

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

177 S COMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78



Fairbanks merchants consider retail future bright here

What is the mood among Fairbanks merchants in the face of a slowdown in pipeline related activity? Optimism.

While the figures on 1976 are not in yet, the consensus is "not as good as 1975" (a banner year for all kinds of sales and the peak of pipeline activity), but retail activity this year is still better than it was in 1974 or 1973.

Based on sales tax revenues collected by the Fairbanks North Star Borough so far this year, \$324,682,000 worth of business was conducted in the borough in fiscal year 1976. And that figure does not include sales of medical services, pharmaceuticals, sales to governments, farm supplies or sales of building and construction supplies to holders of building permits. All these categories and some others are exempt by ordinance from sales tax, and it is estimated they represent at least another \$40 million in sales.

Why are people still spending money on consumer items? Merchants attribute the active retail market to several factors in addition to increased population. Increased sophistication on the part of the Fairbanks consumer is one factor, they say. People here want the same things they see are available in the Lower 48 States. In response to that demand, there is an increased selection of merchandise in Fairbanks these days, different from the days when the consumer had to order by catalogue for any specialty or exotic items. And transportation has improved, making availability of goods only a matter of time. And while the consumer may be tightening the purse strings in the next few months, items like food and clothing will still continue to move in larger numbers than before just because there are more people here requiring these necessary items.

What is the future for retail trades? If financial commitments and construction are any indicators, the future looks bright. Three new shopping malls are under con-

struction now and are expected to be completed by spring 1977. A major department store is considering building a brand new complex downtown. The shops which will be locating in the new malls are retaining their downtown locations. There has been a commitment by downtown merchants to clean up the core area to make it more pleasant for shoppers, and those merchants have been working together on various promotional programs to encourage the consumer to shop downtown.

Those who are making the financial investments in retail trades say the future success of the industry is limited only by the size of the population. Consumers are slowing down their spending, but the money is still here, they say, and will continue to be here. A gas line, state oil revenues, future oil developments, ventures and investments by the Native corporations, all spell cash flow within Alaska for many years and mean people who live here will have money to spend on consumer goods.

Following statistics on Fairbanks North Star Borough based on Borough, U.S. Census, U.S. Bureau of Economic Analysis, borough sales tax and planning and zoning information.

Population	Per Capita Income	Sales Volume*	Per Capita Expenditures **
1970 45,864	\$4,852	\$105,442,200	\$2,255.41
1971 44,413	4,967	208,985,320	2,462.74
1972 46,058	5,514	317,124,100	2,655.01
1973 50,450	5,225	325,764,420	2,455.21
1974 58,003	7,446	336,914,400	2,360.38
1975 63,350	not available	220,512,100	5,480.85
1976 75,519	not available	324,682,000	4,410.50

* Figures do not include sales of medical services, pharmaceuticals, sales to religious, charitable or eleemosynary organizations, sales to governments, farm supplies or sales of building and construction supplies to holders of building permits. See tables for gross receipts in these areas.

** In addition to excluding sales excluded by ordinance, above, these per capita expenditures do not reflect expenditures for hotels, motels, etc.; they do include purchases by businesses and organizations, so are not an accurate reflection of individual consumer expenditures.



HICKEL MALL—A mall addition to the Safeway store on Airport and University is expected to be open for leasing in spring

next year. Among others, the mall will include a drug store.

You can get it here

Fairbanks shopper has choice

Long gone are the days when about all you could buy in Fairbanks were a warm blanket and a gold pan. The variety of staples, consumer items and luxuries stretches from bread and butter to imported cheese, from steel-toed boots to silver slippers and from bulldozers to Swiss music boxes.

While the number of different items may not compare to large cities outside, if you've seen something in your favorite slick magazine, you can probably get it in Fairbanks.

The city boasts seven major grocery stores, one with computerized check-out; half a dozen 24 hour convenience grocery stores, several neighborhood small independent stores and three health food stores. In the way of clothing, Fairbanks has two major department stores, two dozen smaller shops specializing in men's, women's, children's, western, outdoor, high fashion and other types of clothing, and six shoe stores. In addition, there are three catalogue outfits which have locations here, or the consumer can choose from catalogues from all over the country. One catalogue store manager said his company has found that even when a retail store is opened, catalogue sales continue to flourish because the sophisticated consumer is looking for the best buy.

In the way of household, home repair or home maintenance goods, there are two major stores supplying small appliances, do-it-yourself items, tools, gadgets, building supplies. These are in addition to several hardware stores and construction supply stores with more specialized plumbing, heating, electrical goods.

Beyond the necessities, there are three large furniture stores and half a dozen smaller ones, gift shops selling everything from Alaskan-made crafts to Zambian imports, specialty and novelty shops, five record and tape

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Market Basket Stores

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CHOICES . . .

(Continued From Page 2)

stores, three musical instrument shops, eight major appliance stores, three pet stores, numerous flower shops, nurseries, and five hobby shops.

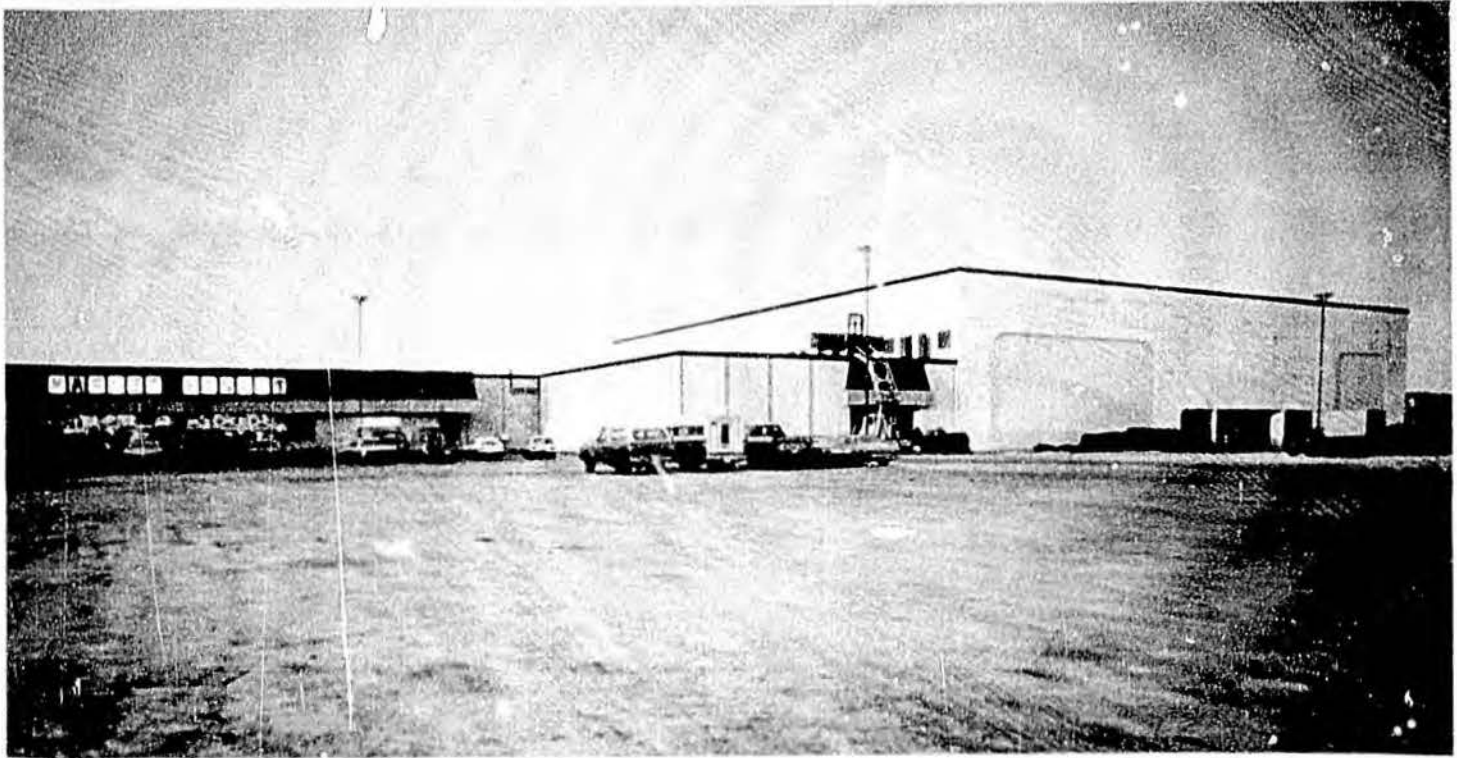
There are even locally manufactured and retailed goods in Fairbanks — a fur shop that makes and sells parkas, boots, hats and so on; a jade shop where custom designed clocks, tables and jewelry are made and sold; several ceramics and pottery shops, and numerous independent crafts people who make and sell jewelry from Alaskan gold and gems.

If one is looking for more expensive items, one needn't go beyond Fairbanks to spend lots of money: there are

four fur dealers, eight jewelers, five art dealers and one leather goods store.

Fairbanks merchants don't have only the consumer in mind, however. Industrial equipment and supplies are available from engines to earth moving machines and from jeweler's screw drivers to generators. There are also five wholesalers dealing in food, liquor and sundries as well as wholesalers in specialized items like automotive or electrical or plumbing supplies.

Fairbanks automobile dealers handle almost every import as well as all American model cars, and there are numerous auto parts and supply houses to help keep cars rolling through Fairbanks winters.



LAMONT'S—An addition to the Market Basket II on Airport and Cowles will house a Lamont's Department Store, a new retail

face on the Fairbanks scene. It, too, is scheduled to open next spring.

*Best wishes from FIDC
for a healthy
and prosperous 1977*

GROSS RECEIPTS IN TRADE AND SERVICE INDUSTRIES IN FAIRBANKS 1973 & 1974

(All figures based on information from Alaska State Department of Revenue)

TRADE	1973	1974
Wholesale	\$31,169,177	\$76,359,689
Retail		
Bldg. Material & Hardware	6,887,860	17,239,411
General Merchandise	15,205,287	21,164,294
Retail Food	24,032,332	28,876,446
Auto	14,383,629	26,874,266
Apparel & Accessories	2,908,103	4,473,721
Furniture & Equip.	3,779,714	6,429,696
Eating & Drinking	6,931,319	9,440,574
Misc. Retail	29,664,748	48,819,719

SERVICE

Hotel & Lodging	3,878,890	6,368,464
Personal Services	1,410,010	1,580,543
Business Services	2,354,706	6,051,253
Auto Repair	1,495,778	1,244,267
Misc. Repair	849,502	1,466,759
Amusements	1,441,257	768,558
Medical	7,741,249	11,292,952
Legal	3,277,678	3,174,276
Other Services	6,664,849	512,202,805*

*Includes metals, mining, drilling and other resource related services.

GROSS RECEIPTS IN TRADE AND SERVICE INDUSTRIES IN ALASKA 1973, 1974 & 1975

TRADE	1973	1974	1975
Wholesale	\$422,287,069	606,909,953	788,516,105
Retail:			
Building	89,508,757	160,908,664	276,026,011
Gen. Mdse.	122,699,351	149,362,743	168,232,772
Food Store	159,870,880	195,209,022	285,851,007
Auto	162,509,851	222,348,083	328,846,232
Eating & Drinking	75,130,975	100,313,390	222,563,687
Other	338,442,275	562,380,923	761,555,125

SERVICE

Hotels & Lodging	52,135,216	66,451,844	96,102,864
Personal	14,354,404	16,980,695	20,532,225
Business	83,558,815	117,027,957	194,747,850
Medical	44,939,121	57,334,859	75,811,929
Legal	33,999,274	25,033,806	31,101,541
Other		639,784,150	809,311,707

Biz squibs

In keeping with the topic of this issue, Focus North welcomes to the Fairbanks retail scene the following new businesses: Bag Boy stores, Pier 1 Imports, Team Electronics, Rampart Mini-Mall, Auggie's, Burger King, Good Thunder, the Gold Mine...New stores that will be appearing on the Fairbanks scene with the opening of malls next spring may include a candy store, an Italian restaurant, an ice cream parlor and a children's clothing shop...While Sears' has no definite plans to open a retail store in Fairbanks in

the near future, the manager indicates that a store was opened in Anchorage when the population stabilized between 90,000 and 100,000 and the same criteria may be applied here...More stores are going to the computer form of check out and record keeping and at Foodland Grocery the manager figures it could save 25% of labor costs in stocking and 22% in check out...A new cost of living survey for Fairbanks is being considered by the federal government. Merchants are pushing for early completion of the survey.

BENTLEY MALL—The Bentley Mall is going up on College Road and about 20 shops already have signed leases to go in spaces between a Safeway store and Pay-N-Save. The mall, to be completed in March 1977, will include a variety of shops from candy and ice cream to cameras and books.





