. IFC makes loans and investments to private enterprise in 104 member countries, while IDA is to promote economic development in "less developed" countries (116-member countries). IDA loans go for terms as long as 50-years, and with very little interest.

Management of the World Bank is composed of a Board of Governors, one from each member nation, and 20-Executive Directors appointed by function.