

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

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1 The board of citizens would meet annually only unless there were
2 some other special purpose. They would not be compensated
3 except to the extent of expenses. And essentially they would be
4 representatives in what might be termed Alaska, Inc.

5 We were also asked if we felt that a popular election
6 of some portion of the board was appropriate, why we might feel
7 so. I think there are three reasons. The first would be that
8 it allows the public input in the sense that the wishes of the
9 majority of the State can be expressed. The views and concerns
10 of minorities in geographic areas. Finally, it does in reality
11 give life to the concept of Alaska, Inc. There is a very close
12 analogy with the representatives elected here being very
13 comparable to the board of directors or the board of governors
14 being elected by shareholders.

15 Now, the board of directors. Our view of the board of
16 directors is that initially it be composed of a group of, say
17 7, it could be as high as 11, that is a matter of choice. But
18 we said for the moment 7 members who would be appointed by the
19 governor, staggered terms, so no one gubernatorial candidate
20 or elected official can control it. And to be confirmed by the
21 Legislature so the Legislature has its input. The board of
22 directors essentially, and the key here is that in our view it
23 is a policy making board. It receives and acts on the issues
24 presented to it by management but does not intervene in
25 management in the sense that it does not present specific loans,

1 it does not suggest geographic redistribution emphasis, whatever.
2 Its purpose is to set policy and to react to input provided by
3 the staff.

4 The president of Alaska Permanent Fund, in our view,
5 should be appointed by the board of directors. The key issue
6 here would be the strength of this individual. He should have
7 the power to conduct all the ordinary business of the
8 corporation, hire, fire, be responsible only to the board in the
9 sense of what is normal prerogatives of management. He would
10 serve also ex-officio as chairman of the board of directors but
11 would have no vote.

12 Those are our views on the three questions presented to
13 us. Are there any questions you might have?

14 MR. GALLAGHER: How could that large board and the
15 board of citizens be more responsive than a body that is already
16 elected every two years called the Legislature? Why would that
17 be more responsive to the Permanent Fund?

18 MR. REGIS: I would think it would be more responsive
19 because it has only one issue to deal with. It has only one
20 function, hence the viewpoint of the individual or the use of
21 that function is clearly well established and is not
22 intermingled with a host of other issues.

23 MR. WOHLFORTH: I am not sure the split between the --
24 you state the board shall be empowered to recommend changes and
25 to receive, consider, and vote on statements of policy for the

1 Fund submitted to it by the president of the board of directors.
2 The board is delegated all powers, the board of directors is
3 delegated all powers except those reserved to the board of
4 citizens. Have you thought out how far down in policy the board
5 of citizens goes and where the split is between that board and
6 the board of directors? Do you have any comments on that?

7 MR. REGIS: I believe our view is that the split would
8 be very narrow in the sense that it would be issues that would
9 effect, i.e., for example, an ordinary corporation under the
10 Articles of Incorporation or the bylaws associated therewith.

11 MR. WOHLFORTH: You also state that the board of
12 directors would be explicitly prohibited from suggesting or
13 recommending any particular financing operation to be
14 considered or made by the board. But it would have power to
15 decide on -- let's say loans or equity investments proposed to
16 it by the staff. What do you mean by particular financing
17 operation? Are you talking there of the actual industry to
18 which a loan would be made or the borrower? Is that what that
19 means?

20 MR. REGIS: In our view, the board would decide on
21 issues presented to it and would indeed query very closely the
22 staff on all of the factors that into recommending either for or
23 against a particular loan. But it should not enter into the
24 question of seeking out particular areas of loans other than
25 to say by policy. Now, let's say that our policy with respect

1 to the State is to fund heavily in the agricultural area. That
2 would be the prerogative of the board to suggest to management
3 that these are the kinds of things we are interested in doing as
4 a policy matter. Not to say, put this particular farm on the
5 ballot for us to vote on.

6 MR. WOHLFORTH: You don't want the board members to
7 come in to meetings and say, " this is a great prospect", you
8 want that to be all staff generated.

9 MR. REGIS: Yes, precisely. But it would be the
10 board's prerogative to set the sectors in which the Fund should
11 be operating as a matter of policy.

12 MR. FERGUSON: You are recommending that we have a
13 board of citizens of approximately 40 members.

14 MR. REGIS: Are there 16 Senatorial Districts?

15 MR. FERGUSON: The reason I ask this is because on a
16 few of our boards and commissions we have Judicial Districts.
17 Five Judicial Districts. A board of citizens with 40 members
18 would be unwieldy. It takes the Legislature over 90 days just
19 to consider some of these matters. You can imagine how long
20 it would take 40 people to deal with the Permanent Fund.

21 MR. REGIS: I am a little indifferent exactly how you
22 carve up the geographic areas. I suggested Senatorial. Maybe
23 yours is better. I would not quarrel with that at all. With
24 respect to the unwieldiness, the World Bank has something like
25 140 governors and it works very effectively. And this particular

1 board would meet only once a year with basically 1, 2, or 3 major
2 issues to confront it. It's a very simple function. So I
3 doubt that 40 members would be unwieldy. That is my personal
4 feeling. But, if it is, then you just cut the number back. My
5 reaction is if you can get around 40, 50 whatever it broadens the
6 representation, which is an important feature.

7 MR. EDENSO: Could a board of citizens board member
8 also be a legislator?

9 MR. REGIS: That is a question I hadn't addressed.

10 MR. EDENSO: It seems to me if somebody is running for
11 the State Legislature and there is another board he could run
12 for and be very influential in both areas, it would be a
13 tremendous incentive for him to be on the board of citizens as
14 well as a legislator.

15 MR. REGIS: I hadn't given that a lot of thought. My
16 visceral reaction would be negative. I would like to think about
17 that.

18 MR. LOVE: I guess I missed part of this, but why not
19 just make the Senators a board, have them on the citizens board?

20 MR. REGIS: The reason we suggested that is one of the
21 key objectives, Jamie, that we were trying to accomplish was to
22 allow for positive input from all sectors yet make sure it was
23 not unduly influenced by any one. The Senate is already involved
24 in confirming the board of directors. So if the Senate was
25 involved in confirming the board of directors and was also

1 serving as a board of citizens, it would have disproportionate
2 weight and influence on the Permanent Fund.

3 MR. CRAWFORD: If the board of citizens is a group
4 that is only going to meet once a year, why do we need it?
5 Why would any citizen spend time and money to run for a position
6 that according to your presentation is, No. 1, a nonpaying
7 position and, No. 2, has no -- if they meet once a year, what
8 do they do?

9 MR. REGIS: The purpose of the meeting once a year is
10 to receive the report and the accountability of the operating
11 personnel and board of directors. So you make the Permanent
12 Fund accountable to the board of citizens or, in effect, the
13 electorate itself. And, secondarily, perhaps even more
14 importantly, you want to be able to change the direction of the
15 Permanent Fund if circumstances themselves change. There is no
16 proviso without some kind of public input for the citizens to do
17 that. This way, at least once a year there is a meeting that
18 says, "Yes, are in agreement and the Permanent Fund is proceeding
19 in the right direction", or, "we wish to change it. And we are
20 going to change the direction of the Permanent Fund, here's what
21 we want to do to it".

22 MR. LOVE: One of the fears I have would be the whole
23 issue of how much money they could spend to get elected, who they
24 could get contributions from. It seems obvious to me you would
25 at least have to think about the problem. Say the canned salmon

1 contributed 100,000 or whatever to various candidates. I can
2 see basically the recipients of a potential loan being very
3 heavy contributors to the people who are running for office to
4 decide where these loans are allocated.

5 MR. REGIS: Again, I would go back to the prior comment
6 of making sure there is not undue influence from any one sector.
7 To make unusual contributions to a member of the board of
8 citizens, your prospects of achieving a loan under the
9 protection built into this organization is not great.

10 MR. LOVE: I'm not saying that if I gave you 500
11 dollars -- to a candidate that I'd want a loan for a million
12 dollars. I'm saying a particular industry as a whole deciding
13 that they wanted to make a pitch for investment and that they
14 wanted to support various candidates. Let's say the mining
15 industry decided they wanted to put 200,000 dollars in the
16 campaigns and they weren't saying that you had to loan the money
17 to three corporations or this corporation, just basically we
18 want to set aside 200 million dollars for us to develop -- I'm
19 sure they would have a good argument to develop mining resources,
20 and maybe contributions could be raised through corporations,
21 maybe contributions could be raised through executives or other
22 people connected with the industry. I can show you examples on
23 the last poll control on how money has been raised for various
24 industries. What I am saying, is I am not so sure that the
25 members elected to these so-called citizens boards -- if you

1 make it people that are going to receive major financing from
2 those groups that are looking to get the investments.

3 MR. RIGIS: You would have to work your way through
4 the, both the operating management which is relatively
5 autonomous and the board of directors who are responsible to the
6 Legislature and the governor, I would think that short of a
7 majority being elected that way, which I think would also surface
8 in terms of a political backlash, it would be very difficult to
9 accomplish. To accomplish loans to a particular segment of
10 industry through the citizens board. I don't think that is a
11 great danger, but I do recognize the validity of what you are
12 saying. They could gang up on a particular issue.

13 MR. LOVE: What you are saying is it's not going to be
14 a big problem because they are not going to be that powerful.
15 But I assume the first impact is how the money goes and how it is
16 managed.

17 MR. FREER: I would see the citizens board acting in
18 really a legislative capacity that relates to the Permanent Fund,
19 in meeting once a year and how it has been managed and if it is
20 staying on the track. My comment might be, why couldn't the
21 Legislature sit once a year as a citizens board? They are duly
22 elected by the citizens of Alaska, why couldn't they sit as a
23 board once a year and fulfill the normal functions of a Legislature
24 anyway in reviewing the operation of the fund. That is more of
25 an observation than a question.

1 DR. LOGSDON: One observation might be that the
2 citizens board might be an awfully expensive group to bribe.
3 One thing we are trying to achieve here, as I understand it, is
4 insulation from political processes as it relates to other
5 things other than the Permanent Fund, which might be an
6 argument against the Legislature sitting as a citizens group.

7 MR. REGIS: That is right. That is our viewpoint in
8 suggesting this as entirely separate from the Legislature.

9 MR. BARNES: The function of a citizens board is like
10 stockholders, like having the annual meeting and doing stockholder
11 like type thing and would certainly not pass on day to day
12 operations.

13 MR. REGIS: That's right. Like in an ordinary
14 corporation, it would receive a report from the board of
15 directors and operating management on what the fund is doing and
16 where it is going. And what policy is to be passed upon by them.

17 MR. BARNES: Couldn't the Legislature do that just as
18 easily?

19 MR. REGIS: They could indeed. My thought is I would
20 prefer to see something removed from the Legislature so the
21 Legislature has its input through the board of directors instead
22 of -- as control, as it would be under that method.

23 MR. WOHLSFORTH: There is an analogy too of the
24 Legislature which is supposed to sit as an assembly for the
25 unorganized borough and never has exercised that function. So

1 one would wonder how close attention they would give to this
2 thing.

3 MR. EDENSO: I think an observation is a good many
4 of the residents of Alaska perceived the Permanent Fund as a
5 means of insulating government from the legislative body. I
6 think if we assume that the legislative body will have the
7 functions of a board of citizens or a direct board over the
8 Fund, then what the hell is the whole purpose of trying to insulate
9 the Permanent Fund from the legislators.

10 MR. GALLAGHER: The purpose was to insulate it from
11 undue political influence, not necessarily from the legislators.
12 What you have a dual board structure is to do that. You need
13 the proper political input.

14 MR. EDENSO: I think what I am saying is that the
15 Permanent Fund is viewed as a savings account, whereas a
16 separate fund which the legislative body can in no way influence
17 for budgetary purposes or government expenditures is one of the
18 most often voiced viewpoints in the public media. And if you
19 turn around and set the legislative body as the policy making
20 body on top of the Fund, then you may have, in fact, defeated the
21 purpose of the Permanent Fund.

22 MR. GALLAGHER: I don't see it ---

23 MR. CRAWFORD: An observation is, they can't defeat the
24 purpose, not that they would, of a Permanent Fund if they can't
25 spend the money. As I understand it, that was in the proposal

1 that passed.

2 MR. REGIS: But if they were to function as both a
3 board of citizens and to pass on the board of directors that
4 would give them a chief proportion of the influence. I think
5 that is Jim's point, this insulates the Fund from any influence
6 by the Legislature but still allows very positive influence.

7 MR. WOHLSFORTH: I think we must distinguish between
8 policy and influence, otherwise we are going to be getting off
9 the track very rapidly.

10 MR. LeRESCHÉ: I am still unclear as to what you are
11 suggesting as to where the line between policy and operations is.
12 Let's focus on your two boards for a minute. You used the
13 example of concentrating on agricultural investment. And the
14 way you described it the second board of directors would be the
15 deciding body. Did I hear you say that?