Alaska State Legislature
House

JUNEAU ALASKA

Permanent Fund Committee
538 West 5th Ave.
Anchorage, Alaska 99501

May 25, 1977

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D. Milton, Secretary

SCOMM

#9: 64

Government growth crowds out investment

European studies show the adverse impact of large public outlays

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

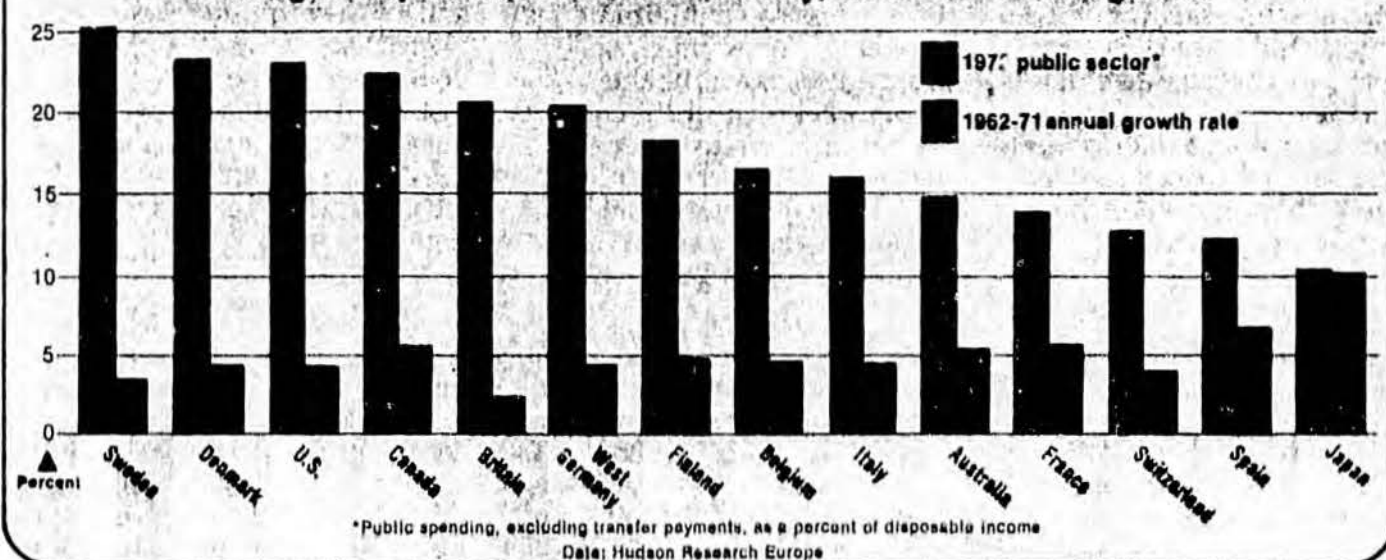
by the expanding government sector in Western industrialized countries has been massive—cutting attainable growth rates by as much as one-third in the past 15 years.

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

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

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

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



public spending actually causes slower economic growth.

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

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

Three other major themes of the new studies:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Growth depends on keeping public services in balance with private output

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

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

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

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



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SCOMM

#9: 65

How to Spend the Next Billion-Dollar Windfall

One oil fortune has been spent, but another soon will shower down on Alaska. This time, the State is set on avoiding mistakes of the past.

JUNEAU

Alaska, which already has run through its first 900 million dollars in oil royalties, is about to come into another enormous fortune.

With the 794-mile Trans Alaska Pipeline scheduled to open next year, oil and gas revenues will soon start flowing into State coffers, eventually mounting to more than a billion dollars annually.

Yet many Alaskans are anxious about the bonanza, which some fear could become another embarrassment of riches. Residents are acutely aware that not a single cash dollar remains of the 900 millions paid to the State by the oil companies in 1969 for oil and gas leases on the North Slope.

A splurge. The money disappeared in what has been described as a splurge of spending for education, aid for cities and towns, assistance for the aged and loans to small businessmen.

Alaska has managed to stay out of the red only by issuing bonds and levying a special tax on oil and gas reserves, expected to yield 220 million dollars in 1976. One of Alaska's main problems, a State official says, is to keep the money "away from the insatiable appetites of free-spending bureaucrats."

Some Alaskans admit they handled the first bonanza poorly. State officials say they were unable to resist demands at many levels for a share of the money "because we had nothing for so long."

Residents complained, prior to achieving Statehood in 1959, that Alaska was little more than a neglected ward of the Federal Government. With a small population spread over the equivalent of one fifth of the old 48 States, many essentials from roads to social services were

costly and in short supply. Thus the discovery of huge oil fields along the virtually unpopulated plains hugging the Arctic Ocean seemed providential. Observes Andrew S. Warwick, State commissioner of administration: "When we had the 900 million, it was difficult to say 'No' to projects because the financial resources were sitting right there."

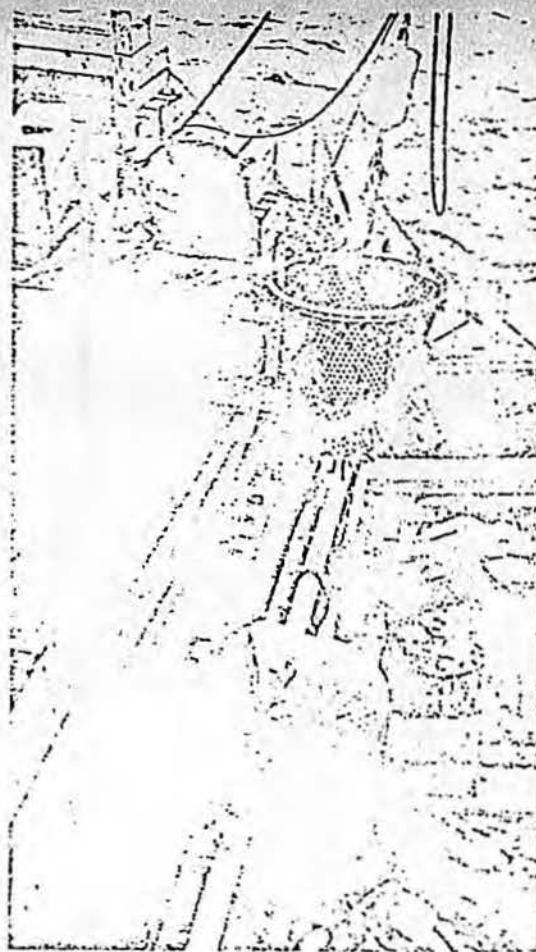
That overspending has strengthened the resolve of many residents to avoid similar problems in the future.

Feeding the kitty. Plans are being formulated to create a permanent investment fund fed by at least 25 per cent of all mineral royalties, bonuses and money from leases. The principal would be spent only on income-producing ventures. Alaskans will vote on the proposal in November.

Much of the fund, if it is approved, is expected to be spent on strengthening industries that draw on renewable resources: fishing and timber, the second and third-ranking income producers after petroleum. Both traditional industries are ailing.

Fishing, until 1963 the backbone of the area's economy, has had two bad years in a row. Salmon fishing, the key sector of the industry, has been in a 30-year slump with a 1975 harvest of 26 million fish. That compares with 126 million in 1936.

Lumbering was flourishing until the



Ailing Alaskan fishing industry would benefit from a proposed investment fund.

Highway building may get a boost, though opposition from conservationists is likely.

ENERGY-RICH ALASKA

[continued from preceding page]

1974-75 recession cut deeply into sales. Federal bans on clear cutting of some forests and requirements for antipollution devices at mills are viewed as threats to future profits. One firm has indicated it will go out of business as a result.

The proposed investment fund, officials say, would be used to help the fishing industry modernize and restock. The money also would be available to help timber firms re-equip.

Another use considered for the revenues is helping to establish new businesses and create more jobs, with the direction supplied within Alaska.

Says Langhorne A. Motley, commissioner of commerce and economic development: "The fund means Alaska will be in the position of not having to knuckle down to foreign capitalists, whether in the 'Lower 48' [States] or abroad."

Mr. Motley envisions the establishment of such firms as a plant for manufacturing concrete, thereby eliminating the need for importing the product. Concrete, he says, leaves Seattle at \$30 a ton and sells for \$108 in Fairbanks.

Some Alaskans believe the new capital

could help attract a variety of companies to the State. Industry in the past has been wary of locating in the region because of high labor costs, a small local market and the reluctance of many big U.S. banks outside Alaska to risk their money so far away.

Robert Richards, executive vice president of the newly formed Alaska-Pacific Bank, says that at the present time it is more economical to build a petrochemical plant in Texas or California than in Alaska.

"However," he says, "if the State of Alaska offered to make capital available at some interest rate below the cost of financing in Texas or California, the rate of return on investment to the Alaska plant might be increased above that of the competition."

"Last thing we want." Private financiers and State officials generally agree that any such manufacturing operations should remain firmly in the hands of private businessmen.

"The last thing we want is a bunch of State-run entities," says Commissioner Motley.

Already, expansion has begun in some areas. Examples: An oil refinery is under construction near Fairbanks, another may be built at Valdez, and a firm at Kenai is in the midst of a 230-million-

dollar enlargement of its ammonia-urea operations. And even larger activities soon may be in the works.

There is talk of building links outward from a new highway, paralleling the pipeline, to permit access to untapped mineral-rich areas of the State. That would open up rich reserves of lead, zinc, copper, silver, iron and coal.

Environmentalists, however, are opposed to unrestricted development and have been influential in halting some previous projects. Conservationists enjoy considerable support among Alaska's thousands of hunters and fishermen who want to prevent destruction of the virgin forests, lush grasslands and unpolluted rivers.

Yet there is also widespread recognition that more permanent jobs must be created to avoid the "boom or bust" eras of the past seven decades. Many residents believe it is possible to reconcile both sides—allowing controlled development while safeguarding the State's natural resources.

In any case, planners say, the oil revenues will be used more prudently than they were in the past.

"We have learned our lesson," says one State official. "There will be no more squandering of our money or our resources."

Alaska's Portrait in Oil: "A Crazy Quilt" Economy

Interview With Jay S. Hammond,
Governor of Alaska

Even oil revenue of a billion dollars a year is no guarantee of prosperity. In this interview held in Anchorage, Governor Hammond gives his spending-and-investment plan designed to keep Alaska on an even keel.

Q Governor Hammond, how is all this oil wealth changing Alaska?

A Significantly. We hope the change will be for the better, but realistically it will be a mixed bag of both pluses and minuses.

Already we've seen evidence of healthy growth and unhealthy growth—improved economic circumstances coupled with overcrowding, high prices, crime. Hopefully, we'll be able to improve what is traditionally the nation's highest

unemployment rate and to raise living standards in rural Alaska from a level that makes Appalachia, by contrast, appear affluent.

Q You mean Alaska is not about to become America's oil-rich sheikdom?

A I think there's a sobering awareness in Alaska that we're not necessarily going to be up to our hips in lavish wealth. The fact is we have a long way to go to pull many Alaskans even up to the twentieth-century level of economic parity.

We currently have an economic patchwork quilt—a crazy quilt—with poverty interspersed with prosperity. The benefits of oil development are not translating equitably into the community. People who are gainfully employed and making fat money think oil is the best thing that ever happened here. Those who find that the life style that attracted them to Alaska in the first place is disappearing think it's the worst thing that ever happened.



Q How much money is the State in line to receive?

A Well, the first thing to note is that the pot of gold appears to be several city blocks away instead of just around the corner—and likely it will be smaller than we expected. In fact, unless we throttle down State spending, we may well find at the end of the pipeline rainbow only the pot and none of the gold. The gold will have gone into government.

Actually, the sum changes virtually daily because of imponderables—the price of petroleum, the rate the oil will flow, possible delays in starting up the pipeline. But our economists estimate that revenues could reach upward of 1 billion dollars a year by the mid-1980s. But, unfortunately, our State budget by then will far exceed that just to provide existing services.

FOILING "LONG-FINGERED POLITICIANS"—

Q How are you going to spend a billion dollars a year?

A Prudently, I hope.

One of the most significant actions taken by the legislature in the last session was the proposed creation of a so-called permanent fund that will be allotted at least a quarter of all of our oil and gas revenues. It will be a kind of savings account where we will be able to sock some of this revenue away and preclude long-fingered politicians from picking the public pocket. We'll be plowing it into the economy, all right, but using it for investment purposes—not to balloon the bureaucracy.

Q What kinds of investments?

A The most critical goal is to strengthen our renewable resource industries—such as fishing and timber—for the day when the nonrenewable resources run out.

We're already moving in that direction. We'll have on the ballot this fall a 29-million-dollar bond issue for a fisheries rehabilitation-and-enhancement program. We are also establishing a loan program to create nonprofit hatcheries.

We are going to be involved shortly in exploring the possibility of stepped-up agricultural development. Apparently, there is a strong potential for growing certain types of grain in the interior. Using fertilizer produced from some of our natural gas, this kind of farming could have a significant economic capability.

Another thing I'd like to explore is a form of Alaskan investment corporation in which all Alaskans would be shareholders. In concept, it would be similar to some of the employe stock-ownership plans established by private industry. For example, the funds could be used to finance an actuarially sound income, educational or health-insurance program plus, perhaps, a supplemental social-security program, especially aimed at our old-timers. You know, many of our old-timers now have to leave the State when they retire because they can't afford to stay here.

Q Where would the money come from?

A The earnings of the permanent fund. There would be an additional benefit from such a program. I think we would create a very conservative constituency insofar as unnecessary government expenditures are concerned. There would be very great distress, I am sure, over attempts to put platinum doorknobs on schoolhouses if you were reducing the dividend potential or income insurance of John Q. Alaskan.

Q Do you foresee a major effort at industrialization?

A We simply cannot build a massive industrial complex here keyed to nonrenewable resources, which ultimately will exhaust.

You know, we are not like States in the "Lower 48." We are at the end of the line geographically and commercially. We are not surrounded by other States from which trade and commerce will flow through our State en route to not only

our own, but other marketplaces. It's not likely anybody will one day pump oil and gas back up here to feed a big Alaskan industrial complex.

That is not to say I am opposed to the creation of an industrial base as such, but I am against putting most of our eggs in that one basket. We have to selectively pick and choose only those which are viable.

Q Is there a chance Alaska will "lock up" its gas and oil, and mete it out slowly, playing for higher prices?

A There's no way to do it. Conceivably the State could lock up anything on its own lands. But there are large regions of native-owned lands that will be subject to exploration and development.

The Federal Government has offshore tracts it already is moving to exploit. These all pose a competitive threat to the value of State properties.

We are not going to sit by and lose money by our failure to do anything. If they put their straw down in an oil-structure area just outside State jurisdiction, we're going to have to put our own straw down just to make sure they are not draining us dry.

So the charge that we are going to put a lock on our energy resources is unwarranted and unreasoned. But we are hoping to pace development more carefully.

Q What about the State's mineral potential?

A It all depends on world market conditions. When the price is right, our hard-rock minerals—coal, copper, gold, iron—will be exploited. We have massive low-grade deposits—just as many States in the "Lower 48" do—but our distance from markets, the high cost of transportation and labor, places them further removed from the development process.

"YO-YOING BETWEEN BOOM AND BUST"—

Q Some people want forced exploitation of resources—

A I disagree. Unless they can be developed without subsidization, they should be left in the ground until they can. For example, there have been ridiculous suggestions that we build a 100-million-dollar road to tap a 30-million-dollar mineral deposit. Moreover, I think you should build the transportation means once you have determined it is needed—not build it and hope the needs are out there somewhere.

I'm not at all interested in subsidizing "development" which cannot pay its way. For example, we could say to people, "Come on up and we'll pay you \$100 a day to mine gold." Hordes of people would race in and the local economy would boom. Business would be happy in those areas where the boomers congregated, but I think most would agree there's something wrong with that. There would be a net loss to the State.

But, unfortunately, that has been the traditional history of Alaska, a Yo-yoing back and forth between boom and bust. We don't want to attract multitudes to our State that we can't sustain over the long term. We don't want people to come up here simply to rip off and run. This is why we have this basic criteria: Can it turn a profit for the State?

Q Aren't people going to come anyway?

A Well, you're right. The boom conditions now here are going to be a lodestone unless people realize that the State is not intent on smoking supergrowth—but to a one-step-at-a-time approach providing full employment to a small population for the long term, rather than crash exploitation that triggers a massive boom, then bust.

Q Are you telling other Americans to stay out?

A You can't put up barriers at the borders, and we have no intentions of doing so. But I want to make it clear that jobs are not in that long supply in Alaska.

SCOMM

#9:66

INQUILINOS BORICUAS
EN ACCION, INC.
(Formerly ETC)
405 Shawmut Avenue
Boston, MA 02118

AND

AFFILIATES:ETC DC-ETC DI

FIVE YEAR REPORT

1969-1975

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II A

BOARD OF DIRECTORS

Officers:

Jose Victor Gonzales
President

Sonia Marrero
Vice President

Patricia Quintana
Treasurer

Rev. William Dwyer
Clerk

MEMBERS

Marilyn Bower

Jose Garcia

Judy Hall

Francisco Jimenez

Miguel Lanzo

Tonita Mahoney

Maria Ortiz

Sister Juana Resto

Carlos Santiago

Daniel Soltren

Luz Cuadrado,

Ex Officio Member

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$$\begin{array}{r} 1200 \overline{) 33,000} \\ \underline{2400} \\ 9000 \\ \underline{8400} \\ 600 \end{array} \quad \begin{array}{l} 27.57 \text{ sq. ft. for } 1200 \text{ sq. ft.} \end{array}$$

\$33,000 T. Des. Cost per unit REHAB

May 1975



Jose Victor Gonzales
IBA President

TO: THE MEMBERS OF THE
IBA BOARD OF DIRECTORS

The past five years have seen much change and growth in INQUILINOS BORICUAS EN ACCION (IBA). The continued involvement of Villa Victoria residents has helped our agency to expand its services and to see that the community's needs are increasingly met. Through all its work and struggles, IBA has kept

its promise to re-build a new community, a physically and emotionally healthy neighborhood in which our children can thrive and grow.

Many community goals have been reached since 1970, in spite of the great obstacles that IBA has faced. Some unsympathetic groups from the South End community have tried to hamper our progress, but the many friends of IBA and Villa Victoria have always come through with the needed support. Although our offices were destroyed by fire in the summer of 1973, contributions to rebuild our office poured in. The quality of IBA's leadership and the dedication of its staff has helped the agency to expand at a time when most are cutting back. We may have had to sacrifice "smooth running" from time to time, but no one can question the overall quality of our performance.

In addition to expanding our Human Services, renovating our community-centered offices, and completing Plaza Betances, "AREYTO" with its message of cultural richness and pride, was begun. Through community participation in its activities, "AREYTO" will be the unifying pillar of Villa Victoria. Building an "international community" that goes beyond the limitations of ethnic loyalties is a central goal of both "AREYTO" and our agency. Thus, while the origins, symbols and leadership of IBA come from the Puerto Rican culture, our work during the past five years has focused on meeting the needs of the entire Villa Victoria Community. I believe that continued cooperation among IBA's board staff and clients will reflect the growing unity of Puerto Rican, Oriental, Black and White residents of Villa Victoria, for together we resolve that, "We shall not be moved from Parcel 19": now Villa Victoria.



Mario Clavell, Chairperson
ETC DC-DI Corporations

ETC DC-DI PRESIDENT'S MESSAGE

Perhaps better than any area, IBA's housing development activities since 1970 illustrate the delicate balance between frustrations and rewards found in any attempt at positive community development. The crises resulting from federal cutbacks, political wrangling, and violent opposition are often staggering. And yet, when the "impossible" occurs - when attractive, comfortable homes are made available to the poor of our

community - the obstacles are outweighed by far.

In 1970, no buildings had as yet been developed by IBA. Five years later IBA was managing 408 units of public and private housing. These housing units, along with IBA's renovated office building and Plaza Betances, have answered a need in Villa Victoria. However, much more must be done before the community can accommodate in comfort and security the many disadvantaged and/or displaced people who consider the South End their home. IBA is committed to providing housing for those who need it most, and, with this goal in view, is working for the production of 221 new and rehabilitated housing units. The completion of these developments is not expected to come easily, nor has this been the case up to now. As with IBA's other Housing Development programs, many obstacles have arisen to make accomplishments hard won indeed. Beset by political ambivalence and funding uncertainties, the Viviendas package has been five long years in processing and only now has begun actual construction. The Rehabilitation II Units (Casas Boriquen) will be completed this year despite extensive and suspicious fire damage to two buildings.

When we at IBA consider the sweat and heartbreak surrounding each building we complete, and then look to the overwhelming lack of adequate housing for the city's poor, it is often difficult to resist discouragement. Yet, when we consider the positive impact that living in attractive, community-controlled apartments has on people who would otherwise be housed in low income "projects" or substandard dwellings, the value of IBA's past and future achievements becomes clear. There remains no doubt that through IBA, the Villa Victoria Community will not only survive, it will flourish.

STATEMENT BY THE
EXECUTIVE DIRECTOR

As the decade began, IBA was less than two years old. 1970 found the agency with only five staff members, a \$ 45,267 income, and an over-riding dream. As 1974 came to a close, thirty persons were working at IBA, \$ 264,518 had been raised that year, and the dream was many steps closer to coming true. Over the past five years IBA has worked for the overall development of our community and its residents. Our achievements have been many, our growth steady and our stability proven.



Luz Eneida Cuadrado
Executive Director

The agency's flexibility and responsiveness to community needs have been illustrated time and again since 1970, particularly within IBA's Human Services Division. Without the support of federal grants, programs in this area have grown to present a comprehensive and effective complement to our original Housing Development goals. IBA's Human Services are no longer limited to short-term, emergency assistance.

Since 1970, the agency also has realized some of its goals within the Housing Development component. Over 270 housing units have been developed through the efforts of IBA. These units are occupied by people previously forced to live in overcrowded, substandard dwellings. Although many new units await completion, IBA has shown its ability to implement the physical plan for Villa Victoria designed with the community in 1968.

IBA's housing activities can and have become a source for generating funds. With the formation of IBA's Housing Management Corporation in 1971, an extensive and independent Economic Development component was made possible. By managing 409 housing units as well as four businesses, IBA

has provided either directly or indirectly for 23 jobs, all of which are filled by community residents. In addition, over sixty men have secured employment in the construction trades as a result of IBA's Minority Hiring Program, a service which has facilitated economic development within the community. During the past five years, the IBA Housing Development Division has generated over \$10.5 million for the City of Boston and the Villa Victoria community in salaries, taxes, subsidies, syndication money, fees, etc.

Other achievements were enhanced by IBA's cooperation with other community agencies, who in turn have been assisted by IBA. By coordinating resources and implementing cross-referrals, maximized services to clients has resulted. A most recent example is our newly-renovated headquarters on 405 Shawmut Avenue. Owned by IBA, the six-story building will house offices for other agencies, such as Casa del Sol and the Hispanic Office of Planning and Evaluation (HOPE), thus serving as a focal point and service center for community residents.

In all these areas IBA has pursued greater identification with the Hispanic community and for this reason, our name is now "Inquilinos Boricuas en Accion". A long-awaited dream, the construction of a Puerto Rican-style Plaza has been realized; the tree-lined Plaza Betances stands ready for community use.

Perhaps most significant, in terms of Hispanic Cultural identification, is the initiation of "AREYTO", IBA's Cultural Enrichment program. "AREYTO" represents a comprehensive, cultural approach to fostering a sense of identity and self-esteem within the Hispanic community. Activities will focus on the performing and visual arts, with workshops and presentations offered to participants of every age.

The success of IBA over the last five years has not come easily; many heartbreaking frustrations did, and continue to, threaten our progress. Yet, IBA's stability is ensured by the confidence and flexibility of its staff in meeting these challenges. An agency whose offices are destroyed by fire on a Saturday night and who, on the following Monday continues full operations from staff members' homes and a basement community room (as did IBA from July 1973-March 1975) is not one to let obstacles stand in its way! Thus, while the years ahead appear to hold much change and uncertainty, we are confident that our achievements will provide IBA with a strong base to continue serving as an active, vital force in developing our community.

WHAT WE ARE

"Inquilinos Boricuas en Accion" (formerly the Emergency Tenants Council) is a non-profit, principally Puerto Rican community development corporation engaged in the social, physical and economic renovation of the area known as Villa Victoria.

IBA arose in response to a crisis housing situation for low income families in the South End. Specifically, residents formed IBA in reaction to the Boston Redevelopment Authority's 1965 Urban Renewal Plan for its community, the heart of the South End's Puerto Rican community. The plan called for large scale demolition, new construction of housing (family and elderly), and new construction of recreational and commercial space to service the surrounding areas of the South End which were being rehabilitated. No relocation plans had been made for residents, and execution of the plan would have meant destruction of the existing community, and disbursement of its residents, 90% of whom were and are low-income and live in sub-standard housing conditions.

Residents who were aware of the Urban Renewal Plan for their neighborhood began door-to-door organizing; this effort culminated in a meeting of some 500 residents who elected a Board of Directors, and adopted the motto: "No nos mudaremos de la Parcela 19 --- We shall not be moved from Parcel 19". Shortly thereafter, in August 1968, the Emergency Tenants Council was incorporated.

The community was actively involved in proposing modifications to the Plan, modifications which reflected the needs of the existing community. The community plan included: rehabilitation of existing sound structures, new construction of family and elderly housing, staged development to allow gradual relocation of people within the area, construction of a Puerto Rican style Plaza, better traffic patterns to improve the safety of children and elderly, and open space for recreational activities. This community plan was approved by the BRA with the support of the Mayor and ETC(IBA) was designated sponsor/developer of Parcel 19.

OUR MISSION

The main purpose of IBA is to implement the means for satisfying the basic human needs of the Hispanic community in the South End and other residents of Villa Victoria. IBA programs are aimed at: 1) increasing family income; 2) developing awareness of barriers to advancement and the means to overcome them; 3) attaining maximum capability for self-determination; 4) advancing institutions which will enhance the Hispanic community's overall stature; 5) building a stable community; and, 6) providing for a physical environment that will complement the social and economic development of the area.

EXECUTIVE OFFICE

Until the spring of 1973, IBA did not have a well-defined Executive Office. The need to organize this division arose as IBA reached a level of operations which required responsible development of internal and external administration, policies and relations. Hence, the Executive Office was formally created as the policy-research-administration arm of the agency.

Supervised by the Executive Director, this office includes the Planning Unit and Administrative Unit. The Executive Director is responsible for the direction of the agency and the implementation of policies pronounced by the Board of Directors.

IBA's Executive Office approaches its work on the basis of staff and community participation, consultation with technical advisory committees, and the clear definition of goals which respond to community needs as articulated by the annually elected Board of Directors and its standing committees. Three major objectives direct the activities of IBA's Executive Office: improvement of agency functioning, development of local capability, and provision of needed quality services. Since its formation, the Executive Office has worked to realize these goals through projects which include:

DEVELOPING AN EFFICIENT INTERNAL ADMINISTRATION

* Information Systems and Planning Methods

IBA has designed statistical systems for recording different types of information. These on-going systems relate to and describe agency management, personnel policies, program evaluation, and client population. Naturally, the information obtained in these areas is essential for a realistic and effective planning.

* Staff and Board Training Program

In order to familiarize staff and board members with the technicalities of its work, IBA has initiated the development of educational materials and "in house" training curriculum. In addition, several staff members have been placed in college level programs relating to their work and further developing their career potential



* Fundraising

Over the past five years, IBA has demonstrated an ability to raise and to multiply the funds needed for continued expansion of its services -- from \$ 45,267 in 1970, to \$ 264,518 for 1974. 1974 also saw an outpouring of contributions for the rehabilitation of our fire-gutted headquarters. For this special assistance, along with the continued support from our many funding sources, the Villa Victoria community and we at IBA are most grateful.

TOTAL INCOME FOR IBA

Calendar Years 1970 and 1974

<u>Sources of Income</u>	<u>1970</u>	<u>1974</u>
United Way	\$	\$ 45,000
Foundations	\$ 31,385	\$ 137,318
Churches	\$ 13,882	\$ 48,100
Corporations		\$ 28,100
Government		\$ 6,000
TOTAL	\$ 45,267	\$ 264,518

COORDINATION OF COMMUNITY SERVICES

The past few years have witnessed a growing cooperation between IBA and other community agencies, particularly those serving the Hispanic population. Through coordinated resources both the efficiency of each agency and the services available to clients have been maximized. For example, the elderly residents of "Torre Unidad" enjoy such services because the resources of other agencies have been tapped and many of their services donated to the IBA program.