16 MR. REGIS: The board of directors will overall decide
17 the policy of the Fund subject to review by the citizens board.

18 MR. LeRESCHÉ: Then you have the citizens board voting
19 on that policy.

20 MR. REGIS: The citizens board votes on the Articles of
21 Incorporation and the Bylaws and, in fact, passes on the annual
22 report made to it by the board of directors. If the citizens
23 board disagree with the direction of the Fund, they can change
24 that, in effect, through the Bylaws, if they so wish. I think
25 that would also require review by the Legislature at that point.

1 Because basically the Bylaws and Articles are going to be part of
2 the -- so that goes back to the Legislature and so forth as well.

3 MR. LeRESCHÉ: I understand that. But then in your
4 text you also say the board of citizens shall consider and vote
5 on statements of policy submitted by the president of the board
6 of directors. And that is what is confusing me.

7 MR. REGIS: It is also the reason I stopped because you
8 have taken it out of context with the preceding which says
9 "Charter ...and the receive, consider and". If you change the
10 charter you are going to automatically change all the rest of the
11 direction.

12 MR. LeRESCHÉ: But if the board of directors comes out
13 with a statement of policy and says we'll stress agricultural
14 investment and the board of citizens has nothing to say about
15 that short of changing the whole charter?

16 MR. REGIS: Short of reviewing a change of the charter.

17 MR. LeRESCHÉ: So they don't actually vote on that
18 policy.

19 MR. REGIS: Not prospectively, retrospectively it would
20 apply, either endorsing or suggesting a change.

21 MR. LeRESCHÉ: So they can have a positive role, they
22 don't have to sit there.

23 MR. REGIS: They always have the advisory capacity by
24 meeting once a year even if they don't suggest a change in the
25 charter.

1 MR. LeRESCHÉ: So the actual policy sits with the board
2 of directors and the oversight policy is with the board of
3 citizens.

4 MR. REGIS: That is correct.

5 DR. LOGSDON: Let me see if I have this concept clear.
6 What you are talking about is essentially establishing a
7 separate corporation to handle the Permanent Fund. The stock-
8 holders of that corporation are all the citizens of the State of
9 Alaska. In order to have a stockholders meeting and you can't
10 find a room that is large enough to put everybody into, so you
11 essentially select a certain number of citizens and put them in
12 there to represent the stockholders and they perform the same
13 function as stockholders of any corporation.

14 MR. REGIS: Very comparable, yes.

15 DR. LOGSDON: And the reason this is separated in this
16 sense from the Legislature is because you've got a separate
17 corporation. There is no question but that the Legislature
18 represents the people. It's really two separate functions, but
19 because it is a separate organization ---

20 MR. REGIS: That is right. It is a State instrumentality
21 so consequently you do have to put State input in it.

22 MR. MOTLEY: Who are the president and this board of
23 directors directly answerable to? Who could fire the president
24 and the board of directors?

25 MR. REGIS: The president can be fired by the board.

1 The board can be fired by -- either their term expires or they
2 can be fired by the Legislature and the governor.

3 MR. LeRESCHÉ: Which?

4 MR. REGIS: I hadn't given that that much thought.
5 They way that they are put in, course, is that they are put in
6 by -- the governor recommends and the Legislature agrees. I
7 would think they would have to come out the same way.

8 MR. LeRESCHÉ: Do you mean to say they would both have
9 to agree to fire them to get rid of them. The governor appointed
10 somebody and he was confirmed by the Legislature.

11 MR. REGIS: I would think that either the governor or
12 the Legislature could act to remove them. But it would take both
13 to agree just as it does with any kind of legislative matter.

14 MR. LeRESCHÉ: To get them on. But to get them off,
15 that is the question. If either one would refuse to impeach
16 him, then the person could stay on.

17 MR. REGIS: If either one refused, that's right. But
18 I would think that would also have the override protection.
19 Let's say the Legislature wanted to removed him and votes to do
20 so and the governor says no, there still could be an overriding
21 feature that allows the Legislature by a sufficient majority to
22 kick that particular rascal out.

23 MR. LeRESCHÉ: On the Public Utilities Commission, the
24 Legislature voted to knock the guy off and if the governor doesn't
25 like it, it's too bad. It rarely happens, I don't think it has

1 ever happened on the Public Utilities Commission but that
2 accountability is in the law.

3 MR. EDENSO: I am not sure I understand what you are
4 getting at, but it seems to me if the person doesn't know who
5 the hell he's working for, who is he going to take his orders
6 from, the governor or the legislative body or who? Who is his
7 boss?

8 MR. MOTLEY: The line of authority.

9 MR. WOHLSFORTH: We all know the pattern in Alaska is
10 people appointed by the governor and confirmed by the
11 Legislature are dischargeable, serving at the pleasure of the
12 governor with two exceptions, the PUC and the Board of Regents.
13 Previous to about four or five years ago we did pass some laws
14 where people were removable for cause, which meant in effect
15 their terms are absolute. I think that is the context of the
16 way it is now and anything other that is a deviation, which may
17 be proper.

18 MR. FREER: Mr. Chairman, are we working in such
19 virgin ground that there is no background or history of how
20 another somewhat comparable Fund might have been structured and
21 worked successfully? Or are we in something brand-new?

22 MR. REGIS: There is no directly parallel fund from
23 which to draw on.

24 MR. FREER: We're breaking new ground.

25 MR. LOVE: The Alberta fund, how about that?

1 MR. REGIS: The fund is analagous but the function of
2 the fund is entirely different. If you say no to development
3 banking, then Alberta becomes analagous.

4 MR. LOVE: What is Alberta doing? Can you explain that
5 to us?

6 MR. GALLAGHER: I don't understand how Alberta is that
7 much different. Take the word development out of it and then
8 talk about what is different about it.

9 MR. REGIS: Isn't Alberta more concerned with investing
10 as opposed to development and financing activities?

11 MR. GALLAGHER: What is the difference?

12 MR. FLEETWOOD: The Alberta situation is not
13 necessarily dissimilar. The only things that are different are
14 that they have taken a definite stand that they are a fund and,
15 of course, a trust fund in that concept and have removed the
16 option of leverage and I think equity as well. I can't remember.
17 But they have indicated that up to a certain percentage of their
18 fund may be invested in development of some project, income
19 producing project, and have various criteria for those. If this
20 were to end up being a smorgasbord, I think it would be easy to
21 say that Alberta is also a smorgasbord.

22 MR. WOHLSFORTH: Alberta is reasonably new, it hasn't
23 much of a track record.

24 MR. FLEETWOOD: Alberta is very new in terms of having
25 its own capital in the Alberta Heritage Trust Fund. However, it

1 has been making investments all along. And within the original
2 capital, which I believe was a billion and a half dollars, some
3 of that came in the form of previously made investments as opposed
4 to cash. They have invested in capital projects, money market
5 instruments, employment-oriented projects, among other things
6 that they are already invested in.

7 MR. GRUENING: In the Alberta situation, isn't there
8 an assembly, or committee, or its management position more or less
9 the board of directors analagous? I read kind of an overview of
10 it.

11 MR. FLEETWOOD: I don't know the proper terms for
12 Canadian government officials, but to simply it, it appears that
13 their Cabinet members act as the board of directors. And then
14 there is an administrative group below that, which is essentially
15 the Treasury Department. With respect to the socially-oriented
16 projects, their responsibility comes from the Legislature.
17 And with respect to the profit-oriented or preservation profit
18 oriented projects, the responsibility is with the administrators
19 of the operation.

20 MR. GRUENING: You have an executive officer who
21 oversees the whole thing. How is he selected?

22 MR. FLEETWOOD: By the board, the Cabinet members of
23 the board. To be honest, at the present moment the thing is very
24 comingled with the Treasury Department.

25 MR. REGIS: Isn't it true that at the moment it has not

1 done an awful lot of development financing. It has the ability
2 to do these things but it has not yet functioned.

3 MR. FLEETWOOD: As the Alberta Heritage Trust Fund
4 that may be the case.

5 MR. REGIS: But it is not functioning in the
6 development financing area at this moment.

7 MR. FLEETWOOD: No. To really go into it requires --
8 they can go up to 15 or 25 percent in do-good loans..

9 MR. WOHLSFORTH: Why don't we take a break now.

10 OFF THE RECORD

11 ON THE RECORD

12 MR. WOHLSFORTH: Let's get back together if we can.
13 Just before the break we were getting some comments on the
14 structure of the Alberta Heritage Fund and we might resume with
15 those.

16 MR. FLEETWOOD: Prior to that, we were discussing
17 what they had done so far. They have invested in something
18 called SinCrude Development Canada, Canada Cities Services, the
19 Alberta Energy Company, telephone and municipal finance
20 corporations, and liquid money market instruments.

21 They can leverage their assets although they can only
22 borrow from the Treasurer. And while by statute or by
23 legislation they can borrow long or short term, the real thing
24 and definitely what they plan to do is not only borrow short term
25 to cover cash flow -- anticipated cash flow at the end of a month

1 or something, they get 30 percent of the non resource oil
2 revenues and know what it is coming.

3 With respect to structure, they do have a 24-man
4 Heritage Trust Fund investment committee which is all the members
5 of the executive council in my terminology. It was explained to
6 me in terms of Cabinet members. And it is also my understanding,
7 as someone here pointed out, these are also members of the
8 Legislature. I don't understand their political system so ---

9 MR. WOHLSFORTH: It is a parliamentary system, is it
10 not.

11 MR. FLEETWOOD: But this is the provinces and not the
12 nation.

13 As I stated earlier, when they set the fund up, I
14 believe it was in May, they took investments that had been made
15 with the fund in mind, as well as cash, and had established a
16 procedure on which they would evaluate that. They can continue
17 to receive investments and securities made by other areas of the
18 government in lieu of cash, but these investments must stand
19 pretty strict criteria and there are established means of
20 evaluating even the social benefit non-income producing
21 investments for that purpose. They established some up to
22 guidelines with respect to how their funds could be used. If
23 people here determine to have guidelines, which is the only way
24 to do it, if you have specific guidelines of, say, for example,
25 30 percent of the Fund's assets must be in something and 20

1 percent must be in something else, it can only cause problems of
2 operation and may lead even to bad loans at times when you would
3 want to make very good loans, by doing so you may distort the
4 ratios, therefore, you must quickly look for one in another
5 category in order to make the loan that you want to make. Some
6 up to procedures. In any case, they are allowed to invest 20
7 percent of their assets in projects which provide long term
8 economic and social benefits for people that will not necessarily
9 yield a return to the fund.

10 MR. FEGES: A prior question was posed to me, did I
11 see this organization as appropriate if the primary function was
12 to be a development bank. I wouldn't consider 20 percent to be
13 the primary function. And my response is tempered to the kind
14 of organization which would have as one of its primary functions
15 development bank. I think if the smallest point were 20 percent
16 then I might come up with a different answer, but that wasn't
17 the way the question was posed to me.

18 MR. WOHLSFORTH: 20 percent, what about the balance of
19 the 100?

20 MR. FLEETWOOD: 15 percent may be invested in the
21 Canadian or provincial government type securities. Up to 100
22 percent could be invested in income producing social economic
23 diversification and development type projects as long as they
24 were income producing and yielded a return to the fund. And that
25 is in potential development. And up to 100 percent of the fund

1 can be invested in temporary money market securities at the
2 discretion of the Provincial Treasurer. The major purpose there
3 is idle funds are funds waiting to be used in one of the other
4 categories.

5 MR. EDENSO: You said Provincial Treasurer, is that
6 the treasurer of the government of treasurer of the fund?

7 MR. FLEETWOOD: I am responding to the question are
8 there similarities in the goals and objectives. I am not
9 recommending structure. This is very integrated into the system.
10 The Provincial Treasurer is the guy that operates and
11 administrates the fund to all intents and purposes.

12 MR. EDENSO: Is he an employee of the government, or
13 is he an employee of the fund?

14 MR. FLEETWOOD: He is an employee of the government.
15 There is a Gary Beatty who is manager of the Heritage Trust Fund.

16 MS. FLEISCHER: Who is he employed by?

17 MR. EDENSO: I think that answers my question, thank
18 you.

19 MR. FLEETWOOD: The officials in the Treasurer's Office,
20 I have a list here. The officials in the Treasurer's Office are
21 five people. One of them is the manager of the Heritage Fund.
22 But if one were to deal with them, you would deal with any one of
23 the five people. And the five are the Provincial Treasurer, the
24 Deputy Provincial Treasurer, the Assistant Deputy Provincial
25 Treasurer and the Director of Investments, Financial Management.

1 MR. EDENSO: Mr. Chairman, I think what we are talking
2 about is the similarity of the fund, the proposed fund and its
3 activities in Alaska not of the Alberta Heritage Fund. And I
4 think the discussion up to that point of having to do with the
5 dual board system proposed by Price Waterhouse.

6 MR. WOHLSFORTH: I think it was asked if there were any
7 situations which were analagous and I think that led to the
8 Alberta structure. Do we have any more questions on the Alberta
9 structure?

10 MR. LeRESCHÉ: Who hires the executive director?

11 MR. FLEETWOOD: I am not that familiar with it. Our
12 Canadian people are very close to it, I don't know about the
13 appropriateness of the structure, the similarity and purpose are
14 definite. They do report as Dan has been suggested, they have
15 annual reports and a committee of the legislature reviews them
16 on the performance of the fund.

17 MR. LOVE: This is a parlimentary form of government.

18 MR. GALLAGHER: I think I might have a broader
19 definition of a development bank. I think your definition is
20 more narrow than mine. I would see a broader definition and
21 that is why I would see some difference.

22 MR. FEGIS: Are you trying the definition out on me?

23 MR. GALLAGHER: Well, as I perceive your definition of
24 a development bank, it is only for economic diversification.

25 MR. FEGIS: No, I wouldn't say that. Do you mean

1 economic diversification would be the sole criteria?

2 MR. GALLAGHER: Yes, of a development bank. That is
3 what I perceived when you described it.

4 MR. FEGIS: My perception of a development bank --
5 we are using the word bank, but it's really an institution.
6 My definition would be the fund of resources to be used to
7 accomplish basically social objectives which are primarily
8 economic in impact through the private enterprise system.

9 (REPORTER PLAYED BACK LAST ANSWER AT MR. FEGIS'
10 REQUEST)

11 MR. WOHLSFORTH: Now, that you have heard your
12 definition, do you wish to amend it? I think it is a tall order
13 to define the purpose, the structure and the goals. So I am
14 sure people will bear that in mind when they start to tear it
15 apart.

16 MR. LeRESCHÉ: Would you include in your definition a
17 cooperative, say, for example, as a feed into the free
18 enterprise system?

19 MR. FEGIS: I don't think I understand your question.

20 MR. LeRESCHÉ: Would you include things like co-ops and
21 stuff like that as utilized into the free enterprise system?

22 MR. FEGIS: Yes.

23 MR. LeRESCHÉ: Is free enterprise anything that is not
24 part of the government? I want to make sure I understand your
25 definition of free enterprise.

1 MR. FEGIS: In this context, yes. To primarily use
2 the private sector of the economy.

3 MR. LERESCHE: That could include private nonprofit
4 corporations?

5 MR. FEGIS: I would say yes. The criteria would remain
6 the same whether or not the funds were granted to that enterprise.

7 MR. LERESCHE: They are at least equal.

8 MR. WOHLSFORTH: Let's see, where were we. Do you want
9 to pursue this definition of a development bank or turn your
10 attention back to structure? What is your pleasure? Are there
11 any other comments?

12 MS. FLEISCHER: I wanted to ask about several things.
13 You said the question you were answering is, how is the fund
14 to be structured if this is a development bank?

15 MR. FEGIS: If a significant activity were development
16 banking.

17 MS. FLEISCHER: I had a thought on the board of
18 citizens. I don't really see a use for that board of citizens.
19 I think it would be sort of a useless board if they met but once
20 a year and had no real power. In fact, I'm afraid that you could
21 see this as an attempt to tell the citizens that they did have
22 power and they didn't have power and they might be cynical about
23 the board of citizens. I'm not sure whether they should or
24 shouldn't have power but I see that particular setup as a sop to
25 the citizens by saying you would have control over the Permanent

1 Fund through your board of directors. I don't think it is
2 realistic to think that they can change the bylaws, especially
3 if it has to go through the Legislature. And if they did
4 change the bylaws, it would take them a long time.

5 I was wondering if, for instance, the Fund were a
6 savings account fund or even initially a savings account fund,
7 if a decision were made to invest money and then put the income
8 into a general fund, for instance, it would be set up entirely
9 differently.

10 MR. FEGIS: It certainly would, yes.

11 MS. FLEISCHER: Then the Legislature would make the
12 decisions about the money would be spent out of the general fund.
13 So if they decide to invest in fisheries or decided to invest in
14 agriculture, whatever they decide to do, they would make the
15 decision because they would be spending out of the General Fund.

16 MR. FEGIS: I don't think this particular suggested
17 organization would fit those circumstances by any means at all.
18 If you were going to a savings fund concept, the relative risk
19 becomes measurably less. So I am not even trying to address that
20 question. Just as a pure commentary on that, if you are going to
21 go to solely a savings account concept, if that were the primary
22 function, then a whole lot less complicated organization would
23 be drawn up, there is no question about it.

24 MS. FLEISCHER: Maybe we should be doing this, laying
25 out the alternatives. It could be a pure savings account, it

1 could be a pure economic development fund, or it could be a
2 broader economic development fund. Or, it could be a combination
3 of those three things. If it were any one of those, or a
4 combination, the structure would be different. Or, maybe it
5 wouldn't. What I am saying is, maybe we should start saying,
6 if we want it to be purely this kind of fund, then it would be
7 set up this way. Then we would ask, how would you set it up as
8 a savings account fund? How would you set it up if it were
9 going to be a purely economic diversification fund. How would
10 you set it up if it were a broader development fund. How would
11 we set it up if it were going to be a combination of those?
12 What would be a good combination? What percent would make the
13 most sense. Maybe what we should be asking you is, if you
14 would give us the structure of at least those four alternatives.
15 Then we could give it back to the Legislature and say, "Okay, if
16 you want to make this decision, then this is the structure."
17 And other decisions could be made according to how it is set up.
18 Then we could lay out the choices so it would be really clear to
19 the Legislature as well as to the people of the state.

20 MR. GALLAGHER: I agree. That's one of the things we
21 take up in the last hour, just sitting down and discussing
22 whether the likely management --- If your goals and objections
23 are savings account, you're going to have a different one. And
24 I thought we would take the last hour in just discussing that
25 very thing because there are certain implications. Quite

1 obviously, if you only do what is called a savings account, the
2 need for broad input on policy decisions as to what to invest
3 in is a lot -- you don't need that large of a board.

4 MS. FLEISCHER: Because the Legislature will, in effect,
5 be making the decisions.

6 DR. LOGSDON: There is a question that comes up in
7 my mind here as to this citizens board as being any kind of
8 board that can function. On the basis the amendment was stated,
9 I am not certain myself that the Legislature can abrogate their
10 authority through the board to do anything besides what this
11 board here is and that is just to advise in more or less a
12 general sense. I think there will really be a legal decision.

13 MR. GRUENING: I think your point was and it is well
14 taken, that ultimately the goals will have to be established by
15 the Legislature and only the Legislature. That would just
16 clarify some of the problems we had initially -- in which people
17 were alarmed that this group was somehow going to decide the
18 goals. I am bothered somewhat too that we are thinking that
19 whatever the structure is is going to administer the whole fund.
20 I have been thinking that maybe we want to be very modest of that
21 portion of its administering so that we have maybe a track record
22 of -- maybe as much as 10 years before we decide we're going to
23 do something with the other half of the fund. The savings
24 concept, I think -- we were stating yesterday, you heard Mr.
25 Richards state that he thought the voters didn't intend anything

1 but long term investments. I think that is probably farther from
2 the mark than saying they probably intended a savings portion
3 of that. So maybe what we're talking about is a structure that
4 is going to administer a small portion of that fund, at least
5 for the first decade. I am just tossing that out for thought.
6 We may not get too worried about whether this is going to be the
7 structure for the Permanent Fund. And I think Lanie has a good
8 point, we might consider also if it is going to be a savings
9 account administration for a number of years.

10 MR. FERGUSON: I think that is right. I think we can
11 embrace the concept of economic objectives. It is going to take
12 several years of front end investigation and accumulation of
13 capital before you are going to have the ability to do it.
14 You're probably right, for several years probably into some kind
15 of a savings account program and to a lesser extent development.

16 MR. LOVE: I think that one thing we need to start
17 addressing pretty soon before we make any decisions about
18 structure, is a better overall picture of what I think are three
19 important areas. One is a better idea of how capital markets
20 are currently served in Alaska. I think some more actual data
21 as to what markets are being served to what extent by what
22 institutions, what gaps there are, what our perceived needs are.
23 Secondly, I think we have to have a better overview in terms of
24 current loan programs that the State is already managing so we
25 have a complete inventory of what already exists, what the

1 experience of each one of those programs has been, what the
2 successes and failures of our own programs have been. And how
3 much money is involved relative to the amount of money we are
4 talking about being in the Permanent Fund in the next five years.
5 And I think the third thing, we have to have a much better idea
6 as to how the size of the Permanent Fund relates to the overall
7 revenue situation in the State over the next 10 to 20 years.
8 In other words, how big is the Permanent Fund going to be when
9 the State runs out of revenue from Prudhoe Bay. When is that
10 going to happen? And what size is the State's budget going to
11 be ---

12 MR. GALLAGHER: We showed you that at the first meeting.

13 MR. LOVE: Part of what we got was, how big is the
14 Fund going to be. How big is the State budget going to be
15 relative to the amount of money ---

16 DR. LOGSDON: The size of the budget will be that money
17 that is available plus a certain percentage.

18 MR. LOVE: I think maybe if we think we're going to
19 have an incredible bust in 20 years, that a savings account may,
20 in fact, be all of a sudden much more important purpose for the
21 Fund than the development aspect. It may be then that the
22 development aspect becomes more important as we need to develop
23 a broader tax base. I think these are three different areas
24 where we need a lot more data than we presently have. We can
25 realistically make real solid choices in terms of either the

1 goals or the structure.

2 MR. WOHLSFORTH: There is a lot of insight into what
3 Jamie just said. We can approach this thing from the point of
4 view, does there have to be an economic study of just where we
5 are, and a long term economic study of how effective our capital
6 markets are and what sort of projects are ready to be financed.
7 What has been the effectiveness of our existing loan programs.
8 And then even this broader one, how large is the State budget
9 going to be in relation to the Permanent Fund in 10 years.
10 This has implications obviously for the savings account concept.
11 I think these are things that really are worthy of consideration.

12 MR. EDENSO: I think it is really nice to raise those
13 kinds of questions and to seeks answers to them. However, in
14 reality, we are really faced with the question, do we or don't
15 we want to address something called the structure of the
16 Permanent Fund. We could spend the next 10 years studying the
17 nature of the capital market in Alaska and we would find on an
18 annual basis as the price of oil fluctuates the capital market
19 in Alaska so fluctuates. I think what we've got is a question
20 before us, we could consider a number of ways to approach it.
21 And I think, again, that looking into the future, we would be a
22 little remiss in waiting for some period of time. I've heard as
23 much as 10 years structured out there to try to establish the
24 structure of a Permanent Fund. I think in 10 years we'll have a
25 fund that is in excess of at least a billion and a half dollars

1 and it could well be even more than that. We are doing ourselves
2 an injustice if we don't start kicking off at some point in time.
3 In approximately 120 days we are going to start getting money in
4 the Permanent Fund. For example, what are we going to do with
5 that money? Who is going to manage it? If we don't have a
6 structure at least established by then, we are not going to be
7 able to answer that question. Are we by default going to let
8 the Division of Treasury manage it in the money markets? Are we
9 going, by default, allow some bankers in Alaska to manage it?
10 Are we going to allow the State Legislature to meet once every
11 Friday and decide whether or not to buy or sell some fixed income
12 security and whether or not to buy or sell some mortgages in the
13 State? Are we going to have to sell some money or buy some,
14 you know, as a result of our lack of decision. I submit to you
15 that gets to be a fairly costly undertaking. We have got to
16 address structural organization. It would be desirable to
17 answer every question you could ever think of but it gets
18 costly the further down you go.

19 MR. LeRESCHE: I just want to repeat something that
20 we said before but we don't seem to follow up on. Jim is right,
21 some suggestions have been made that the Legislature certainly
22 has to deal with this. But even our expert witnesses and
23 consultants say the structure will vary according to the
24 objectives we set forth. This group hasn't set specific
25 objectives for the Permanent Fund yet and, therefore, it is

1 premature to discuss specifics about the structure. That's
2 about as simple as I can say it.

3 MR. GALLAGHER: I would like, Mr. LeResche, to take
4 that question on. We've been selling that Permanent Fund now
5 for two years and we've been talking about goals and objectives.
6 In fact, what we have sold to the people quite often might be
7 called a smorgasbord. We've talked about savings accounts, we've
8 talked about these other things. At this point in time, to go
9 back and say, "People, what we have in mind now is either only
10 economic development". At this point in time say to a certain
11 constituency, "We lied to you. We're only going to do this
12 sort of thing".