HUMAN SERVICES DIVISION

IBA's Human Services complement the long range strategies of its Housing Development/Economic Development components.

The combination of these activities reflect the general understanding at IBA that in solving the major problems of the Hispanic community we must deal with the obstacles that affect this community today and prepare to avoid these problems in the future; solutions require both short and long-range action, coupled with a high degree of coordination.

The creation of the Human Services Division of IBA responded to the acknowledgement of this duality back in 1968. The original organizers understood the long-range nature of housing development and the pressing need for action to alleviate some of the community's immediate problems. The Human Services Division emerged as such and as a means to maintain a more direct contact between IBA staff and its client population.

The organization of the Human Services Division allows for work with both individuals and groups of individuals. It touches the fields of employment, housing search, cultural enrichment, welfare and human rights. The staff performs a significant amount of translation work combined with advocacy on behalf of the client. It also aims at teaching the client how to handle specific situations alone in order to increase client independence and self-sufficiency.

Although many of IBA's services are extended to "Hispanos" citywide, the major emphasis rests with the tenants of IBA developments. This concentration is an important factor for the success of the Housing Development Plan, and consequently, the comprehensive development of the community.



INVOLVEMENT WITH THE GREATER BOSTON COMMUNITY

* Chelsea Crisis

The Executive Office of IBA was actively involved in assisting families affected by that tragic fire in 1973.

* Housing Workshop

IBA sponsored a workshop on Housing and the Puerto Rican in Massachusetts under the Department of Community Affairs. Staff members of public housing authorities, Model Cities, and other housing related agencies attended the 1973 seminar.

* South Boston Crisis

IBA's Executive Office responded to the crisis in South Boston by participating in several committees which worked to alleviate the tension between Puerto Ricans and Irish in that community.

* Contributions of Executive Office Staff

Members of the IBA staff support the work of other Boston agencies by directly participating in the governing and policy making of group such as:

1. Black Housing Task Force
2. Citizens Housing and Planning Association
3. Greater Boston Community Development
4. Governor's special committee to evaluate the Massachusetts Commission Against Discrimination
5. Hispanic Office of Planning and Evaluation
6. New England Spanish American Regional Institute
7. South End Project Area Committee

The Executive Director in particular, has contributed her resources to the Boston community by serving on agency boards, lecturing in colleges*, speaking in public, and lending her support to a range of community-interest issues.

* The IBA community is most grateful to Boston College for donating Professor Cuadrado's services and allowing her to act as Executive Director from 1973-1974, while continuing her academic duties at the college.

HOUSING SEARCH

Locating decent low rent housing contributes directly to increasing the income of clients by reducing their housing costs. Even more important than the economic advantage of living in low rent housing is the security of knowing that one's shelter is comfortable and reasonably permanent. In finding BHA (Boston Housing Authority) leased units on the private market, in helping clients gain access to public housing, and in locating low or moderate-rent standard apartments on the private market, IBA has helped its clients to reduce the amount they pay for housing (BHA leased units and public housing tenants pay on a sliding scale based on 25% of their income) and to obtain housing from which they will not be displaced.

Over the past five years, IBA staff members have spent thousands of hours completing BHA applications for their clients, tracking down available housing, and providing follow-up on each case. In light of the overwhelming shortage of low-rent housing in Boston, their success has been considerable. Yet, each year the Housing Search Staff must watch its "Pending" files grow, while the lists of available units dwindle precariously.

IBA HOUSING CASELOAD BY FAMILY SIZE 1970-1974

Family Size	Accumulative 1970-1973	1974	Total
1 - 2	111	76	187
3 - 5	124	82	206
6 - 8	101	87	188
9 or more	11	4	15
Total	347	249	596

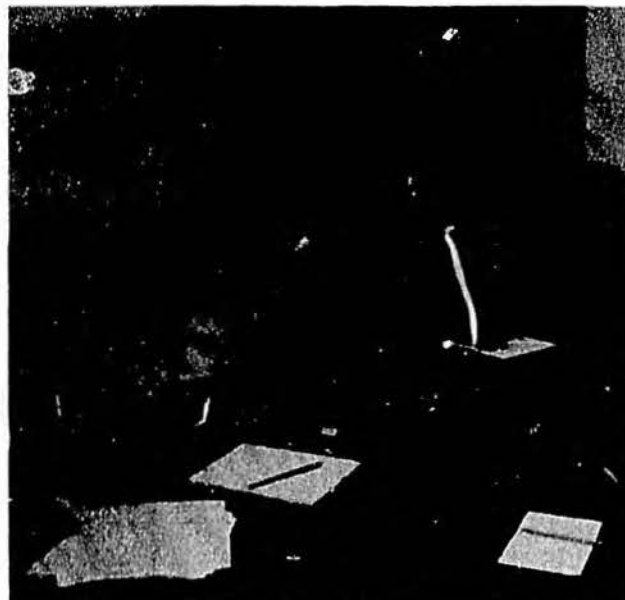
Source of Information: IBA Housing Register

IBA HOUSING CASELOAD
BY NEIGHBORHOOD
Calendar Year 1974

Neighborhood	Caseload	Families Housed
South End	149	39
Roxbury	41	7
Jamaica Plain	17	-
Dorchester	22	4
South Boston	7	-
New Bedford	2	-
Chelsea	5	1
Mattapan	-	-
Allston	2	-
Somerville	4	1
Total	249	52

Source of Information: IBA Housing Register

According to the above table, the proportion of those seeking low and moderate income housing, compared with the number of clients actually housed, is shockingly high. However, when considering the overall picture, IBA's success in housing 20% of its clients is significant.



When a subsidized apartment finally is located, it most likely can not accomodate the large family which typifies IBA's client population. Any decent housing within the poor family's range is scarce enough; a low-rent unit with more than four bedrooms is all but impossible to find:

IBA HOUSING PLACEMENT
BY FAMILY AND APARTMENT SIZE

1974

Family size	Bedroom size of units						Total
	0	1	2	3	4	5	
1	5	1	-	-	-	-	6
2	-	22	1	-	-	-	23
3	-	3	8	-	-	-	11
4	-	-	4	-	-	-	4
5	-	-	2	1	-	-	3
6	-	-	-	1	-	-	1
7	-	-	-	1	-	-	1
8	-	-	-	-	1	1	2
9	-	-	-	-	-	-	0
10	-	-	-	-	-	1	1
Total	5	26	15	3	1	2	52

Source of Information: IBA Housing Register

Thus, while IBA will continue to offer minimal Housing Search services, the ultimate futility of meeting this critical growing need will haunt our work --- until the public sector takes realistic action, that is.

MANPOWER DEVELOPMENT

In accordance with its goal of increasing the Hispanic family's income, IBA offers minority hiring and job development services to its clients. Focusing on the construction trades, this program has provided 76 men with employment on both its own and other South End housing construction projects.

IBA MANPOWER DEVELOPMENT CASELOAD BY TRADE 1971-1974

<u>Trade</u>	<u>Caseload</u>	<u>Clients placed</u>
Carpenter	41	8
Electrician	14	3
Laborer	85	52
Mason	4	1
Painter	15	4
Plumber	5	4
Welder	7	4
Total	171	76

Source of Information: IBA Manpower Records

Over the past five years, IBA's Manpower Development staff has been responsible for:

outreach work to find unemployed, skilled or semi-skilled Hispanic construction workers within the South End and Greater Boston area;

job placement on IBA and other South End jobs, and back-up support for those workers;

ensuring admittance to the union of their trade for workers placed, and pressuring contractors to take men onto their permanent payrolls;

providing orientation and training relating to construction work, specifically for workers.

IBA's efforts have been concentrated on job location for its unemployed tenants. Since 1970, IBA has seen its job development activities lead naturally to employment in fields other than construction. For example, IBA's management of 408 housing units resulted in the employment of thirteen staff members, ten of whom are Hispanic community residents who were hired and trained by IBA.



IBA MANPOWER DEVELOPMENT CASELOAD
BY NEIGHBORHOOD
1971-1974

Neighborhood	1971 Caseload	1971 Clients Placed	1974 Caseload	1974 Clients Placed
South End	18	3	23	22
Roxbury	7	-	6	4
Jamaica Plain	1	-	3	2
Dorchester	4	-	6	4
Brighton	1	-	-	-
Chelsea	1	-	-	-
Mattapan	1	1	-	-
Total	33	4	38	32

Source of Information: IBA Manpower Records

SUPPORTIVE SERVICES TO FAMILIES AND INDIVIDUALS

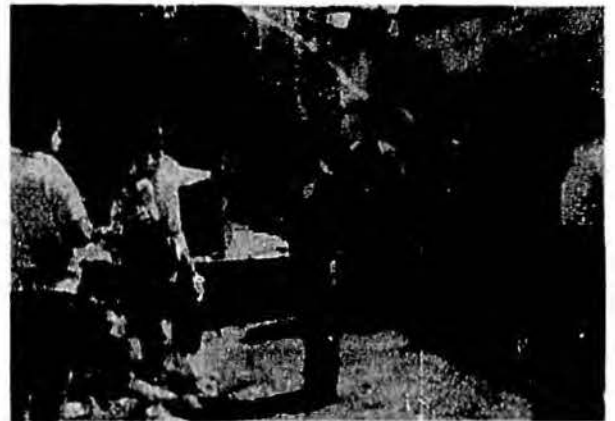
Since 1970, IBA has provided translation, information and referral services to approximately 6,000 clients, most of whom were newly arrived from Puerto Rico and other Latin American countries.

As with other IBA human service programs, the translator-advocate's primary responsibility is to increase the knowledge and self-sufficiency of the client. In each case, the staff member works to facilitate the client's 1) understanding of what a specific agency can and cannot be asked to do; 2) knowledge of the procedures that can be followed if a reasonable request is not met by that agency; 3) sense of independence, the right to make requests, and to receive fair, responsive answers to those requests.

Along with direct translation-advocacy services, IBA maintains a systematic referral system in the areas of health, education, welfare and legal services.

COMMUNITY ORGANIZATION

This service is crucial to the overall development of IBA and Villa Victoria. The Community Organization program occupies a supportive position to other programs in Human Services, Housing Development and the Executive Office.



IBA's direct group services are overseen by group workers who act as catalysts in bringing groups together. If a group decides it will continue to meet, the community organizer serves as an information source, advisor and coordinator.

Since 1970, IBA has been instrumental in organizing and assisting various task forces and committees in the area. Its activities have included:

* Tenant Organizing

Actions taken by tenants in groups are usually more effective than individual actions in achieving redress of problems. Over the past five years, IBA has organized several successful rent-withholding actions against landlords of substandard housing.

* HUD Foreclosure

Working to prevent the private market sale of four HUD-owned buildings on Rutland and East Springfield Streets, IBA has been instrumental in organizing the tenants to protest and seek alternatives to the plan which would result in their eviction. Once organized, the tenants elicited IBA's help in the research and preparation of a proposal for non-profit acquisition of these properties.

* West Newton Street Development

In addition to the tenant organizing which led to rehabilitation of the deteriorated housing on this street, IBA served as a catalyst in ensuring that the development of West Newton Street reflected community interests. (For details see Housing Development section).

* Blackstone School Development

Since 1969, IBA has been involved in planning and organizing community participation for the development of this bilingual-bicultural community school.

* Security Committee

The threatening problems of violence and crime are being dealt with by the IBA-organized Security Committee. Formed in 1974, the committee is negotiating for more extensive police protection.

* Elderly Committee

Composed of elected elderly tenants and representatives of the community, this committee serves as an advisory board for Unity Tower's management and Elderly Services Program.

* IBA Board of Directors

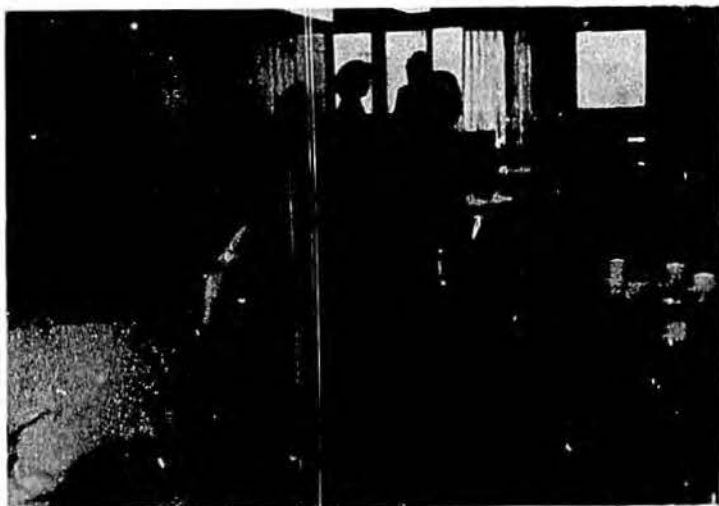
By staffing the Board and organizing its annual election by Villa Victoria residents, IBA works to further implement the control of the agency by the community.

In each of these cases, the participants themselves were given information and then allowed to define priority issues they wished to deal with through group action. The goal of the IBA community organizer was and is to develop resident leadership and independence on the part of each group member. His/her success is measured by how quickly his/her assistance becomes unnecessary.

COMPREHENSIVE SERVICES TO THE ELDERLY

When "Torre Unidad" opened its doors in 1974, most of its new residents moved from shockingly substandard dwellings. IBA realized that its 325 elderly tenants suffered a wide range of problems arising from long years of neglect.

In order to complement its provision of attractive subsidized housing by meeting the other pressing needs of its tenants, IBA developed a program for delivering comprehensive human services in the Tower. Public and private agencies were approached and many agreed to offer free direct services to the residents. In addition to coordinating these programs, IBA hired a qualified staff which provides other direct informational, counselling and recreational services.



The on-site services utilized by tenants of the Tower include:

- Weekly Health Clinic
- Visiting Nurses
- Individual and Group Counselling
- Arts and Crafts Workshops
- Music and Dramatics Workshops
- Visiting Homemakers
- Thursday Afternoon "Tea, Coffee and Conversation"
- Translational Assistance
- "Special Day" Celebrations
- Trips and Outings

These and the other elderly services are geared to the unique mixture of ethnic and racial backgrounds of the Tower residents (Puerto Rican, Black, Oriental, White). Through these services, the IBA staff and those contributing from other agencies have as their ultimate goal to facilitate the creation of a resident community and to provide the resources necessary for a rich, independent life.

AREYTO (CULTURAL PROGRAM OF IBA)

Launched in December 1974, this new program represents a comprehensive, cultural approach to fostering a sense of identity and self-esteem within the Hispanic community. Through activities in the visual and performing arts, AREYTO is designed to fill the cultural gap and isolation suffered by many Hispanos.



AREYTO's official debut, the three Kings Play proved the great need and tremendous interest of the community in activities relating to their background. Over 100 Hispanos of every age participated in the planning, workshops and rehearsals that culminated in the "Fiesta de Los Tres Reyes". Hundreds of people from the Greater Boston Area attended the procession, art presentation, concert, play and dinner celebrating the Spanish holiday. By their interest and participation, all involved proclaimed the festival to be a smashing success.



The workshops and presentations of AREYTO serve as a cohesive focal point for Villa Victoria residents. Representative of their shared rich heritage, IBA's cultural enrichment program presents a forum for self-expression, pride and unity.

HOUSING DEVELOPMENT DIVISION

The first division created at IBA, Housing Development occupies a central role in both the philosophy and achievements of the agency. IBA's housing development component is trying hard to respond to the needs of the Villa Victoria community for decent low rent housing. In recent years these activities have assumed even greater importance -- not because the agency's goals have changed, but because its work continues at a time when nationally the provision of needed low-rent housing is at a virtual standstill.

During the past five years, IBA's housing development work has focused on meeting these goals:

To prevent the displacement of Villa Victoria residents

To develop and implement a comprehensive physical development plan that incorporates:

1. Family Housing
With low rents and unit size corresponding to family size
2. Elderly Housing
Perhaps combined with family housing as a solution to the extended family's housing situation
3. Quality and Attractive Design
Including open spaces and traffic circulation
4. Cultural Facilities
To strength the community's cultural identity
5. To guarantee community control over the housing in the Villa Victoria area

In addition to developing attractive, affordable housing, IBA strives to realize these objectives by working out means for community control over housing (controlled management, homeownership plans, etc.), and by educating the community, its representatives on the Board of Directors and the staff about the intricacies of housing development operations.

Once the community's needs are translated into policies, the staff pursues their implementation while trying to minimize government constraints (inflexibility of programs, lack of funds for subsidies) and the constraints of the private sector (maximization of profits and minimization of risks). The process is a slow and tedious one. In many instances lack of resources and external obstacles have produced compromises in the goals articulated by the community. Nevertheless, since 1970, IBA's Housing Development division has achieved significant success.

REHABILITATION PROJECT - PHASE I

With no previous experience in the area of housing development, IBA approached its first large-scale project, the rehabilitation of 71 units on Tremont and Shawmut Streets. By the fall of 1971, the agency had rescued these 14 row houses from imminent demolition, restored them to high-quality, attractive homes, and ensured their occupation by those community residents most in need.

While the buildings were being restored, IBA worked extensively with the BRA to see that the tenants were relocated in decent temporary units or in comfortable housing where they wished to move permanently. Every tenant who wanted was able to return, and every effort was made to keep rents at a level the tenant could afford. IBA fought for and obtained 70% combined leased housing and rent supplement for the project so that units would be provided for low-income residents.



In addition to housing restoration, Rehab I assisted four commercial spaces. By providing full renovation work at minimal or no cost, IBA enabled them to begin or remain in business.

The Rehab I project was a limited dividend venture with proceeds from the syndication controlled by and returning to IBA. The Villa Victoria community,

as general partner with IBA, held a strong voice in the physical and managerial development of the project. According to their wishes, syndication proceeds were used for the installment of special design features, including dark wood parquet floors, oak spiral staircases, and landscaped yards. Thus, the project served as an example of how a community group can redirect the profits which usually go to an outside developer, and can apply them instead to the community's benefit.

WEST NEWTON STREET PROJECT

This restoration of 136 units emerged as a project unique in several ways. As the first Turnkey rehabilitation in Massachusetts, the project was designed so that all units would be low rent. The buildings included a mix of efficiency and one-bedroom units for the elderly and large units for families, a "first" for the Turnkey program. And, perhaps foremost of the project's achievements, was the unique cooperation among IBA, the South End Tenants Council (SETC), the community-elected PEURC, Mayor's Office, Boston Redevelopment Authority, BHA, HUD, and the private developer.

Throughout 1972 IBA and SETC, an agency geared to the black community, participated actively with United Community Development to help ensure the renovation of the 25 buildings on West Newton Street. The entire block, at the edge of Parcel 19, was formerly owned by one slumlord who had allowed the buildings to become dangerously deteriorated. In 1969 and 1970, ETC and SETC jointly organized tenants, began a legal rent withholding and demanded that the city intervene to bring the buildings up to code. In 1970, United Community Development, a private firm working in cooperation with both tenant groups, offered to buy the buildings and renovate them for community residents. IBA and SETC accepted. Their participation helped the renovation project win important victories, such as the agreement that it be managed by IBA with SETC participating in tenant selection.

In April 1972, the West Newton Street project initially closed and renovation of the block began. In November 1972, the first five buildings were completed, conveyed to the Boston Housing Authority, and occupied by community residents. The last five buildings were conveyed in April 1973. Upon the program's completion, the Boston Globe ran an article describing the joint effort and confirming the objective of those involved:



" It's probably the only place in the city where a public housing project, owned by the Boston Housing Authority, cannot be distinguished from any of the other buildings or blocks in the district and hopefully ends the "projectitis" disease that has plagued all public housing developments in the past "

TURNKEY HOUSING FOR THE ELDERLY

The 201 unit Elderly Tower is the first housing construction project of so large a scale to be developed and controlled by a community group. By 1972, when the project was begun, IBA had acquired the expertise and resources necessary for it to act as sole developer. With full responsibility for hiring consultants and contractors, as well as for any profits or losses that might result, IBA set out to demonstrate that, in the hands of a responsible community developer, public housing can be made as (and even more) attractive as apartments on the private market.



For the planning costs of architects, designs, etc., IBA was able to raise a large amount of seed money from private groups. This, along with IBA's available equity and 100% financing from MFHA, made construction of the 5.1 million dollar building possible.

When a surplus from the project began to be realized, IBA and the very active community Grass Roots Task Force voted to re-invest most of the money in the Tower. This decision enabled IBA to incorporate significant changes and additions in the design features, including a \$100,000 roof garden, wall-to-wall carpeting, and high-quality

interior fixtures. In addition to the physical development, provisions were made for a program of comprehensive services to be offered to the Tower residents (for description see Human Services Section). Completed in Summer 1974 the Turnkey Tower with its quality design, comprehensive services, and resident participation, is unparalleled among the elderly housing of Boston.

HOUSING UNITS
DEVELOPED BY IBA
1970-1974

Size	1970	1974 (accumulated)
Studio	-	132
1 Bedroom	-	99
2 Bedrooms	-	31
3 Bedrooms	-	9
4 Bedrooms	-	1
Total	0	272

Source of Information: IBA Housing Development Division

Not considering the West Newton Street development, in which IBA played a significant role, the agency has been the primary or sole developer of 272 units since 1970.

PLAZA BETANCES

Another result of IBA's profits from the Turnkey Tower, a Puerto Rican-style plaza is both the physical and symbolic center of the Villa Victoria development plan. Facing the Tower and opposite the site of IBA's next construction project (the 181 unit Viviendas la Victoria) Plaza Betances was financed through the BHA/BRA's matching of IBA funds.

The Plaza's architect travelled to Puerto Rico and studied the plazas there, in order to ensure the authenticity of his design. Even the materials used in construction and the plants which line the Plaza are representative of Puerto Rico and its culture. Through all the planning and construction, the community was actively involved, for with the completion of Plaza Betances, one of Villa Victoria's original dreams has been realized.



COMMUNITY SERVICES CENTER

In the Summer of 1973, IBA's headquarters were destroyed by fire. Working from a cramped basement community room, the IBA staff immediately began looking towards renovation of its offices. After more than one year of planning and fundraising efforts, the rehabilitation of 405 Shawmut Avenue was completed.

Once again IBA's original headquarters serve as a greatly-used focal point for community residents. The six-story building houses offices of several Hispanic agencies. Here other personnel is available to complement, coordinate and maximize services each agency provides.



PLANNING ACTIVITIES

In addition to the housing it has developed the planning of further new and rehabilitation projects has consumed much of IBA's efforts over the past five years. These projects include:

- Rehab Phase II (restoration of 40 units at scattered sites)
- Viviendas La Victoria Phase I
(new construction of 181 family-size units)
- Viviendas La Victoria Phase II
(construction of additional family-size units, with an emphasis on homeownership)

Through all IBA's housing development activities, countless political, economic, and other setbacks have appeared to delay projected timetables and frustrate well-set plans. Viviendas La Victoria, for example, has been in the processing stage since 1970, and easily might have been abandoned were it not for the dedication of the IBA staff and support from Villa Victoria. Fortunately, there have been many successes to show us that true community development is not only possible, it is well worth the struggle.

HOUSING MANAGEMENT

Since its beginning, IBA has had as one of its goals community control, not only of planning and housing development, but also over the housing once it was constructed. In the Summer of 1971, IBA Board of Directors instructed the staff and technical advisors to establish a management corporation which would oversee all phases, such as tenant selection, rent collection and maintenance, of the housing developed by IBA.

After considerable study and planning, a management design was completed and submitted to HUD, which subsequently approved IBA as the management agent for the Tremont/Shawmut development. When the first IBA tenants moved into their new apartments in December 1971, a manager, secretary and resident superintendent had been hired and a small Management Office was opened. IBA had officially become both landlord and housing manager.

From this modest beginning, ETC Developer, Inc., has grown tremendously. From a staff of three, the management corporation now employs thirteen full-time persons, all but two of whom are community residents. And from the initial management of 71 apartments and four stores, IBA now manages four



businesses and 408 housing units. This tremendous expansion of both staff and managed units is reflected in the growth of ETC Developers' financial responsibilities. The first annual management budget was \$ 125,000 ; 1974's totaled \$ 635,000

In addition to successfully managing its buildings, the IBA management program has demonstrated other significant achievements:

- * Training and permanent employment for community residents.
- * Tenant participation in management activities.
- * Financial stability
A report by the Boston Redevelopment Authority and the Boston Urban Observatory of Management Companies dealing with subsidized housing rates IBA as one of the three best in the Boston area.
- * Facilitation of positive social relations within and among different racial and ethnic groups.

IBA believes that back-up human services are essential to the successful management of low rent housing. Thus, the Management Division employs a full-time tenant services specialist who works in conjunction with the IBA Human Services staff.

Over the last four years, the activities of ETC Developers, Inc. have remained consistent with IBA's overall goal of ensuring the community's control over Villa Victoria.

TYPES OF RENTAL PROGRAMS
IN IBA-MANAGED HOUSING
1974

Rental Program	Number of Units	Location
Public Housing	337	West Newton St. Elderly Tower
Lease Housing in privately owned building	24	Tremont/Shawmut
FHA Rent supplement subsidy housing	28	Tremont/Shawmut
Moderate Income Housing	19	Tremont/Shawmut
Total	408	

Source of Information: IBA Housing Register

As illustrated in the preceding table, over 80% of the units managed by IBA are designated as Public Housing. Twenty-four, almost 6% of the IBA-managed units also are owned by the agency. Tenants of the nineteen Moderate Income Housing units receive some subsidized assistance in paying their rents.

RACIAL AND ETHNIC
BREAKDOWN OF IBA HOUSEHOLDS
1974

	Tremont/Shawmut	W. Newton	Tower	Total
Hispanic	49	66	32	147
Black	7	36	39	82
White	12	30	107	149
Oriental	3	4	23	30
Total	71	136	201	408

Source of information: IBA Housing Register

In considering the above table, one should remember that the racial and ethnic breakdown of households not individuals, is herein described. The conclusion that the composition of IBA's tenants is:

36% Hispanic; 20% Black; 36.5% White and 7.5% Oriental, would be misleading for the majority of large families (in three-five bedrooms units) are Hispanic, while most tenants of one bedroom and studio apartments are White.



THE FUTURE

This report summarizes the efforts of "Inquilinos Boricuas en Accion" during the past five years. We believe that future efforts should be guided toward the expansion of programs that consolidate what has been accomplished and the development of new programs to serve our people. IBA's plans for 1975 and 1976 touch every field of community development:

HUMAN SERVICES

* Consumer Education

IBA plans to serve its clients as a counselling, educating and advisory liaison on consumer affairs. The staff will concentrate its efforts on consumer education and budgeting instruction. This program will be coordinated with IBA's activities in Housing Development and Economic Development.

* Recreation

This program is designed specifically for the sponsorship of a Hispanic Community girls club and is geared to those who previously have been excluded from organized recreational and other activities.

* AREYTO

Extensive implementation of IBA's cultural enrichment program is planned for this year. Workshops (in painting, puppetry, dance, silk-screening, music, etc.) will begin soon and three summer festivals are on the calendar of events. The Youth Development Program, a government-funded component of AREYTO geared to fostering a sense of identity and qualities of leadership, was initiated this spring.