13 MR. LeRESCHÉ: Let's just say what it is we want.
14 Four alternatives, like Mrs. Fleischer says. Let's write them
15 down and say, this structure fits this objective. We just don't
16 seem to be able to grab hold of that although we all seem to
17 agree that it is necessary.

18 MR. RHODE: Mr. Chairman, in discussions at the staff
19 level with Mr. Edenso, the Deputy Commissioner, and others, just
20 exactly what Mrs. Fleischer urges is what we hope to do in the
21 next step of assignments but that is subject to the sense of the
22 Committee. It is quite clear to me that the Legislature is not
23 going to recommend that the Fund be turned over entirely to
24 construct buildings at the University of Alaska. We're not
25 going to have a Texas permanent fund. There are three major

1 areas of activity for the Fund, or as were demarcated in a
2 publication by the Department of Revenue and given here at the
3 last meeting. Given those broad goals, we expect this
4 Committee to state its recommendations and preferences, but also
5 offer alternatives to the Legislature. I hope this would be the
6 feeling here that we don't know exactly that we are going to
7 favor aluminum plants as opposed to apartment co-operatives in
8 order to proceed.

9 MR. LeRESCHÉ: I am talking at the level of savings
10 account, direct social objectives, maximum return on investment,
11 industrial diversification. You choose a different mix or those
12 or you choose one or the other, you have a different management
13 structure. So let's lay them out.

14 MR. RHODE: It can be done so let's ---

15 MR. LeRESCHÉ: This gentleman is in the unfortunate
16 position of saying what structure fits a certain type of
17 objective.

18 MR. RHODE: As a special background, Price Waterhouse
19 was in the area of development loans. You're bringing up
20 exclusively savings account. They have expert advice on money
21 markets and things like that. But it can be laid out and I am
22 just suggesting that it be. Maybe I'm not quick enough to
23 realize the things that are implicit.

24 MR. EDENSO: We do have a problem and that problem is,
25 without a goal, without an objective, we can't in fact look at

1 some reasonable approaches to management and structure. We are
2 faced with a very critical time factor. In 120 days or less,
3 115 days approximately we are going to start receiving funds
4 into the Permanent Fund. We need to have something before the
5 legislative body for their consideration. I do not believe it
6 is possible, given the current level of resources, both
7 monetary and human, to establish the goals and objectives of the
8 Permanent Fund. I just don't believe that is possible.

9 Another major question is, what do we do with the
10 income. It's not that we haven't thought of it, we have. We
11 have tried to take the most reasonable approach possible in
12 looking at the major problem areas we are confronted with. And
13 I am sure that as we go along we are going to find that different
14 structures are going to fit very neatly with different kinds of
15 objectives, but we can't afford to ignore what is in front of us.

16 MR. LOVE: In response to Jim's question, frankly I'm
17 at the point where I feel -- in a position to just make a
18 motion that we recommend the money just be placed in the
19 financial markets initially until we can do the work necessary to
20 develop actual goals and objectives for social programs, and
21 I think it is premature for us to get involved ---

22 MR. GALLAGHER: You are talking about strategy, not
23 goals and objectives ---

24 MR. LOVE: Without getting into too much controversy,
25 I mean in terms of semantics and stuff, let me just say that I

1 think we are going to end up putting the money in conventional
2 money markets for a period of time until a lot of the planning
3 and work with the public and with the Legislature, until we begin
4 to have some of this data that I talked about earlier and it
5 becomes available. I think that is what we are going to
6 initially start with.

7 MR. GALLAGHER: Except the basic goals and objectives,
8 economic, maybe diversifications, community development and
9 savings account. Then you're talking about strategies, as to
10 how to do those things. Strategies are things that will change
11 from time to time as the economy changes.

12 MR. LOVE: I don't want to get into a big argument
13 about goals and objectives because I think there is confusion
14 about what those words mean. I can agree with you and still say
15 that, in my opinion, I think what we are really coming down to --
16 We're just going to take the total amount of money in the
17 Permanent Fund, the first half year is not going to be all that
18 significant, as I understand, particularly in comparison with
19 all the other State's revenue.

20 MR. GALLAGHER: 90 million isn't significant.

21 MR. LOVE: That's about the size, isn't it, of the VA
22 loan program? What I am wondering, isn't that what we are
23 really talking about, at least initially when the money first
24 comes on. Realistically, we're not going to have any other
25 choice other than to put that money in conventional money markets.

1 MR. GALLAGHER: Yes, you do. You have a choice, you
2 can keep up with the Veterans Loan Program ---

3 MR. WOHLSFORTH: If you please, stop the colloquy. Mr.
4 Gruening is next.

5 MR. GRUENING: I appreciate Jim's comment that he
6 wants a work product out but I think the reason we need it out isn't
7 something horrendous is going to happen if elaborate structure
8 isn't established the first part of the next Legislature. I
9 think the Legislature might address itself to some kind of
10 temporary administration of it. What Sterling is suggesting
11 that maybe you just buy current investments, but that is something
12 the Legislature would have to consider and may not think that is
13 such a great idea. They may wish to have that money as it is
14 accumulating, before they establish an elaborate structure or any
15 kind of structure on a permanent basis, authorize some kind of
16 temporary administration, maybe, as any other surplus fund.
17 Of course, that would give you the authority probably to buy
18 those loans. But that is something you might consider whether
19 you might give the Legislature a recommendation on a temporary
20 basis. I don't think we have to come up with the structure that
21 is going to exist for the next 10 years.

22 MR. GALLAGHER: I really can't conceive of us, Clark,
23 going back to the voters and saying we are not going to do any
24 community development, we're not going to do any housing ---

25 MR. GRUENING: I agree with you on that. But I think

1 Lanie is absolutely right, we do have to outline some goals and
2 say these are the structures that will probably be more
3 appropriate for those goals. If you have a combination, you
4 might amalgamate some kind of thing. I think there is time for
5 that. If we come up with a structure that we are not exactly
6 happy with, it doesn't necessarily have to be the one that is
7 going to exist for the next 10 years.

8 MR. GALLAGHER: I don't see, if you make the decision
9 you are going to invest in housing, how the structure is going
10 to change.

11 MR. GRUENING: Let's say that then, but let's get into
12 it.

13 MR. WOHLSFORTH: If we do have these back and forth
14 colloquys, we have just got to keep them short. It isn't fair
15 to the other members. Everyone is itching to say something.
16 I am not blaming anybody, but please don't make my job any
17 harder. Who had their hand up next to speak?

18 MR. EDENSO: Thank you, Mr. Chairman. I don't believe
19 that this meeting was intended to come out with something that
20 would be our recommendation to the Legislature for a structure
21 and organization. I think it is a first effort at considering
22 various structures that are available and really getting down and
23 having some meaningful dialogue in trying to tear them apart and
24 put them back together, are the circumstances we are confronted
25 with. And I really think that, although this may not seem

1 constructive, this is constructive. What we are all attempting
2 to do is put something together. And for all practical purposes,
3 I think talking about goals and objectives is really a good
4 thing and should happen. The question in front of us is, are
5 we going to have some kind of structural organization at least
6 identified. The various ones that have been put before us,
7 from what I could see, none of us are really all that familiar
8 with to be able to look at them and talk about it. White Weld
9 had to come here and explain the Heritage Fund, which you all had
10 at the second meeting.

11 MR. GRUENING: I am not suggesting we debate the
12 merits of the savings account aspect as opposed to another thing,
13 that is not what I am saying. I'm saying let's take that and
14 see if there are any differences that should exist in the
15 structure to administer that kind of policy.

16 MR. GALLAGHER: That is what I want to do in this
17 hour, talk about -- if you have a savings account objective,
18 what are the differences in management structure that you might
19 desire. Or if you want to have a smorgasbord, what -- or if
20 you want to do all three of them -- what are the institutional
21 things that you want to have in it.

22 MR. GRUENING: And along with that, what structure
23 might you consider as an interim structure until we think we've
24 really got a handle on it.

25 MR. FERGUSON: I'd go along with the board of trustees

1 7 members appointed by the governor and confirmed by the
2 Legislature to take care of the administration of the
3 investments in the Permanent Fund for "X" amount of years. I
4 feel right now, without knowing all the alternatives available
5 whether we have diversification or whatever. We're not going to
6 be able to do that here or in the next six months or a year. I
7 think what we are going to do is make recommendations to the
8 Legislature and the Legislature will have its ideas. I think
9 the first thing we have to do is at least recommend that we have
10 a structure set up to administer the investments of the funds
11 as they come in until we actually see how much money we have.
12 It's easy to say we're going to have a billion dollars in there
13 in three years, but until we see that it is awfully hard to
14 determine how to utilize the funds.

15 MR. GALLAGHER: Let me talk for a second about what I
16 would like to accomplish by this session and what I would like,
17 maybe, a group to accomplish by the next session or the
18 following session.

19 I can see what I would like to accomplish by this
20 session is come up with a management structure. If we agree
21 that the three goals are savings account, community development
22 and economic diversification, come up with a management
23 structure at the next session. That we spend the interim between
24 that session and the following thinking about the strategies as
25 to how you accomplish those things. In those areas we need a

1 whole lot of sector analysis on, let's say the housing. What
2 are some of the institutional things that we have got to go
3 through the housing, where are the housing needs in the State.
4 If you want to talk about fisheries, during the interim, the
5 Legislature has hearings on how you affect a sector called
6 fisheries. In the following session, when we have 200 million
7 dollars probably in the Permanent Fund, then we have those
8 policies established. The Legislature has then had two years to
9 work on the problem and at that point in time, you can start
10 accomplishing something.

11 MR. FERGUSON: If I may respond to that, regardless of
12 what structure you set up, you're not going to be able to reach
13 all the people. You take ---

14 MR. GALLAGHER: It will help the Legislature in doing
15 the sector analysis that will be necessary for the following
16 year.

17 MR. FERGUSON: You take the debt on bonds, general
18 revenue bonds, I think that is one way. Although it still doesn't
19 reach the maximum amount of good for the whole State. You take
20 the airport bond that just passed, is basically for the rural
21 areas. You take the University of Alaska basically for the
22 urban centers. So you can't reach all the people. You take tax
23 rebates, that's only going to reach the taxpayers.

24 MR. GALLAGHER: I'm saying that what reaches the
25 people is what you do with the Fund. It's the strategy once

1 you have the structure. Once you have the structure, the
2 Legislature then spends the next in-term years developing
3 strategy as to how do you help the people.

4 MR. FERGUSON: May I make one final comment. I think
5 the Committee is wandering away from the subject I presented, but
6 I think there was a purpose in having asked us to present a
7 proposed structure for this type of -- strictly development
8 banking fund. This probably represents the most complex of all
9 the things you might do. I think this was part of the dialogue
10 with which you attempted to begin. But let's start with the most
11 complex and then we can work back to something less.

12 MR. RHODE: Representative Malone will be here later
13 but he always expected that a temporary statute would be
14 necessary to provide for the routine investment of whatever
15 revenues are reaching the Fund. What he is hoping for from this
16 Committee are recommendations and alternatives on structuring
17 the fund given a set of goals, exactly as you have been discussing
18 here. And that does not have to be done under a crisis footing.
19 As Representative Gruening said, this may well be a process that
20 involves the session of 1978 or beyond that.

21 MR. GALLAGHER: Jim, are you contemplating not even
22 addressing the management structure until you've got two or
23 three hundred million dollars in size?

24 MR. RHODE: No.

25 MR. GALLAGHER: Because it's the sector analysis, the

1 strategy, where all the analysis has to go in.

2 MR. RHODE: This Committee ought to be able by session
3 time or in the early months of the session to be able to assess
4 or make some recommendations along the lines, if there is to be
5 any development activity, for instance, you ought, or ought not,
6 to have a governing board insulated from those who make loan
7 appraisals and so forth. Or, if this Fund is to make any kind
8 of community loans, then you ought to consider the followings:
9 1, 2, 3. And offer its assessment together with its professional
10 advice. And also there is considerable experience here in the
11 banking -- experience, I will have to say, more considerable
12 than in the Legislature. That is why Representative Malone,
13 particularly, wants to hear from this Committee. But it is not
14 to prejudge it for the Committee or not to prejudge it from the
15 Legislature. The Legislature may well be able to resolve a lot
16 of these organizational matters by the first session, but hold
17 that until the goals and so forth have been settled and combined
18 with the enabling act. I wouldn't begin to predict that.

19 MR. GALLAGHER: Do you mean goals or strategies?

20 MR. RHODE: As you like.

21 MR. LOVE: I would like to address this to Price
22 Waterhouse. If we are really talking about not embarking on --
23 just accept this as hypothetical and not the consensus of the
24 group -- what we are really talking about in the first year
25 would be a conservative approach on how to invest these funds.