* Family Preservation

Many Hispanos and their families experience emotional upheaval in attempting to cope with an unfamiliar and sometimes hostile environment. As an integral, trusted part of the community, IBA often is approached by clients who express their need for special, supportive counselling. In 1975, IBA plans to coordinate the provision of professional counselling and therapy for families and individuals. We are negotiating with other agencies in order to obtain professional staff for these services. An IBA staff member will perform outreach, problem identification and scheduling of appointments for the social work staff placed at IBA.

HOUSING DEVELOPMENT

* Rehab Phase II

This project, slated to begin in summer 1975, will provide for the renovation of 40 units in now vacant and deteriorated buildings of Villa Victoria.

* Viviendas La Victoria-Phase I

This project is the heart of IBA housing development plan as it will provide the family units long awaited by IBA founders. With its one mid-rise building facing on the Plaza and a series of two-family town-houses, the project will provide 181 apartments (54 of which have three or more bedrooms) to low and moderate-income tenants of varying racial and ethnic backgrounds. Phase I began construction in the summer of this year.

* Viviendas La Victoria-Phase II

This project is in planning and preliminary development stage. The acquisition of property to provide additional housing units has been initiated (with half of the property acquired) and will be completed in 1975. IBA is studying the financial alternatives for the project, with emphasis being placed on homeownership alternatives. The projected time for beginning construction is the summer of 1976, with a projected completion date of fall 1977.

The completion of these projects will mark the realization of IBA's Housing Development Plan. Expansion in housing development is seen in the areas of homeownership and consultation services to other New England Hispanic Housing agencies.

ECONOMIC DEVELOPMENT

In addition to the Human Services and Housing Development Division, the Economic Development Component will be implemented in order to help further IBA's goals. This program will focus on identifying major consumer needs, increasing resident's economic "buying power" and furthering employment opportunities. Under the Economic Development Division, IBA envisions the creation within the community of cooperatives and other business ventures, activities which will lead to economic self-sufficiency. It is expected that some initial implementation of this component will occur at the end of 1975.

SIEGRIST & HARGRAVES
CERTIFIED PUBLIC ACCOUNTANTS
44 WASHINGTON STREET
WELLESLEY HILLS, MASSACHUSETTS 02181

To the Board of Directors of
Inquilinos Boricuas En Accion

We have examined the financial statements of Inquilinos Boricuas en Accion for the year ended December 31, 1974 and 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, members' equity, and changes in financial position present fairly the financial position of Inquilinos Boricuas en Accion at December 31, 1974 and 1973 and the results of their activities for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Wellesley Hills, Massachusetts
March 9, 1975

Siegrist + Hargraves

INQUILINOS BORICUAS EN ACCION
(Formerly Emergency Tenants' Council of Parcel 19, Inc.)

BALANCE SHEET

ASSETS

	December 31	
	<u>1974</u>	<u>1973</u>
Current assets:		
Cash	\$ 1,302	\$ 16,562
Loans to employees	342	254
Accounts receivable	1,100	
Contribution receivable	<u>5,978</u>	
Total current assets	8,722	16,816
Advances to affiliate (notes B and C)	90,582	82,290
Restricted cash (note C)	2,461	10,696
Construction in progress (note C)	<u>127,664</u>	<u>1,818</u>
	<u>\$229,429</u>	<u>\$111,620</u>

LIABILITIES

Current liabilities:		
Due to affiliates	13,026	11,901
Accounts payable	5,340	4,698
Accrued expenses	<u>1,500</u>	
Total current liabilities	19,866	16,599

MEMBERS' EQUITY

Surplus - restricted (notes B and C)	215,771	92,986
Surplus - unrestricted	<u>(6,208)</u>	<u>2,035</u>
Total members' equity	<u>209,563</u>	<u>95,021</u>
	<u>\$229,429</u>	<u>\$111,620</u>

The accompanying notes are an integral
part of these financial statements.

INQUILINOS BORICUAS EN ACCION
(Formerly Emergency Tenants' Council of Parcel 19, Inc.)

STATEMENT OF INCOME

	For the Years Ended December 31	
	<u>1974</u>	<u>1973</u>
Restricted (note C):		
Contribution income:		
Institutions	\$114,468	\$ 10,696
Individuals	<u>25</u>	<u> </u>
Restricted net income	<u>\$114,493</u>	<u>\$ 10,696</u>
Unrestricted:		
Contributions:		
Institutions	88,423	78,904
Individuals	<u>470</u>	<u>1,238</u>
	88,893	80,142
Reimbursement of expenditures related to low rent housing development and services billed to affiliate (notes B and C)	8,292	38,966
Interest	3,008	256
Other	<u>2,743</u>	<u>1,899</u>
Total unrestricted income	102,936	121,263
Operating expenses:		
Salaries and related	87,120	76,502
Printing, stationery and office supplies	6,826	2,801
Professional fees	2,881	2,798
Annual meetings, election and festival	939	2,526
Telephone	1,740	1,728
Public relations	1,547	398
Support of community groups (note E)	2,025	
Other	<u>(191)</u>	<u>1,105</u>
Total operating expenses	<u>102,887</u>	<u>87,858</u>
Unrestricted net income	<u>\$ 49</u>	<u>\$ 33,405</u>

The accompanying notes are an integral
part of these financial statements.

INQUILINOS BORICUAS EN ACCION
(Formerly Emergency Tenants' Council of Parcel 19, Inc.)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Years Ended December 31	
	<u>1974</u>	<u>1973</u>
Financial resources provided by operations:		
Net income - restricted	\$114,493	\$10,696
Net income - unrestricted	<u>49</u>	<u>33,405</u>
	114,542	44,101
Decrease in restricted cash	8,235	
Decrease in working capital	<u>11,361</u>	<u>626</u>
	<u>\$134,138</u>	<u>\$44,727</u>
Financial resources used:		
Construction in progress	125,846	1,818
Increase in advances to affiliate (notest B and C)	8,292	32,213
Increase in restricted cash	<u> </u>	<u>10,696</u>
	<u>\$134,138</u>	<u>\$44,727</u>
Details of working capital changes:		
Increase (decrease) in current assets:		
Cash	(15,260)	9,424
Loans to employees	88	(341)
Accounts receivable	1,100	
Contributions receivable	5,978	
Decrease in working capital	<u>11,361</u>	<u>626</u>
	<u>\$ 3,267</u>	<u>\$ 9,709</u>
Increase (decrease) in current liabilities:		
Due to affiliate	1,125	11,901
Loans payable		(5,316)
Accounts payable	642	3,124
Accrued expenses	<u>1,500</u>	<u> </u>
	<u>\$ 3,267</u>	<u>\$ 9,709</u>

The accompanying notes are an integral
part of these financial statements.

'INQUILINOS BORICUAS EN ACCION
(Formerly Emergency Tenants' Council of Parcel 19, Inc.)

STATEMENT OF MEMBERS' EQUITY

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Balance at January 1, 1973	\$ 43,324	\$ 7,596	\$ 50,920
Net income for the year ended December 31, 1973	10,696	33,405	44,101
Advances to affiliate in 1973 transferred to restricted (notes B and C)	<u>38,966</u>	<u>(38,966)</u>	<u> </u>
Balance at December 31, 1973	92,986	2,035	95,021
Net income for the year ended December 31, 1974	114,493	49	114,542
Advances to affiliate in 1974 transferred to restricted (note B and C)	<u>8,292</u>	<u>(8,292)</u>	<u> </u>
Balance at December 31, 1974	<u>\$215,771</u>	<u>(\$ 6,208)</u>	<u>\$209,563</u>

The accompanying notes are an integral
part of these financial statements.

SIEGRIST & HARGRAVES
CERTIFIED PUBLIC ACCOUNTANTS

INQUILINOS BORICUAS EN ACCION
(Formerly Emergency Tenants' Council of Parcel 19, Inc.)

NOTES TO FINANCIAL STATEMENTS

- A. Inquilinos Boricuas en Accion (IBA) is a nonprofit (public charity) organization involved in physical, social and economic development of a predominantly Puerto Rican neighborhood in Boston's South End. The organization is controlled by the community through the annual election of board members by the Community's residents.
- B. Amounts due from affiliate in the amount of \$90,582, \$8,292 which was incurred in 1974, represents expenditures (including salaries) during the four years ended December 31, 1974 by IBA in connection with development and management of new low and moderate income and elderly housing in the neighborhood by IBA's affiliate, E.T.C. Developers, Inc. Repayment to IBA will be made out of any surplus resulting from the completed projects if any, the exact amount of which is not presently determinable.
- C. Restricted cash of \$2,461 and surplus of \$125,189 represents funds received as contributions for use in the rehabilitation of 73 West Brookline Street, a building in the neighborhood which was purchased in 1973. Rehabilitation of the building is expected to be completed in 1975 at which time it will be utilized as a community services organizations serving the Hispanic population of Boston. During the year the Board voted to restrict the use of any amounts collected from affiliate as described in note B and to be utilized only to the extent of income earned from this amount.
- D. Donated services - a substantial amount of consultant services, employee overtime, office space and other non-monetary benefits has been donated to the organization since its inception. No attempt has been made to reflect the value of this upon these statements as contribution income or related expense.
- E. Support of community groups includes a payment to Allston-Brighton A.P.A.C. in the amount of \$2,000.00 as required by the provisions of a contract with between IBA and one of its funding organizations.

ETC DC-DI BOARD

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Daniel Soltren, Vice President
Helen Morton, Clerk
Sr. Carol Putnam, Treasurer

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Humberto Ruiz
Elizabeth Skinner
Daniel Soltren
Irene Suarez
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Luis Yulfo

* Donated Staff and Volunteers

SCOMM

#9:67

INNOVATIONS TRANSFER
New Approaches by the States

INVESTING STATE FUNDS

The Wisconsin Investment Board

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The contents do not necessarily reflect the views of the
National Science Foundation.

August 1976
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\$3.00



THE COUNCIL OF STATE GOVERNMENTS
Lexington, Kentucky

"It is one of the happy incidents of the Federal System that a single courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country."

Supreme Court Justice Louis D. Brandeis

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FOREWORD

The policy, management, and operations of state government require the application of constantly updated approaches to address changing needs and priorities. This necessity for self-renewal implies innovations in the institutions of state government, in their structure, policies, procedures, and personnel.

Many innovations have occurred in recent years in a number of fields at the state level. However, too little is known about some specific state activities because of the variety of laboratories in which they occur. The innovation process is further complicated by the fact that state government officials rarely have the time or opportunity to share such knowledge which may be applicable in other States. Under day-to-day pressures and constraints, professional administrators and technical experts lack the time to write up or share new approaches that they have developed.

The Council of State Governments, which has been providing a forum for such an exchange for many years, has recently expanded its efforts in this area. The State of Wisconsin Investment Board is one of a series of six innovations being studied by the Council under a grant from the National Science Foundation. Besides this program, the others selected for evaluation during this first year include pension fund consolidation, statewide property tax assessments, a state energy management commission, controlling health costs, and a railroad branch line rehabilitation program. Reports are available on the latter four programs.

The state programs studied were selected by a national advisory panel composed of state legislators and officials. The Council is grateful to these individuals for their assistance: Senator Anthony A. Derezinski, Michigan; Senator John Pat Fanning, West Virginia; Senator Larry Fasbender, Montana; Representative Vera Katz, Oregon; Walter Kicinski, Deputy Secretary to the Governor, New York; Jeffrey Laurenti, Executive Assistant, New Jersey Senate; Attorney General V. Frank Mendicino, Wyoming; Senator Mike O'Connor, South Dakota; Representative Cornelius O'Leary, Connecticut; Dr. Tibor Payzs, Special Assistant to the Governor, Kentucky; Joseph V. Stewart, Deputy Director, Department of Finance and Administration, Arkansas; Daniel W. Varin, Chief, Statewide Planning Programs, Rhode Island; William W. Wilkins, Budget Director, Ohio.

This report on Wisconsin's Investment Board was prepared by Dick Howard, Director of the Council's Innovations Project, and James E. Jarrett, Research Associate.

Lexington, Kentucky
August 1976

Brevard Crihfield
Executive Director
The Council of State Governments

PREFACE

Inflation, opposition to higher taxes, and taxpayer disenchantment with government generally, are having a serious impact on government financing at all levels. A recent National Association of State Budget Officers' survey showed States' general fund expenditures in fiscal years 1975 and 1976 increased at a faster rate than did general fund revenues. Surpluses built up in previous years have been rapidly depleted. In the aggregate for the 43 States that responded to the budget officers' survey, general fund balances declined from 8 percent of expenditures in 1974 to an estimated 0.3 percent in fiscal year 1976.

The problem is further exacerbated for States by federal funding reductions in some functional areas and federal program requirements for additional state dollars in other areas. All of these factors are beyond control of state government officials.

In a word, state managers should be, and are looking for additional sources of revenue. One obvious source of significant amounts of revenue is to put state dollars to work, and more and more States are taking advantage of investment opportunities. Perhaps no State has a more completely developed investment program than Wisconsin, which has been investing the assets of retirement funds for 65 years.

This monograph is the fifth in the Council of State Governments' current series of reports on innovative state government programs. It probably comes the closest to describing a "model" program. One reason is that the State of Wisconsin Investment Board has had 25 years to evolve.

We are grateful to the many individuals in Wisconsin, especially those associated with the investment board, who were so generous with their time in helping us to understand the agency's activities and responsibilities. In addition to each of the investment directors, we especially want to thank George W. Crownhart, General Counsel for the board and at the time of our visit acting executive director; Gerald T. Mahaffey, Administrator, and Tom Landgraf, Director of State Budget Operations.

Several individuals reviewed earlier drafts and made useful comments: LeRoy Dockter, Audit Director, Wisconsin Legislative Audit Bureau; Peter J. Nelson, Assistant State Treasurer, Wisconsin; George A. Bell, Executive Director, National Association of State Budget Officers; and Carl Vorlander, Executive Director, National Association for State Information Systems.

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Dick Howard
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August 1976

EXECUTIVE SUMMARY

- The State of Wisconsin Investment Board invests the retirement funds of the major government employee units in Wisconsin: Milwaukee teachers, state employees, and Wisconsin teachers.
- The investment board invests idle cash from 34 different state accounts, earning \$56 million on these pooled accounts last year.
- The investment board invests the State's check float, working with the state treasurer and the Department of Administration to ascertain the State's revenue and withdrawals each day.
- The Wisconsin board also has authority to invest the surplus funds of local governments that may deposit such funds with the treasurer.
- The Wisconsin investment program is facilitated by:
 - ~~Use of only one bank~~ for all deposits and withdrawals of state funds. (No state money is deposited or invested in other state banks.)
 - A computerized statewide accounting and reporting system that allows quick and accurate cash flow estimates by the Department of Administration and state treasurer.
 - Use of a custodian bank in New York City that eliminates handling of securities by Wisconsin officials and permits immediate transfers.
 - ~~Great latitude in the types of investment instruments that can be purchased thus~~ permitting the flexibility needed to maximize investment return.
- Almost all aspects of the Wisconsin investment program have been specifically authorized by Wisconsin law.

HOWEVER, other States should consider that *an investment program similar to Wisconsin's*:

- Would reduce the control top elected officials have over the use of surplus state funds;
- Would be opposed by banks which would no longer serve as depositories of public monies, including some local funds in the case of the Wisconsin local government investment pool;
- Would be more difficult to implement if centralized, computerized accounting procedures were not in use;
- Would be almost impossible to implement if the number of bank accounts cannot be kept to a minimum, preferably one or two;
- Would be opposed by agencies which are now managing the assets of retirement funds.

I. INTRODUCTION

The State of Wisconsin Investment Board manages assets of nearly \$2.75 billion (6-30-75) which earn about \$175 million (based on a reported rate of return of 6.7 percent). Annual gross purchases and sales in fiscal year 1975 approximated \$12.75 billion. In addition to the millions of dollars earned from investing the assets of several retirement funds, the Wisconsin Investment Board earns millions of dollars by investing idle cash balances of 34 pooled accounts, including the general fund. In 1975 the average daily balance in the state investment fund was \$614 million. The return on these particular investments exceeded \$54 million—\$28 million for the state general fund and about \$26.5 million credited to the other pooled accounts.^{1*}

By way of comparison, \$28 million is more than the combined amount appropriated from the general fund to the following Wisconsin agencies: Banking (\$3.5 million), Insurance (\$9.1 million), Regulation and Licensing (\$4.9 million), Local Affairs and Development (\$5.2 million), and the Executive Offices (\$3.4 million).

Not only does state law authorize the investment of almost all state funds; enabling legislation recently authorized the State of Wisconsin Investment Board to invest bank balances upon which the treasurer has written a check, but which from experience the treasurer knows will not actually be paid out by the bank for several days. In other words, Wisconsin invests its "float" in a manner similar to large corporations. In Wisconsin, the check float averages about \$3.5 million per day. If the present 7.44 percent rate of return on short-term investments prevails, the check float would return \$264,000 to the State—a sum equal to about 45 percent of the investment board's budget.

Since March 1976, the State, through the treasurer and investment board, has begun investing idle balances of local governments. Numerous cities are participating in the program. One city reports earnings of \$62,000 on a one-month investment of \$9.7 million.

There are almost no major governmental retirement funds in Wisconsin whose assets are not managed by the investment board. It also is widely believed that there are almost no idle cash balances of state agencies. The budget of the board was \$576,000 in fiscal year 1975 including salaries and benefits of 28 employees, travel, the cost of investment services and outside investment counseling, and various other items associated with housing and supporting the staff. The \$576,500 budget means that the direct administrative expenses of managing \$2.75 billion in assets was a very low .02 percent. This ratio compares favorably with .2 to .4 percent commonly found in private financial institutions.²

The investment program in Wisconsin is facilitated by state laws that require centralized disbursements and centralized receipts. All checks are signed by the state treasurer in one form or another. All agencies must deposit receipts at least weekly and an even shorter time lapse prevails in the case of some large amounts.³

Another important facilitator is electronic data processing which is used throughout the accounting and reporting process.

The "state working bank" also plays an important role in the investment program. This bank, selected at about six-year intervals, is the

\$4600,000 budget for investment board see p.3

only depository for state money and it provides a variety of services including lock boxes, telegraphic money transfers, messenger deliveries, credit for after hours deposits, daily reports on the collected cash balances, and other specified services. Use of the working bank precludes the existence of idle cash balances in a number of depositories and permits rapid and accurate accounting of the State's cash position. Thus, all public money is working continuously.

Within its various portfolios, the investment board invests in stocks, corporate bonds, short-term and long-term obligations of the U.S. government and government agencies, repurchase agreements, real estate mortgages, commercial paper, and private placements. Bankers may lobby against reductions or elimination of state and municipal demand deposits and some legislators may occasionally insist that Wisconsin companies should get preferential treatment in the board's investments, but in the final analysis the direct, measurable economic benefits of a sound investment program have prevailed. The income from interest and capital gains has been substantial. Furthermore, the results compare very favorably with similar programs in the private sector, both from the standpoint of rate of return and costs to administer the program.

In the following section, the organization, administrative procedures, legal authority, and investment policies of the board are described. Additionally, there are separate sections devoted to the municipal investment pool and the Wisconsin state working bank.

*Footnotes for this report appear on pages 24-25.

II. INVESTMENT BOARD RESPONSIBILITIES

The statutes assign extremely broad investment responsibilities to the board and also give it responsibility for the selection of the state working bank. Section 25.17 (1) (a) through (zm) enumerate the funds over which the board shall "have exclusive control of the investment and collection of the principal and interest of all monies loaned or invested." The only public money not invested by the investment board is under the control of the Board of Commissioners of Public Lands and the University Board of Regents.

Retirement Funds

The major investment program involves the management of the assets of the State and Municipal Employees' Retirement Fund, the Milwaukee Teachers' Retirement Fund, and the Wisconsin Teachers' Retirement Fund. On January 1, 1975, these three large retirement funds were merged for investment purposes into two categories—a fixed fund and a variable fund. The fund with the fixed retirement benefits has a broad mix of investments that include bonds, stocks, mortgages, and real estate holdings. By contrast, the variable fund is restricted to equities, primarily common stocks. Finally, the board invests the assets of three smaller funds, the State Life Fund, the Insurance Fund, and the Historical Society Trust Fund. Investment of these funds is accounted for separately.

State Investment Fund

Another important investment activity pertains to the State of Wisconsin Investment Board's exclusive jurisdiction over and management of the State Investment Fund. This fund consists of idle cash balances pooled from 34 individual state accounts, such as the general fund, the conservation fund, the state property insurance fund, and the highway fund. Because of the need for flexibility, the emphasis is on short-term investments—repurchase agreements (usually a short-term investment with a bank which is secured by U.S. Treasury bills), reverse repurchase agreements, commercial paper, certificates of deposit, bonds and notes of U.S. government agencies, and U.S. Treasury notes and bills. At one point in November 1975, the State Investment Fund totaled \$830 million. The average daily balance invested was \$614 million. The high short-term interest rates of FY 1975 permitted returns of 8.89 percent or \$54 million.

Local Government Investment Funds

Recently a third investment pool has been authorized and responsibility for its management given to the State of Wisconsin Investment Board. This fund consists of money due local governments through tax sharing, but left with the state treasurer for subsequent board investment—usually short-term. See Section IV of this report for a description of this newest aspect in the innovative Wisconsin investment program.

Does Alameda invest the float?

Investing the Float

In recent years, another important source of investment income to the State has been the short-term investment of "float," that is the difference between the cash on the treasurer's books and the collected cash balance on the working bank's books.

Investing the check float allows checking account balances to earn additional money while outstanding checks are undeposited or are in the process of clearing. Prior to a legislative enactment in 1974, the State of Wisconsin was barred from investing the check float. The attorney general had ruled that all funds disbursed by check had to be payable on demand. Because the State of Wisconsin has an average daily check float of \$3.5 million over and above the balance required for services the stakes of investing the excess float are of considerable economic importance. The procedure for investing the float can be illustrated by an example of state employees' payroll checks. If payroll checks are disbursed on Thursday, it is known from past experience that about 4 percent of the checks will clear the state working bank on the next day; an additional 28 percent will clear on Monday; 40 percent will clear on Tuesday, and the remaining checks will trickle in later. Therefore, about 68 percent of all payroll funds can be placed in short-term investments by the investment board for four days (Thursday to Tuesday). The state treasurer's office, after receiving the state working bank's daily report and computing the check float each day, will include these funds in the amount available for short-term investments and transmit this information to the investment board's short-term division.

There is no danger of overdrafts in the normal sense because the State maintains approximately \$10 million as compensating balance at the working bank. If the compensating balance goes below the minimum requirement, a charge is carried forward the next month against the State's account.

Revenues generated by investing a State's check float will vary depending on the average daily float and short-term interest rates. In Wisconsin, with an average daily float of \$3.5 million, the annual income generated would be as follows based on various short-term interest rates (income computed on 360-day basis):⁴

5 percent	\$177,000
6 percent	\$212,000
7 percent	\$245,000
8 percent	\$283,000
9 percent	\$319,000
10 percent	\$354,000

Either the Bank makes money on the float or the State does!

The most recent return on the State Investment Fund was 7.44 percent which, if maintained for the remainder of 1976, would bring the State nearly \$264,000 this year. As one Wisconsin official noted, "With respect to the over \$3 million per day typically tied up in check float, the situation is simple: either the bank makes money on it or the State of Wisconsin does."⁵

State Working Bank

One other important, but noninvestment-related, function assigned by the Legislature to the board is the designation of the state working bank. This bank is the depository for all of the State's funds. With few exceptions, it provides the State with all its banking services. See Section V of this report for a description of the state working bank.

Development of the Wisconsin Investment Program

The 28-person staff, the five investment divisions, and the several investment pools managed by the investment board are the present characteristics of an ongoing investment process that can be traced to 1911 and the creation of the State Annuity Board. Actually the board superseded the Annuity and Investment Board which by 1947 already exercised centralized control of investments, having responsibility for both idle operating funds and retirement trust funds.

At the outset, the Board of Trustees consisted of seven persons including the Governor, who was chairman. The staff numbered three. The investment board had the authority, even then, to invest in real estate, mortgages, common stocks, preferred stocks, and U.S. government securities.

Over the years, many changes have brought additional retirement and operating funds under the jurisdiction of the investment board, streamlined the administrative procedures, expanded the types of investment instruments available to the investment board and reduced the day-to-day role of the trustees vis-a-vis the staff. As the changes occurred and the assets under management increased, the size of the staff also increased although less rapidly.

In 1957 the State Investment Fund was created by the Legislature when it consolidated 19 different operating and temporary reserve funds into one. The Legislature also created the fixed annuity and variable annuity funds for each of the retirement trusts as a response to inflation.

By 1958, the third of the major retirement funds, the Milwaukee Teachers, placed its assets under the board's control.

The actual physical storage and handling of securities by the state treasurer's office ended in 1970 when the Legislature authorized the board to maintain an account at a non-Wisconsin bank. In that year, a custodian account was opened at a New York City bank for equities and a couple of years later an account for bonds was established at the same bank.

In the past three years, the trustees have prepared a policy manual delegating considerable authority to the staff;⁶ the State has begun investing its cash float; the local government investment fund also has come into being; investment in longer term U.S. government obligations and unsecured notes of corporations including certificates of deposit has been authorized along with (reverse repurchase agreements) in a general effort to allow greater earning power and flexibility in short-term investments. The three major retirement funds have been merged for investment purposes greatly reducing the accounting work and enabling the fixed portfolio to be improved by amortizing gains and losses over a period of slightly more than 14 years (see page 00).

The Politics of Investing State Funds

The investment board is apolitical and most observers agree that political pressures are minimal. However, with this much money, there are always interest groups endeavoring to have the funds benefit them or their causes. Two groups have, in fact, "borrowed" a substantial portion of the General Fund portion of the state investment pool: (1) the board must make available at the request of the Department of Veterans Affairs up to \$16.5 million for the purpose of housing loans to veterans, and (2) upon the request of the higher educational aids board a cumulative total of not more than \$55 million for loans to needy students.⁷

Social goals not
pursued as a part of
investment policy

Not surprisingly, some underlying pressure is reflected in some legislators' views—to increase the percentage of brokerage business done with Wisconsin brokers and to give preferential treatment to Wisconsin companies when making loans and investments. In addition to the pressures for geographic preferences, there are from time to time pressures to give preferential treatment to minority businesses, and to avoid investments in companies engaged in "socially undesirable activities."

The independent nature of the board reinforces the individual member's inclination in the role as trustee not to pursue social goals in investment policies, and the Legislature has not mandated that social goals should be an investment consideration. Another factor mitigating against social issue criteria is the inability to agree upon and measure social benefits versus the clearly measurable results of economic decisions. An 8.26 percent return is an 8.26 percent return and it is better than a 7.26 percent return.

Although investment directors do not in fact give weight to social criteria the Board of Trustees cannot and does not take a "public be damned" attitude. It is aware that it operates in a political environment.⁸

III. ORGANIZATION OF THE INVESTMENT BOARD

The State of Wisconsin Investment Board consists of seven members, six of whom are appointed by the Governor to staggered six-year terms. The seventh trustee is the secretary of the Department of Administration or the secretary's designee. Four "public" members must have at least 10 years of experience in financial matters (Wisconsin Statutes 15.79[2]), and the other gubernatorial appointees are nominated by the Wisconsin Teachers' Retirement and the State Employees Retirement Fund, respectively. The trustees generally meet for two days a month.