1 Probably just putting the money in a conventional money market.
2 Looking at perhaps a more diversified approach in the second
3 year after a lot more information has been brought in and more
4 people have had more time to examine all these things. It
5 probably would make sense then to recommend a 7-member board of
6 directors and a 32-member citizens board right off the bat.

7 MR. FEGIS: No, it wouldn't make sense to provide for
8 that.

9 MR. LOVE: I am looking for you to think in terms of
10 making a recommendation to us. One of the alternative structures
11 would be to simply perform a function of very conservative
12 investments the first year. And, secondly, maybe provide some
13 information and advice, either for the Legislature or this
14 Committee, or the administration during that first period of
15 time, planning for the second year. And I would like to know
16 how that structure would differ from the structure that is in
17 this paper right here.

18 MR. FEGIS: I have not given that question a lot of
19 thought. But my reaction is that probably the citizens board
20 would not be required at all although you might want to have it
21 provided for at a future point. I think you specifically would
22 want to provide for it at least in this concept, you want the
23 citizens to be able to input and say we do not want it to be a
24 savings account. That may be one thing you would get out of the
25 citizens board one year hence. So I think you would want to

1 provide that it could meet within a given period of time,
2 probably on an interim basis.

3 MR. LOVE: I'm not quite sure -- what structure did
4 you say we should have if it is to undertake this job that I
5 have outlined for the first year?

6 MR. FEGIS: I think I would like to think about that
7 question a little further. I would say that at the outset, at
8 least, there wouldn't be a necessity for it.

9 MR. LOVE: I certainly think it is among the range of
10 alternatives we're going to have to present to the Legislature.

11 MR. GALLAGHER: I think there is a need to come at the
12 next session with something to start working on strategies.

13 MR. LOVE: I included that in the ---

14 MR. GALLAGHER: I am not necessarily disagreeing with
15 you. I think there has got to be some sort of structure in
16 order to do strategy analysis -- planning, on how you help the
17 various structures. So when you come back to the next session,
18 at least you can start to accomplish something.

19 MR. LOVE: I think the definite planning ought to start
20 now and be in high gear for the next few years. I think by the
21 time you get going ---

22 MR. GALLAGHER: The strategy will take the longest
23 time to put together.

24 MR. LOVE: Maybe that is one the major recommendations
25 we can make. The initial management structure for the Permanent

1 Fund have a very large mandate toward doing certain types of
2 planning jobs, certain types of economic planning jobs. The
3 types of analysis that we think are very important. Maybe that
4 is more important a job in the first year than making loans.

5 MR. GALLAGHER: I agree. I think the sector analysis
6 of each sector is how to help it along with public funds by the
7 Legislature would be very necessary. In order to get anything
8 accomplished in the second year Legislature.

9 MR. CRAWFORD: There was a suggestion about an hour
10 ago that we look at the options and maybe thrash those out and
11 I, for once, would kind of like to get on with that.

12 MR. BARNES: I think I would agree with Mr. Love's
13 earlier suggestion that it is almost time for a motion to
14 promote some kind of progress in this Committee. And I would
15 suggest that I don't feel any sense of urgency that some members
16 do to come out with particularly anything except to recommend
17 that the Legislature enact temporary legislation to invest the
18 funds, which are not going to be very significant in conventional
19 money market investments to give us the time. Then, if they
20 want to -- for us to flush out all the options, which they can do
21 themselves, then let's do it. I think we should decide that there
22 should be a suggestion for them to make temporary legislation
23 and then, if they want to give us their goals and objectives,
24 then we can certainly work out the alternatives for them.

25 MR. GRUENING: I think that is a good suggestion, but

1 I think we could go farther. If we make a motion that we all go
2 home -- I would concur with that motion but we might suggest to
3 the Legislature something they could consider in terms of
4 structure on a more permanent basis. I think that is what Jim
5 would like to see us do.

6 MR. EDENSO: Again, this is a first cut at looking at
7 a structure and organizational basis.

8 MR. GALLAGHER: Let's do what I want to do in this
9 hour. One of the things I would like to accomplish in this
10 hour is, if we want to talk about savings account objectives,
11 what sort of management structure the Committee would see. To
12 me, there are two obvious things. One, you can either leave it
13 in the Department of Revenue -- and, if your goal is only
14 savings account, then leave it in the Department of Revenue and
15 have them manage it just like any other fund. That's the most
16 inexpensive. Or, the other alternative is to have some sort of
17 small board overview that activity but still have it accountable
18 to one manager. If that is your goal, the savings account, what
19 does the Committee think of those two alternatives?

20 MR. WOHLSFORTH: I can give my view. I don't think it
21 makes any sense at all to have a board, an operational board,
22 and it has been proven state after state that it is a pain in the
23 neck. You need one manager who should be the State Treasurer,
24 or in this case, the Department of Revenue. Also, bear in mind
25 the State lost a lot of money in 1970. And, again, I am agreeing

1 with what someone said here. By not getting into the investment
2 act for the General Fund until June 15, the money came in, as you
3 know, the prior September. In the meantime, the State could only
4 invest in direct U. S. Government obligations, it couldn't even
5 invest in agencies. So we had over 900 million dollars at that
6 time at which we were losing an increment of anywhere from 1-1/2
7 percent to whatever the differential was because the Legislature
8 had it in mind that they had to deal with the whole problem
9 rather than simply segments to get us a reasonable money market
10 instrument statute. I would hope that would be avoided this
11 time, that there could be an investment statute on the books by
12 the time money is in the fund to permit a proper rate of money
13 market instruments.

14 MR. LOVE: I would like to offer a motion that we
15 recommend to the Legislature that in the first year that the
16 Permanent Fund be managed by the Commissioner of Revenue under
17 existing statutes ---

18 MR. GALLAGHER: That is not what I want accomplished
19 this hour.

20 MR. FREER: Maybe we've reached that same point that
21 Abraham Lincoln did when he came to this little group of
22 soldiers at the fence and he couldn't figure out what command
23 to give them to get them on the other side of the fence. Maybe
24 it's time we fall out and reassemble on the other side of the
25 fence.

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MR. WOHLSFORTH: Are you suggesting a break?

OFF THE RECORD

ON THE RECORD

MR. WOHLSFORTH: Take your seats, please. Yes, Mr. Gruening.

MR. GRUENING: I have a motion to make. I move that the Committee direct Commissioner Gallagher to draft for consideration at the next scheduled meeting of this Committee a temporary statute which authorizes management of the Permanent Fund monies in a manner similar to the Department of Revenue's present administration of surplus funds.

MR. WOHLSFORTH: Is there a second to the motion?

MR. LOVE: I'll second it.

MR. LOGSDON: May I make an amendment that it be a statute and not a temporary statute?

MR. GRUENING: I concur.

MR. GALLAGHER: I have a question. Does that mean some sort of sunset provision in it like this one will self-destruct after one year?

MR. GRUENING: Make this discussion on the motion. Presently there exists a set of statutes which deal with the Commissioner's authority to invest surplus funds. Now, the Permanent Fund will have to have that kind of statutory authorization from its establish forever. Because there always be funds that are not immediately invested in one of the goals,

1 whatever they will be. They are funds that are coming in.
2 They are funds that haven't been administered for purposes of
3 the goal. So you always have to have that kind of statutory
4 authority. So, in a sense, maybe this could be a statute that
5 exists for the life of the Permanent Fund. On the other hand,
6 I like the suggestion of a sunset provision. It may be in the
7 structure. You might consider that, but I think that maybe right
8 now what we are concerned with is strictly how are we going to
9 administer this fund until we really get the structure for the
10 goals more firmly established.

11 MR. GALLAGH: Let me say what I see. I see the
12 Department of Revenue under this and see if we agree. Investing,
13 during next fall, monies and meanwhile the Legislature will pass
14 a statute creating the structure. During next fall they will
15 start creating the management structure that starts doing some
16 of the strategy work as to how to help various sectors. And
17 then at the end of the following session you will have
18 implementary legislation as to how you implement various
19 strategies. Am I clear?

20 MR. GRUENING: I'm not entirely sure what you're saying.
21 I'm saying that this particular recommendation, the draft would
22 not create any instruction that doesn't exist now. It's just
23 authorizing the administration of funds that come in under some
24 kind of arrangement. We may not agree as to how similar it
25 should be to the present statutes dealing with surplus funds, but

1 we would like to look at a draft, that's all.

2 MR. GALLAGHER: I don't want this to be the end-all of
3 things that we do.

4 MR. GRUENING: No.

5 DR. LOGSDON: I might suggest that this be a clause in
6 the statute permitting the Commissioner to invest these funds,
7 with a structure that was established in the future. To provide
8 funds to this as established by the Legislature.

9 MR. GALLAGHER: I think when you revise in the
10 following session under a strategy bill, that will be part of it.
11 And at that time the Commissioner of Revenue will phase out of it,
12 which I think he will more than likely do.

13 MS. FLEISCHER: What I wanted to say about the sunset
14 clause, which I understand gives the people a chance to reaffirm
15 things on a periodic basis. So perhaps what we could do is see
16 that the sunset clause is in the enabling legislation itself but
17 it doesn't have to be in this first statute.

18 MR. GRUENING: Is that an amendment?

19 MS. FLEISCHER: No.

20 MR. GRUENING: The constitutional amendment itself
21 establishes the fund. There is nothing we have to do further to
22 establish the fund, it is established. Money is going to
23 accumulate as of an effective date of 120 days. Actually, the
24 money doesn't start to accumular until the effective date which
25 is 120 days.

1 MR. GALLAGHER: Certification date.

2 MR. GRUENING: Certification. So the money isn't
3 accumulating now, it won't be accumulating until another 120
4 days, whenever they certify this last election. What we are
5 talking about is a recommendation from this Committee, after
6 Sterling drafts a suggested piece of legislation which would
7 authorize somebody to handle those funds in some manner, a very
8 conservative manner. They're not going to make any long term
9 investments, that is the sense of my motion.

10 MR. MOTLEY: Mr. Gruening, what do you visualize as
11 far as the objectives of the Commissioner of Revenue? Can he
12 invest this thing in equities and can he invest this thing in
13 just savings accounts, can he invest it to deposits to banks?
14 Can he do all these things?

15 MR. GALLAGHER: What he is saying is for me to come
16 back with a recommendation.

17 MR. GRUENING: I am not suggesting any of that.
18 Obviously, not in dams or a lot of things that have been
19 discussed here, but something to conserve the principal. You
20 can't just put it in a cache or put it in a piggy bank.
21 Probably in CD's. My intention would be something -- CD's,
22 something very modest like that, in Veterans loans. But I want
23 to see what he comes back with and we can discuss it at that
24 point.

25 MR. LOVE: I am speaking for the motion so we can get

1 a motion on record so we can progress fast. This is a comment
2 to the Commissioner, I would be hopeful that it would be a
3 structure that would provide a somewhat liquid investment of the
4 fund.

5 MR. GALLAGHER: If there is something -- and things
6 don't come on stream and I'd bet into some sort of box. Of
7 course, there isn't that much money in the fund.

8 MR. WOHLSFORTH: Is there any more discussion on the
9 motion? The question has been called. The motion, as I took
10 it, is that it is the direction of the Commissioner of Revenue
11 to draw up a statute for presentation to the next meeting,
12 which would authorize him to invest the Permanent Fund in a
13 manner similar to other State funds. And included in the motion
14 was some provision, some time limitation on that authority.
15 Is that correct or not?

16 MR. GRUENING: I would use the language, authorizes
17 management, although it means investment. I think the public
18 needs to know the distinction between the kind of investments
19 the Fund will get into in the future and the need to manage the
20 Fund on a surplus fund. I don't want them to think we're
21 drafting a statute dealing with, authorizing him to make
22 investments at this point. It is an investment but not the kind
23 of investment people are envisioning.

24 MR. WOHLSFORTH: Money market investments.

25 MR. GALLAGHER: I want it very obvious that it is a

1 temporary thing.

2 MR. GRUENING: Right. In order to manage, you've got
3 to invest but I think the language "authorizing management" of
4 the Permanent Fund.

5 MR. LeRESCHÉ: I thought your original motion said
6 interim management.

7 MR. GRUENING: Somebody objected to that, but if you
8 want to make another amendment. I don't really care, one way or
9 the other. Every statute is temporary in the sense that it can
10 be repealed. You could put a self-destruct date on it which
11 would make the Legislature consider whether -- if it does adopt
12 it, whether it wants to continue it.

13 MR. GALLAGHER: The other assumption that underlies
14 the whole thing is we are going to work on having a structure
15 next year. I want that clear to everyone out there in the
16 world too. We can't put that in the bill, but we are just
17 talking about general understandings.

18 MS. FLEISCHER: Could we have a reading on the motion?

19 MR. GRUENING: The motion is the Committee direct
20 Sterling Gallagher to draft for consideration at the next
21 scheduled meeting of this Committee the statute which authorizes
22 management of Permanent Fund monies in a manner similar to the
23 Department of Revenue's present administration of surplus funds.

24 MR. WOHLSFORTH: Are you ready for the question? All
25 in favor say aye. Opposed? Motion carries.

1 MR. WOHLSFORTH: We have accomplished only a small
2 part of the task.

3 MR. GALLAGHER: Let's talk about the time with the
4 Committee. I have to have a report to the governor on Monday
5 having to do with a totally unrelated subject and that is going
6 to take me about three hours to write. I need some time, that
7 report has to be typed all day Sunday and I have to hire a
8 Kelly Girl and things like that to be ready for a Monday morning
9 meeting. My time limits are getting short. I would like to go
10 through maybe some sort of a drill -- not a drill, something
11 like you suggested, Bob LeResche, and put up maybe a savings
12 account or maybe the four objectives up on the board and talk
13 about just management structures overall and see how the
14 Committee reacts to them.

15 MS. FLEISCHER: You mean right now.

16 MR. GALLAGHER: Yes, or do we have time to do that.

17 MR. WOHLSFORTH: How long can you meet with us?

18 MR. GALLAGHER: I can probably meet for another hour
19 and a half.

20 MR. WOHLSFORTH: That would be then basically our
21 agenda for the rest of the day so far as your involvement is
22 concerned.

23 MR. LOVE: I would like to hear if there are alternative
24 ideas on the ways to do management. Part of my inquiry is to
25 find out if other members of the Committee have other ideas.

1 MR. GALLAGHER: I would like to do some freelancing.
2 Mainly what I want to do is have a freelance, if we talk about
3 these goals -- structures.

4 MR. LOVE: One idea that I think we are going to have
5 to deal with sometime and that is -- if there is going to be a
6 movement to regionalize decision making or something like that --
7 I'm not convinced that is best idea but I think we should at
8 least look at different models -- maybe not having a centralized
9 board, maybe having different communities or different segments
10 of the State being able to make different choices. Just like
11 the Regional Corporations are taking a much different direction
12 in terms of funds and maybe splitting the thing up may be an
13 alternative we ought to look at as opposed to a centralized fund.

14 MR. GALLAGHER: Before we go jumping off into
15 community development, why don't put put the four different
16 things that we have been talking about: Savings account.
17 Economic diversification. Community Development. And then
18 maybe title a third one, Smorgasbord.

19 Let's talk about the savings account area. The
20 Commissioner of Revenue can invest it under some sort of surplus,
21 or you could have a separate institution do it. Let me give you
22 a run at this one, just my personal feelings on this one. Doing
23 savings account investments is a very technical thing. You
24 don't need a whole lot of board input. That is what we have
25 presently -- the State Investment Advisory over the year -- kind

1 of a trophy, it didn't have any real function because the only
2 thing the Commission of Revenue could invest in were money
3 market instruments. When we got the 900 million everyone thought
4 about doing development and community loans but the crush of the
5 budget prevented that happening. So the original purpose of
6 the State Investment Advisory, it just kind of withered away
7 for two or three years there because there was just nothing really
8 to do. That's why, if you're going to have a goal of savings
9 account, at the most you have -- maybe you could set up a
10 separate fund and have a small board and that's the extent of it.
11 Does anyone see any difference in the management structure? You
12 can either do it through the Treasury and have an Advisory Board
13 or have a full board with a director and two or three people to
14 do accounting.

15 MR. LOVE: I think you can really decide the purpose of
16 the Fund is a saving account purpose but you can still get
17 involved in quite a bit of social loans in the State that are
18 income producing. You may make a decision, for example, that
19 the money markets, which are not perfect or not adequate, are
20 serving some very profitable and sound investments within the
21 State of Alaska. Mortgage loans and areas outside of
22 conventional neighborhoods.

23 MR. GALLAGHER: Are you suggesting something like they
24 do in the retirement fund, invest in the highest and best return.
25 I do invest in mortgages.

1 MR. LOVE: You may have fairly elaborate social types
2 of loans being made that still gain, you know, right up there in
3 highest and best returns. In markets that are not the
4 conventional money market, simply because the money markets
5 aren't perfect. What I am saying is it may be necessary in a
6 savings account approach to have some type of fairly active
7 input in terms of social goals.

8 MS. FLEISCHER: You mean socially oriented decisions
9 about where to invest the money.

10 MR. LOVE: Another thing, if you look at savings
11 accounts, you may decide for a savings account to be super
12 effective, you may decide for a savings account to have an impact
13 on future generations that you may want to slow down the rate of
14 growth by not putting the earnings back of the general fund
15 back into the Permanent Fund because you may decide that the
16 savings account may not be very effective if it is very small
17 related to overall State expenditures and revenue maybe 20 years
18 from now when the Permanent Fund disappears. To me the savings
19 account is a real objective goal and it may have broader policy
20 implications in terms of investment strategy, and for that
21 reason you may not want to invest it in the State, you may want
22 to invest it out of State.

23 MR. WOHLSFORTH: I think the income must go to the
24 General Fund.

25 MR. GALLAGHER: No.

1 MR. LOVE: If it's a true savings account, then the
2 income should not go to today's citizens, the income should
3 definitely go to future generations. So I think it would have
4 to be, if it is a true savings account, reinvested.

5 MR. WOHLSFORTH: I don't know about that. You've
6 said an awful lot in the last couple of minutes. You said a
7 savings account might have social objectives and then you sort
8 of transitioned into such things as mortgage investment.
9 Mortgage investment which has been done through the retirement
10 fund has a perfectly legitimate nonsocial context. There is
11 nothing socially oriented about buying a 10-1/2 percent good
12 Alaska mortgage.

13 MR. LOVE: It is serving markets that haven't
14 otherwise been served.

15 MR. WOHLSFORTH: Every investment has a social content,
16 if you're talking about even investing in General Motors stock
17 or whatever, U. S. Treasury. I think you get to a pretty
18 attenuated use of the word social there. I don't necessarily
19 accept the proposition that any savings account has to have its
20 interest reinvested. Equally, you can have the income and the
21 principal is there for future generations. I do accept the
22 basic proposition though that may make some sense that even with
23 a savings account it is good to have a board to ping-pong your
24 work against at least twice a year. That is always good for a
25 manager.

1 MR. CRAWFORD: A couple of the options that have been
2 suggested here such as proceeds of the savings account concept
3 going into the General Fund or proceeds going back to the
4 Permanent Fund for a specified period of time for growth fund.

5 DR. LOGSDON: What do you consider a savings account?

6 MR. GALLAGHER: In my mind we mean government
7 corporates and fixed income. You can also buy private
8 placements. You can also make CD's.

9 MR. EDENSO: Are we considering the different ways you
10 earn income in the savings account approach, or are we
11 considering some kind of a structure and organization for
12 managing the savings account approach?

13 MR. WOHLSFORTH: I think we're off on a mixture.

14 MR. EDENSO: Well, regardless, you have a pool of
15 money there and you have agreed to manage it somehow, you've got
16 to have some kind of management decision making process which
17 tells you investment A is better than investment B verus C, or
18 what have you. And if it's going to be into some kind of
19 developmental activity or some social goal, then you're going to
20 have a board or management structure that somewhat varies from a
21 pure investment banking function where you're making decisions
22 on money market instruments, whether fixed income, equity or
23 mortgage loans. It's a different kind of activity, a different
24 kind of decision making process. To try to get a board to agree
25 on one instrument over a specific period of time when you know

1 the money market is changing daily, you might never gain any
2 income opportunities. Under savings account then, we're talking
3 about a straight money market activity.

4 MR. LOVE: This is something I don't think has been
5 discussed. Let's say that your policy for the savings account
6 was partially to buy mortgages in Alaska because they are
7 considered good investments. So you went into the secondary
8 money market and you're buying notes from savings and loans with
9 commercial banks, is this the area where the Permanent Fund
10 should get involved like making decisions, here's a chance to
11 use the economic power of the State of Alaska to use these social
12 funds to reform institutions within the State. For instance,
13 say we will not buy mortgages from savings and loans if they use
14 the proxies because we don't think that's a democratic way for
15 that institution to function. I'm just using that as an example.
16 At some point if we decide, you know, whether or not it would be
17 the purpose of the Permanent Fund even if it was managed as a
18 savings account to get involved in using its economic power to
19 get other types of objectives out of different institutions within
20 the State. I don't know if you guys want to talk about that at
21 any point or not.

22 MR. GALLAGHER: The financial objectives you get out
23 of U. S. Government, when you invest in U. S. Government, are
24 you going to say, you know, get -- on your deficits?

25 MR. LOVE: You might not get anything out of there but

1 you might very well be able to affect the savings and loan
2 industry.

3 MR. GALLAGHER: When we're talking about savings
4 account, we're mainly talking about investment decisions that
5 arise outside -- it's a trust account and you look for the
6 highest rate of return. And that quite likely may not be in
7 Alaska.

8 MR. WOHLSFORTH: Let's accept the proposition that it
9 is possible the Legislature could indeed decide that they wanted
10 to reform financial institution practices in Alaska through the
11 use of the monies in the savings account. All right, we've
12 said it now let's go on to something else. I don't think it's a
13 realistic use of a savings trust account personally. Others
14 may think so.

15 MS FLEISCHER: Would that include mortgage investments,
16 secondary markets. As we heard yesterday, the savings and loan
17 sell their mortgages to these outside investors and whether
18 that is the kind of investment we would be making with this Fund
19 in the State. If it is, then could you also tie that to some
20 decision, for instance, to invest in home mortgages in the
21 villages.

22 MR. GALLAGHER: No, then that would become some sort of
23 developmental.

24 MS. FLEISCHER: If a decision is made that it does not
25 produce income, but experience shows that it is sometimes
income producing. That has been shown in Chicago in areas that

1 were redlined because the banks decided they were not income
2 producing but, in fact, when they went in there and did make
3 loans to those neighborhoods, they were very high income
4 producing loans, in fact higher than citywide. So my question
5 is, who is making the decisions as to whether ---

6 MR. GALLAGHER: That is an important structural
7 question.

8 MR. LOVE: It is an important one I think, who is going
9 to make the decision.

10 MR. GALLAGHER: The thing that is analagous to it the
11 pension fund. And we do try to fill the unfilled need in the
12 State. One of the things we try to fill is the 68 to 100,000
13 dollar market where there is no Outside investor for, and on
14 which we get outrageous rates of return. The major market that
15 we are filling with the pension fund is the 68,000 to 100,000
16 dollar market.

17 MS. FLEISCHER: There is a person staying at the house
18 now from Bethel and you can't get loans on houses in Bethel. Or
19 if you get the loan, you can't get insurance. Is that need
20 being met?

21 MR. EDENSO: Well, Lanie, you have to understand the
22 nature of the way land is sold and deeds in rural Alaska.
23 Sometimes you just can't get any kind of indication as to who
24 owns title to what. And you have the consideration of whether
25 or not you have adequate fire protection and whether or not you

1 can get insurance on your mortgage.

2 MS. FLEISCHER: Well, apparently they can't.

3 MR. GRUENING: Maybe what we are trying to get at
4 through the trust account if we do want to reform the practices
5 of banks, maybe it can be more directly done through a statute
6 which says you can't redline, or identifies redlining. Maybe
7 we're trying to do indirectly what we can better do through
8 another means, another vehicle. The other points, let's say
9 housing loans to Bethel, if the bank isn't making it -- maybe
10 that's what we're going to do under community loans. Have the
11 Permanent Fund make it directly out there. But I think we are
12 going to end up having everything under one category again.

13 MS. FLEISCHER: My question was, is this a good place
14 for it and your answer was probably not.

15 MR. GRUENING: Probably not, but we could list it.

16 MR. WOHLSFORTH: Is there any more discussion under
17 savings account.

18 MR. LeRESCHÉ: Could we pretty much establish the
19 principle that the savings account objective would require the
20 simplest of all the management structures? Is the board agreed
21 on that?

22 MR. WOHLSFORTH: Yes.

23 MR. CRAWFORD: Possibly under options there, we should
24 list the trust concept of managing for the highest return.

25 MR. GALLAGHER: That is one of the goals you have to

1 write up there, Jim.

2 MR. LOVE: I would like to at least look at the
3 structure of the Regional Native Corporations as an alternative
4 to that of a centralized system. We've got sort of an
5 analagous situation. If the Natives are managing for the
6 purposes of providing revenue and profits and mostly making
7 investments within the State of Alaska -- this is at least
8 something that I think should be analyzed in terms of alternatives.

9 MR. LeRESCHÉ: I don't understand which characteristics
10 of the Native Corporations he is talking about.

11 MR. LOVE: There are separate corporations representing
12 geographic areas of the State. Maybe the same thing could be
13 done with the Permanent Fund. I may not advocate that but I
14 certainly think we ought to at least consider that, particularly
15 since there is such an obvious model to study, you know, the
16 implementation of the land claims.

17 MR. EDENSO: I don't see the similarities between the
18 Permanent Fund and the Native Land Claims Settlement Act at all.
19 I don't think there is any degree of comparison. The one has a
20 completely different objective than the other. The Native Land
21 Claims Settlement Act was to satisfy what Congress recognized as
22 a just claim upon the State of Alaska and the U. S. Government.
23 The other is the Permanent Fund which distributes benefits from
24 a resource owned by all the residents of the State of Alaska.

25 MR. LOVE: What's the difference?

1 MR. EDENSO: The difference is the Native Land Claims
2 Settlement Act is mandated by law to provide in fee simple
3 title, mainly land distribution to the 12 Regional Corporations
4 and to provide monetary distribution to the 12 Regional
5 Corporations. It also identifies specifically who the
6 beneficiaries are under the Act.

7 MR. LOVE: The beneficiaries are the people of
8 Alaska, I think that is pretty clear.

9 MR. EDENSO: Who are the people of the State of
10 Alaska ten years from now.

11 DR. LOGSDON: There is one point that I think he is
12 trying to make here. Should the Fund be in the whole or should
13 it be subdivided in parts based on one thing or another. For
14 instance, we heard yesterday the possibility of subdividing the
15 Fund by specifying a certain percentage of it should go in
16 utilities, a special fund for utilities. I think what he is
17 saying is, should we subdivide or ---

18 MR. GALLAGHER: The question is, should it be
19 sectoral or regional.

20 MR. GRUENING: Maybe one of the points Jamie was getting
21 at is maybe democratizing the economic decisions by region. If
22 we're talking about development, shouldn't the people within a
23 given region decide what kind of development they want as
24 opposed to, let's say a central board which may be represented --
25 let's say Anchorage interest -- developing our Anchorage economy

1 is built on development on the outside. Maybe it might be
2 determined the region in which people would like to live
3 should have a say in the structure as to how they want it
4 developed.

5 MR. GALLAGHER: The other way, of course, is sectoral.
6 You have to do power development, you have one to do utility
7 development and one to do agricultural development.

8 MR. GRUENING: Decentralization of management is maybe
9 a better term. I think that is a basic question, whether we're
10 going to have a one management structure for development or
11 whether you decentralize.

12 MR. EDENSO: Decentralization decision making.

13 MR. LOVE: These are all various alternatives. It
14 could be completely an autonomous corporation. It could be
15 central management with regional decision making, development
16 for a particular area. It could be combinations of the two. It
17 could be completely autonomous Statewide thing that just did
18 everything at a State level. Maybe that's the most efficient
19 way to do everything.

20 MR. WOHLSFORTH: Does this all presuppose a central
21 governing board which interfaces with a regional development
22 corporation. Let's get back to a little logic there. There is a
23 Permanent Fund, not 12 or 14 permanent funds established by the
24 voters. Almost certainly, it seems to me, there has to be a
25 central -- some central governing body.

1 MR. LOVE: That could be a very simple function. An
2 executive director, divides up based on population, 13 or 16 or
3 10 ways.

4 MR. WOHLSPORTH: I don't think myself that is what is in
5 contemplation.

6 MR. EDENSO: It seems to me, Mr. Chairman, we're not
7 talking about structure of organization, we're talking about
8 functions, developmental function, and trust savings account
9 function, community development loans. These are all different
10 kinds of investment policies and investment functions.

11 MR. LOVE: To give you an example, let's say Kachemak
12 Bay where the Statewide organization said we want to develop
13 this area, offshore oil development, that's really the best
14 thing to do, more jobs. The people of Kachemak Bay said we
15 want to develop the fisheries, we want to have hatcheries and
16 we want to have this and we want to have that. I see there
17 could be a conflict in terms of --- I'm just saying this as a
18 possibility, this may be a lousy example, but there could be
19 different ideas about what development is best for the area.

20 MR. LeRESCHÉ: I think you're talking about different
21 objectives for different areas rather than about different
22 management structures.

23 MR. LOVE: I think we should be openminded about all
24 possibilities. It may be that you would want maybe 6 or 12
25 different management structures competing against each other and

1 some maybe would do very good and some maybe very bad, but maybe
2 out of that -- maybe as a development approach, you'd learn more
3 about it maybe than having a central organization with nothing
4 to compare its success or failure against.

5 MR. WOHLSFORTH: Just one more time and then I'll quit.
6 There may be real merit in having regional authorities and they
7 may be closer to people and they will be competing, but
8 nevertheless it seems to me contemplated, unless I am absolutely
9 crazy, that we have some central agency of some kind that has
10 to allocate between agencies. Unless there is to be a 12-party
11 division of the fund right from the start among those agencies.
12 Would you accept that?

13 MR. LOVE: No, I wouldn't. I'm not saying I'm against
14 it ---

15 MR. WOHLSFORTH: I am not talking about what you like,
16 I'm talking about what the thing says.

17 MR. LOVE: I think that you could conceive that there
18 would be a very simple administrative function at the central
19 level that really was hardly anything ---

20 MR. GRUENING: What I had in mind -- I think you're
21 right, I think there has to be some central administration to
22 determine which region gets it. But the idea would originate
23 and be administered by a regional authority which may or may not
24 be part of the Permanent Fund. They won't have to be. They
25 could spring up on their own. But the concept would be the

1 Permanent Fund wouldn't take, say Outside investors who want to
2 move into a region, or develop, or promote -- they would be
3 dealing as say the World Bank is dealing with other authorities.
4 That was just one thought I threw out. I can't anticipate that
5 you would divide the Fund into 12 -- say if you were going to
6 go as a model the Regional Corporations -- say we'll have 12
7 funds. I don't know how you could divide the money in any way
8 that would meet the constitutional mandate.

9 MR. EDENSO: Mr. Chairman, I really have some difficulty
10 in understanding what Jamie is talking about, but it seem to me
11 what he is trying to do is -- an organizational idea or a pure
12 structural idea, what normally happens very efficiently in a
13 market. If somebody has an idea that maybe is going to make
14 money, they go to a bank, they find out if that idea has got
15 some merit, the bank either says yea or nay, and you go with it.
16 It sounds to me what Jamie is trying to do is create a whole
17 bunch of little things that you are going to have in a central
18 location anyway to satisfy some kind of structure. Is that my
19 understanding of what you are saying?

20 MR. GALLAGHER: Let's look at a management structure
21 of -- it's only a new development, what a management structure
22 is quite likely to be is a small highly technical staff.

23 MR. LOVE: Centralized, either regionalized or
24 centralized.

25 MR. GALLAGHER: Either way. You can have a small

1 technical staff. A staff that goes out and makes a whole lot of
2 little tiny loans or a staff that makes a series of very large
3 loans.

4 MR. LOVE: How do the Native corporations do it. As
5 I understand it, they are autonomous -- the money is divided up
6 among them and then they do out and do their thing. They make
7 their own investments, they make joint ventures when they want
8 to. Some of them invest in their own communities, some of them
9 invest in Anchorage.

10 MR. GRUENING: The money is divided according to the
11 Bill. It is complex -- based on population within the region.
12 I don't know where you would draw the line -- you might be able
13 to do it by statute, say so much money would go in this region --

14 MR. GALLAGHER: You mean make it on a per capita basis
15 of revenue sharing or something like that. Well, when you talk
16 about development loans -- let's say divide up a region -- a
17 development loan in the Aleutians, it might be a whole lot more
18 risky than a development loan in Anchorage.

19 MR. WOHLSFORTH: Certainly, the idea of a local
20 development corporation is a good one. I support that, it might
21 be a good intermediary for this kind of thing. But I can't see
22 that the amendment contemplates a division of the money by
23 regional sector so to that extent I don't think you can go much
24 farther than simply recognizing that we may interface with local
25 corporations.

1 MR. LOVE: The only reason I bring this up and I hope
2 in the future we can have some presentations on this. I would
3 like to learn from the Native Corporation's experience how they
4 manage their funds, what kind of investments have they made, with
5 what success or failure have they invested. I would hope at some
6 point we would have some info on that.

7 MR. EDENSO: Mr. Chairman, there is information on
8 that. It is published annually in each annual report from the
9 Native Corporations. And for all practical purposes they have
10 made their investments into construction activities and into
11 money market instruments.

12 MR. WOHLSFORTH: I think it is a good point and
13 certainly they are a model of somebody who has a lot of money
14 to invest in the last four or five years.

15 MR. LOVE: I don't want to be on the record as an
16 advocate for a decentralized system but I think it would be
17 wrong for us not to consider this in our options and to take a
18 look at some of the advantages of doing it this way and also the
19 experience of how it has already been done. If it has been a
20 bad experience, I would like to know why it was a bad
21 experience and in what areas does it feel it has had a good
22 experience. So that we can know that as we develop our own
23 structure.

24 MR. GRUENING: I have great difficulty in envisioning
25 how you could apportion as they have done in the Lands Claim

1 bill money by either region or population. If it were by
2 population, it would all go to Anchorage. I am trying to cope
3 with that. I don't even think we can talk about it in terms of
4 dividing it -- the money by region, but dividing the decision
5 making as to how the money is used within a region. I think we
6 are addressing a political question here. Maybe we don't want
7 to have one agency saying we're going to make a loan in the
8 Bethel area for this, no matter what you think. I think that's
9 what we are getting at.

10 MR. EDENSO: I think one of the things that was
11 addressed by centralization, decentralization concepts was the
12 idea submitted by Price Waterhouse and the recommendation for a
13 board that would be composed from all the various election
14 districts in the State. That would very definitely give you
15 input on a regionalized basis as to how you would structure and
16 possibly make decisions concerning either savings, development
17 or community development types of activity.

18 MR. WOHLSFORTH: Don't we have something we can put
19 up here?

20 MR. EDENSO: So far we haven't had anything to do with
21 structural organization.

22 MR. WOHLSFORTH: As Clark just said, divide the
23 decision making by regions and this raises the issue would there
24 be some sort of subsidiary governing board by regions or does
25 representation on the citizens board meet that problem?

1 Central and regional boards might be better than funds.

2 MR. LOVE: I like Clark's suggestion of saying that
3 we consider recommending that people in a given geographic
4 area have some say over the types of development investments in
5 their own communities. I think that sounds like something we
6 should really ---

7 MR. EDENSO: One of the problems I have is the way
8 Jim has been writing these up here, one thing versus another
9 thing. I think what we are doing that way is excluding one over
10 the other. We should just say centralized boards, decentralized
11 boards, etc.

12 MR. CRAWFORD: Under development, I think it would
13 also be appropriate to get into the management of it on an
14 administrative rule basis, whether or not the funds would go to
15 development of any of these at the highest return to the fund.

16 MR. GALLAGHER: Development doesn't necessarily mean
17 that. Maybe the highest economic return but not the highest ---

18 MR. LOVE: I think that's true, we've got to resolve
19 whether or not the development loans are going to be prudent or
20 best return, or what is the alternative criteria ---

21 MR. EDENSO: We can give it away. The point on that
22 it seems to me you at least have to earn some kind of income
23 whether it is 1 percent or 2 percent or 100 percent.

24 MR. GALLAGHER: You may be looking at the highest
25 economic returns, or you may -- but then you stray away from that

1 and decide to make it social -- tie in a social one. Say in a
2 rural area an economic diversification that doesn't really make
3 all that much sense. It employes lots of people ---

4 MR. LOVE: I think there is a difference between high
5 return to a return and a lower interest rate. And a third
6 category is marginal chance of return. That is a decision we
7 are going to have to decide whether or not we want to include
8 in the types of investments that won't pay off at all. That
9 could make the Permanent Fund less than permanent. If it does
10 pay off -- but if it doesn't pay off, at some point we are going
11 to have to develop some philosophy along that line.

12 MR. WOHLSFORTH: I would say that income producing,
13 you're not only going to get the income but you're going to get
14 the principal back too.

15 MR. LOVE: I think it's a threshold question.

16 MR. EDENSO: Mr. Chairman, under the decentralized
17 concept, would the decentralized board or organization, would
18 that be making decisions concerning an investment or a series
19 of investments or something of that nature. And, if so, how
20 would they indicate that to some kind of a centralized
21 organization which establishes a Permanent Fund. You obviously
22 don't have a dozen Permanent Funds, you only have one.

23 MR. GALLAGHER: Jim, there is one other third sort of
24 board that we did talk about. It wasn't regional, it was
25 sectoral.

1 MR. LOVE: Instead of boards for geographical areas,
2 boards for various types of development. You may want an
3 advisory board for petroleum development, mining. And you bring
4 in people with unique expertise versed in these various areas of
5 development that are more qualified to give advice in those
6 particular areas. I think that has a lot of merit.

7 DR. LOGSDON: The thing that scares me about that is
8 the only example I am able to put my finger on is the failure of
9 the development bank.

10 MR. LOVE: We are just showing alternatives here.
11 He is not saying that the loans would be diversified, he is just
12 saying an advisory board for something like that of particular
13 industries so that they could have a broad background.

14 MR. WOHLSFORTH: Sectoral advisory boards? I don't
15 know what that means but it sounds good.

16 MS. FLEISCHER: Another consideration if we did that,
17 we'd still have to have some way to protect the neighborhood,
18 even if the decision were made by an expert, it still could be a
19 bad decision for that village, that region, that area.

20 MR. GALLAGHER: It's a combination. It's a central
21 board with a combination of sectoral advisers. And under the
22 central board you go out and talk to the people and see if they
23 want it in that area.

24 MS. FLEISCHER: There could be a project developed
25 which would be absolutely devastating to that particular village

1 or region.

2 MR. GALLAGHER: There are two ways to do it, you can
3 put the decision making out there or do the hearing process out
4 there.

5 MR. MOTLEY: I would like to ask the board for a
6 comment. If you decentralized this and went into various regions,
7 let's assume, for example, a genuine need for electricity and a
8 particular individual in that particular region where the dam is
9 going to be constructed says I like to fish in that stream and
10 therefore I think this is really a disastrous thing so henceforth
11 let's say no to this particular area. Wouldn't this cause a lot
12 of problems in some of these larger development programs that
13 may be necessary for Alaska.

14 MS. FLEISCHER: Maybe the need is for energy, maybe
15 thermal energy is a better answer than a hydroelectric dam.

16 MR. EDENSO: I think, again, central boards is
17 descriptive of possibly more than one board.

18 MR. LOVE: We have the Price Waterhouse model which is
19 one model for development. Another approach I think might be to
20 just turn the development completely over to the Department of
21 Economic Development and just make it a cabinet position -- say
22 that that function of the Permanent Fund be managed by somebody
23 in the Cabinet. I think that is an alternative you might want
24 to consider.

25 MR. MOTLEY: Wouldn't that come under a great deal of

1 political pressure?

2 MR. LOVE: In terms of development loans I think that
3 might be good.

4 MR. MOTLEY: That means that the present governor or
5 whoever designs that Cabinet then can pretty much select in which
6 direction that the Permanent Fund's monies are going to go.

7 MR. LOVE: This may or may not be all the funds that
8 are in the Permanent Fund. It may be that a certain percentage
9 is in savings account, a certain percentage in development.

10 MS. FLEISCHER: The question then is, do you want it
11 subject to the pressure of the population, maybe you do want
12 politics to have something to say about it.

13 MR. LOVE: Maybe you just want a commissioner who is a
14 member of the governor's cabinet subject to confirmation or
15 rejection by the Legislature.

16 MR. GALLAGHER: There is also one other thing, you
17 could make it all in CD's and put it all in banks and let them
18 make all the decisions.

19 MR. LOVE: Let them make all the decisions, that is
20 something they have expressed a willingness to do.

21 MR. GALLAGHER: I didn't hear them say that.

22 OFF THE RECORD

23 ON THE RECORD

24 MR. LOVE: Mr. Meekins approached me yesterday about
25 the Legislature making up the board of the Permanent Fund. I

1 know that there are many legislators who think that is a good
2 idea. I guess that is not too surprising.

3 MR. GALLAGHER: They don't have the power under the
4 Constitution to be able to do it though.

5 MR. LOVE: Maybe they were given that power by the
6 Constitutional amendment.

7 MR. GALLAGHER: They weren't given any executive
8 power, all they were given was policy making power.

9 MR. EDENSO: The question then comes, can a legislator
10 also be on the board. Then you've got a board that is 60
11 members strong, not 40.

12 MR. RHODE: I have had discussions with legislators
13 on that point. And I said it awaits legal advice by the
14 Legislative Council or the Attorney General as to whether in fact
15 the Legislature could, in fact, or further as one legislator has
16 suggested that they be able to approve each and every loan over
17 a certain size. I have been advised that possibly because the
18 amendment was a separate part of the Constitution the normal
19 doctrine of separation of powers might not apply.

20 MR. GALLAGHER: We have a pretty clear case on the
21 Royalty Board on which the people just voiced their opinion.

22 MR. WOHLSFORTH: I think there are some real legal
23 questions here that I hope are being addressed at the outset. I
24 have at least four that I have heard. A. How much latitude is
25 there in the Legislature to divide the Fund up into regions.

1 B. How much delegation is permissible by the Legislature to aid
2 the board. C. What does income producing mean. And D. Can
3 the Legislature appoint members of the board directly, or sit as
4 members of the board.

5 MR. GALLAGHER: That's a question whether the
6 Legislature considers it executive.

7 MR. WOHLSFORTH: I think they are all interrelated.
8 I think they are major questions that have to be addressed very
9 early.

10 MR. CRAWFORD: Is the Attorney General addressing
11 those questions?

12 MR. GALLAGHER: We have to know what the questions are
13 before we can answer them. We will try to get them answered,
14 yes.

15 MS. FLEISCHER: I move that we ask Sterling to ask the
16 Attorney General for answers to those questions before the next
17 meeting.

18 MR. CRAWFORD: Can I make a suggestion on your motion.
19 And I will second it. I would like to amend the motion to read
20 either the Attorney General or a private attorney, whichever has
21 the time prior to the next ---

22 MR. GALLAGHER: The Attorney General has a staff of 35
23 attorneys.

24 MR. CRAWFORD: I just want to make sure we are going to
25 get it back so we can do something on it.

1 ? : Would you repeat the questions?

2 MR. WOHLSFORTH: A. How much latitude is there in the
3 Legislature to divide the Fund up into regions of the State.
4 B. How much delegation of powers is permissible by the
5 Legislature to aid the board. C. What does income producing
6 mean. D. Can the Legislature directly appoint members of a
7 board. These are broad questions and I wouldn't have the
8 vaguest notion that a young Attorney General spending all his
9 time from now to the next meeting could give us clear-cut
10 definitive answers. But at least he can get started on it.

11 MR. CRAWFORD: I think it would be helpful to give
12 some type of deadline, either we can get an answer or we can't.

13 MR. EDENSO: What are you going to do if he doesn't.

14 MR. CRAWFORD: It is sometimes helpful to give people
15 deadlines.

16 MR. WOHLSFORTH: We agree. Let's move on to
17 community loans.

18 MR. GALLAGHER: Community loans. I can see in this
19 area direct lending, I can see indirect lending -- I am just
20 going 1, 2, and 3, Jim. You can see community development
21 corporations. You can see different sort of boards, different
22 agencies for different sort of things like housing, utilities.
23 Again, we're going over the range of possibilities.

24 MR. LOVE: I think Sterling earlier brought this up
25 the idea, I don't think it should be community loans but rather

1 community development. I think the earlier concept was that
2 you just go to highest and best use and maybe go to a trust
3 approach in terms of income producing, and you just give people
4 money and let them make their own choices. I mean if people
5 have more money then they can afford to pay more local taxes,
6 they can afford to buy houses easier.

7 MR. GALLAGHER: You can't do that as an investment
8 loan, you can only do that with income producing investments.

9 MR. LOVE: We're talking about three goals, trust
10 account, economic development and community development. I'm
11 saying that you might achieve community development better by
12 distributing money ---

13 MR. GALLAGHER: They've got to produce income and
14 have to have an asset.

15 MR. LOVE: I'm just saying that the way you might
16 develop a community is by having a trust account, instead of
17 reinvesting the money in a trust account, distribute the money
18 to people and that they use their money in the market place to
19 develop their own communities. I would feel better if you put
20 down community development as a goal because I don't think the
21 goal is to make loans, the goal is to develop -- development
22 type of stuff.

23 MS. FLEISCHER: Community development loans.

24 MR. LOVE: Giving away money might be -- from the
25 income, distribute the income.

1 MR. GALLAGHER: That isn't in this management
2 structure.

3 MR. EDENSO: You've got something written up there,
4 fund, and I didn't hear anybody say fund, and you've got CDC's
5 and I didn't hear anyone say CDC's. And you've something called
6 differential. We're talking about structure.

7 MR. LOVE: I think Jim's point is he may want to deal
8 exclusively with CDC's for community development. That is a
9 potential way of doing it and it also addresses some of the
10 things we talked about earlier -- development loans, you know,
11 sort of decentralizing them.

12 MR. EDENSO: Why don't we say what CDC's are first.

13 MR. GALLAGHER: Let's say in fact what they do, they
14 do a lot of small business loans, they are not much into the
15 housing business.

16 MR. LOVE: I think there is a lot of emphasis on CDC's.
17 In depressed areas where they have tried to develop local
18 economy, big emphasis on jobs. However, I think as Sterling has
19 mentioned in earlier meetings, they could just as well be
20 involved in construction of houses as well as anything else.

21 MR. EDENSO: Bob, do you have any ideas on structural
22 organization?

23 MR. BARNES: My idea on this type of thing is, if you're
24 going to have a central board to handle this thing, then what
25 does the central board look like. I think the model that Price

1 Waterhouse came out with is basically the model that everyone
2 seems to be happy with, but we haven't addressed that citizens
3 board type thing. I don't think we should get into whether
4 we're doing direct loans or indirect loans. I'm talking about
5 the structure -- who is going to manage this, and we're
6 philosophizing on how you do these things but not the structure
7 of this entity that does it. I think that is what we should
8 concentrate on.

9 MR. LOVE: I think it should be decentralized as much
10 as possible.

11 MR. EDENSO: Do you have any ideas pertaining to the
12 structure itself or the organization of the structure, possibly
13 a board or not a board?

14 MR. BARNES: I sort of do think that the citizen board
15 approach for the political sensitivity is important. That could
16 be a small board appointed by the governor who actually operates
17 the entity and let them choose the management. I don't think we
18 should get into the board will have to have so many managers.
19 We can give that to them as their responsibility delegated to
20 them. And I think that is the basic structure. We all seem to
21 come back to that. And the Legislature will tell us the
22 philosophy, the goals that that board is supposed to meet. No
23 matter what you're going to do, basically that structure is
24 going to serve if you have a developmental type approach. If
25 you have the savings approach, you have a small board and a small

1 staff. And I think those two alternatives are the only things
2 we are talking about.

3 MR. LOVE: I think we are going to have to deal with
4 the same issue here that we did on development loans and that is
5 -- we may come to different conclusions on the two programs --
6 and that is whether or not you want to have decentralized
7 decision making about what the priorities are in different
8 communities as far as development in those communities. You
9 still will be able to have centralized management of the actual
10 development but you may want the decisions made about what they
11 want developed decentralized.

12 MR. BARNES: Mr. Chairman, I would say the citizen
13 board concept answers that question. You do have the input,
14 that's what they're there for. If you keep putting this
15 decision points out all over the State, you're going to get
16 nothing done. Someone will say no or veto it or something like
17 that. So it doesn't serve a purpose to say you have to
18 completely put it out there. You have the input on a general
19 broad basis and that's the only way it's going to work. They
20 can't say yes and no to every project, you'll get nothing done.
21 Ten years from now you'll just have money piling up.

22 MR. MOTLEY: Might I take a few minutes of the
23 Committee's time. I've spent quite a bit of time with a number
24 of other people, managerial people throughout the business
25 community on the kind of a structure that I would like to

1 basically put out to have the Committee review and have
2 discussion on. And, if it would be acceptable with you, I
3 would like to turn the board over and put it down in black and
4 white so everybody could see.

5 MR. GALLAGHER: That's what we are trying to accomplish
6 here, finish up community development. Has it been already
7 discussed in the development aspect or is it a combination which
8 we come to next?

9 MR. MOTLEY: It's basically just a structure to
10 manage the Permanent Fund, period. It does not have any
11 objective goals or anything else, but at least establishes
12 a centralized managerial group, such as Bob Barnes is talking
13 about and also Frank Ferguson was talking about it.

14 MR. GALLAGHER: What is its objectives?

15 MR. MOTLEY: The objectives will have to be settled
16 by what the Legislature says.

17 MR. GALLAGHER: Then what you are trying to do is
18 nonresponsive to what we are trying to accomplish.

19 MR. MOTLEY: Well, basically, I thought we were trying
20 to accomplish a structure, a managerial structure, to handle
21 these Permanent Funds. There has been a comment made that we
22 have to have a different kind of managerial structure if we have
23 a savings account or if we have a development corporation or a
24 community loan project. I don't think so.

25 MR. GALLAGHER: We still have one category left called