Staffing

Actual investments—purchases and sales—are made by the staff acting under general policy guidelines set out by the seven-member Board of Trustees. The staff is headed by an executive director who serves at the pleasure of the trustees. The staff presently numbers 28, and one more position has been authorized for the 1976-77 fiscal year.

Reporting to the executive director are five investment directors, each of whom is responsible for a three- or four-person division. The investment directors are appointed by the executive director with participation of the trustees. The investment director positions are part of the Wisconsin State Civil Service System and incumbents, after a probationary period, can only be terminated for cause. (Poor performance can be cause and investment directors have been terminated on that basis.) In addition to the investment directors, there is an administrative officer who is in charge of office operations such as personnel, accounting, secretarial, and clerical services.

The structure of the organization is in the process of changing. A research division is being created which will consist of a research director and four analysts. Previously, there were two research analysts and they reported to the investment director for stocks. Under the new arrangement, they will continue to analyze industry groups, but as the change suggests, will provide support services to all five investment directors.

Despite the existence of these research specialists, the board primarily relies on New York and selected regional investment banking firms for firsthand research of particular companies.

Salary ranges for top positions are shown below. While it is generally agreed that salaries for comparable positions in the private sector are higher, the investment board is able to fill its positions with competent individuals.

<i>Position</i>	<i>Salary Range</i>
Executive Director	\$31,068 - \$43,500
Investment Directors	\$28,512 - \$39,912
Research Director	\$17,016 - \$23,820
Senior Research Analyst	\$14,316 - \$20,040
Junior Research Analyst	\$10,368 - \$13,896

The day-to-day investment decisions are made by the investment directors with the concurrence of the executive director.¹⁰ Quarterly, the investment directors and the executive director meet to determine how the estimated revenues will be allocated among the divisions: stocks, private placements, corporate bonds, short-term, and mortgages and real estate. Allocation depends on their collective judgment of market and investment opportunities in forthcoming months. Their views are also considered by the Board of Trustees, who retain the services of outside financial advisors.

Some funds such as those earmarked for the variable long-term investment fund, for example, all go to the investment director for common stocks. He decides on the timing and brokers for his purchases and sales, as do other investment directors for the funds allocated to them during the quarter.

Long-term investments for the fixed fund are generally invested by the Bonds, Private Placements, and Mortgages divisions. The short-term investment division is responsible for investing the 34-fund pooled account, the "float" funds, and the new local government investment funds.

Table 1 shows the diversified types of investments managed by the State of Wisconsin Investment Board.

Table 1

State of Wisconsin Investment Board
Assets Under Management
(June 30, 1975)

Public Bonds	\$829,000,000
Bonds, Private Placements	322,000,000
Stocks	876,594,000
Mortgages	174,513,000
Real Estate	26,283,000
Short-Term	488,190,000
U.S. Treasury Notes & Bills	40,100,000
Government Agencies	86,670,000
Commercial Paper	105,945,000
Repurchase Agreements	255,475,000

Source: State of Wisconsin Investment Board, *Annual Report* Year Ending 6-30-75

Investment Division—Bonds

Bonds are a major part of the fixed fund portion of the long-term investment portfolio. During FY 1975, the Wisconsin board invested \$90.7 million in publicly issued bonds and \$45.2 million in private issues. All bonds account for approximately one-half of the long-term assets managed by the board, \$1,150,955,949 or 51.8 percent on June 30, 1975. The public bonds portion was \$829 million. Interest income on public bonds was \$36 million for the fiscal year.

Investment in corporate and government bonds is not unique to Wisconsin. In Wisconsin, specific authority to invest the fixed retirement investment trust, the state life fund, and the veterans trust fund is contained in Section 25.17 (3) (a) of the Wisconsin code. Statutory limitations on such investments are spelled out in Section 206.34 of the

Wisconsin statutes of 1969. Regarding the bonds of industrial corporations the investment board may not invest more than 2 percent of its assets in any one company nor may it invest in a company that has defaulted in the payment of principal or interest on its indebtedness within the past five years.

In addition, under the policies established by the Board of Trustees, all bonds purchased must be rated by two approved rating organizations. With regard to AAA bonds, no more than 2 percent of the fixed funds assets may be invested in any one issue; for AA or A the limitation is 1 percent and for Bbb or Baa, up to .25 percent. Baa and lower rated credits are reviewed annually.

Excluding portfolio improvement transactions (discussed below) an average of two issues of bonds is purchased each month. There is no policy that places emphasis on the credit issues of Wisconsin companies. However, it is the practice of the Bonds Investment Director to try to give Wisconsin bond dealers 50 percent of the "new issues" business where possible. To give Wisconsin dealers most of the bond business would preclude the division from receiving the research of New York based brokerage firms. The bond portfolio is now computerized by a brokerage house and each month a printout of the bond portfolio is sent to the investment board.

Transaction Amortization Account

The 1975 merger for investment purposes of the three major retirement funds facilitated another important change in investment procedures, particularly in the purchase and sale of bonds and stocks. It enabled the board to create a "transaction amortization account" whereby profits or losses from the sale of assets are spread over a 14-year period. Traditionally, most agencies investing public funds have applied profits or losses resulting from the sale of assets to the earnings of the year in which the sale occurred. One result was a certain inflexibility in portfolios since most portfolio managers were reluctant to sell assets resulting in large "book" losses that would be charged to the current year's investment income.

By merging the three retirement fund investments, it was no longer necessary to maintain records on each series of assets held in the portfolio. All gains or losses could be debited or credited to one account. The next step was to amortize all profits and losses at the rate of 7 percent annually, or slightly more than 14 years for the fixed retirement fund.

Among advantages reported are: (1) savings in work load, time and dollar costs by no longer amortizing each security, (2) a smoother, more representative and equitable annual income, and (3) greater flexibility in bond portfolio management. In fact, the Wisconsin board reports that in the first six months after the new accounting procedures were instituted, 24 separate "portfolio improvement transactions" changed the average annual yield on these investments from 7.633 percent to 9.007 percent. The book loss was \$4 million, \$33.4 million par value sold and reinvested in bonds having a \$29.4 million par value.¹¹

Investment Division—Stocks

Common stocks comprise almost 100 percent of the "variable fund" and a substantial part of the "fixed fund." In FY 1975, for example, 28 percent of the board's fixed fund cash was invested in common stocks. During the fiscal year, common stock purchases totaled \$152 million, and total sales were \$102 million.¹² As of June 30, 1975, stocks accounted for 39.5 percent of the State of Wisconsin Investment Board's long-term assets (variable and fixed funds) and were

valued at \$376.6 million. In the fiscal year, the market value of the stocks in the fixed fund rose 20.8 percent and variable fund, 25.3 percent compared with a 16.1 percent of the S&P 500 Index—the most commonly used measure for evaluating performance of the Stock Division.

Stock transactions are made daily and net purchases average roughly \$30 million a month. Commissions approximate \$1 million annually in return for which the Wisconsin Investment Board receives considerable research.

Wisconsin's law [Chapter 25.17 (3) (a)] specifically provides that funds in the fixed category from the three major retirement programs may be invested in accordance with 1969 statutory provisions [Chapter 206.34]. The statute states that purchases of stocks can only be made from companies whose earnings meet certain specified criteria; no more than 1 percent of the investing agency's assets may be invested in the common stock of one company; nor may the equity position exceed 15 percent of the company's assets.

The Board of Trustees has delegated to the staff (Investment Director—Stocks) authority to purchase or sell stocks. However, stock purchases must be from the trustee-approved list of 206 companies. The investment director must also adhere to the trustees' policy limiting stock portfolio assets in any single industry to 15 percent, and no more than 30 percent may be invested in any one of the following broad categories: basic industry, consumer, technology, government regulated, and financial.¹³

The investment director reports that these constraints cause no particular problems and that the stock portfolio includes ownership in 120 companies.¹⁴ A major criterion of the investment director is that an \$8 to \$10 million equity position will be possible in any company whose stock they might purchase. Because these stock investments usually do not go directly to companies, there is no pressure to buy the stocks of Wisconsin companies.

Investment Division—Private Placements

Presently, \$400 million (all from the retirement funds) is invested in private placements. According to the director of the division, "the major reason for inclusion of private placements in the portfolio is to realize an above average return on investments, through assumption of somewhat above average risk plus a premium for lack of marketability."¹⁵

The division currently has outstanding loans to 300 companies across a variety of industries: railroad, oil, savings and loan, foundry, retail chain, utility, and various manufacturing companies.¹⁶ Loans are not restricted to Wisconsin; the majority of private placements are in other States and Canada.

Criteria for a private placement investment are rather strict. The two most important ratios analyzed are that long-term debt will not exceed 40 percent of total capitalization and that the sum of pretax earnings and fixed charges will be three times the fixed charges for the last two years (a 3 x fixed charge coverage ratio). The minimum loan is \$2 million and no credit rating of less than Baa will be considered. Placements cannot be used as venture capital—no loans can be made to companies in existence for less than five years.¹⁷

If the application has met this initial set of criteria, placement division staff request additional financial material and check many standard accounting measures such as rate of return on sales, operating margins, tax rates, and cash flow position. Also, the staff will consult

Might be instructive to explore the reasons why Wisconsin places a majority of its loans outside the state —

What are the policy considerations —

is this statutory? Should there be "stated ratios?"

with outside people and solicit opinions on the company and industry, and may make site visits to the company.

There have been instances of legislators criticizing the private placements division for not loaning more money to Wisconsin firms. Concessions in the quality of the company or in the quality of the loan have not been made for placements in Wisconsin, but there are some allowances made for Wisconsin placements in terms of company size and requested loan figures. For companies outside the State, the minimum loan is \$2 million, and only those whose annual sales are at least \$40 million are considered. Wisconsin-based companies may request a loan as small as \$1 million provided their annual sales are at least \$15 million. Recent loan yields have averaged nearly 10 percent and it is estimated that fewer than 10 of the 400 loans outstanding are problems.

Investment Division—Mortgages and Real Estate

At present it is the board's policy that mortgages and real estate investments shall comprise between 5 and 25 percent of the fixed-fund portfolio. On June 30, 1975, nearly \$200 million was invested in mortgages and owned real estate. Return on mortgage and real estate investments exceed that of the bond division. The average return on the mortgages division's portfolio was 7.34 percent as of June 30, 1975.

A detailed set of guidelines is used by the three staff members of the division in determining which mortgages and real estate opportunities will be funded.¹⁸ As with the other divisions, all investments of the mortgages division must conform to the broad specifications for investments set forth in the 1969 statutes.¹⁹

There is a broad diversity of mortgage fundings. In 1975, over \$51 million was loaned to 16 income properties—two shopping centers, eight apartments, two warehouses, a medical clinic, a nursing home, a manufacturing facility, and a participation in a loan on an office building. While there is an emphasis on mortgages and real estate investments in Wisconsin, more than 75 percent of the division's portfolio is placed outside the State.

Investment Division—Short-Term Investments

The short-term division has responsibility for investing the state investment fund which consists of 34 separate accounts such as the general fund (including the check float), highway fund, local government pooled investment fund, and cash of the retirement systems prior to its long-term commitment. Assets managed by the two members of the division vary from \$600 million to \$1 billion. As of May 15, approximately \$775 million was invested by the division. Daily purchases and sales average approximately \$75 million, and the short-term portfolio turns over every few weeks.

Return on the state investment fund was 9.02 percent in fiscal year 1974, 8.89 percent in fiscal year 1975, and 7.44 percent in the most recent quarter ending March 31.²⁰ The 7.44 percent rate of return for the recent period, as other state officials will note, is an excellent return since it was 1-1/2 to 3 percent greater than interest rates generally available to large cities. Declining short-term rates in the last 18 months are attributable to national trends.

A variety of short-term investment devices are used: government agency paper, bank certificates of deposit, open day-to-day and term-repurchase agreements, commercial paper, and reverse repurchase agreements.²¹ In mid-May, the assets were distributed as follows: government paper — \$590 million (\$85 million was invested in a single U.S. treasury bill); certificates of deposit — \$55 million; open end repur-

chase agreements — \$60 million; and commercial paper — \$70 million. Usually no investments under \$1 million are considered, or agreements under \$5 million made.

Operationally, the short-term division receives a computer printout every day before 7:30 a.m. listing all current investments and specifying the present value for each discounted security. By 11 a.m. the division will have been notified of the check float level, will have balanced off the State's cash position, and will have checked over vouchers and amounts for individual transactions. After 11 a.m., the division will make trades for the following day, including making sales to cover the State's disbursement needs for the following day.

Investments are selected by the short-term staff from information supplied by brokerage houses and from staff's own knowledge of the short-term markets. The board's in-house research staff is not utilized regularly because forecasting is less useful for short-term investments than for long-term bonds and stocks.

In the future, the short-term division, in hope of increasing its options and of obtaining an even greater return on the investment fund, will request authority to invest in bankers' acceptances and "Eurodollar" certificates of deposit (the debt securities, in U.S. dollars, of overseas branches of U.S. banks). The ability to sell short in the market also is a possible future investment avenue of the division although the board's trustees have not yet given their consent for this more sophisticated and greater risk investment activity.

Administrative Expenses

An important feature of the investment board's operations is its low administrative expense. Table 2 compares the board's assets to expense ratio with those of private insurance companies and nonprofit investment operations. The Wisconsin Investment Board's expenses are proportionately lower, and in all but two cases (College Retirement Equities Fund and the Illinois Investment Board) the board's expense ratio is one-fifth that of other organizations.

Table 2
Ratios of Assets to Expenses, Selected Comparisons, 1973

ORGANIZATION	INVESTMENT ASSETS	INVESTMENT EXPENSES (EXCL. TAXES) PERCENT
Acacia Mutual Life	\$ 607,881,098	\$ 2,774,004 0.456%
Allstate Life Insurance	357,674,020	415,023 0.116%
Aid Assoc. for Lutherans	1,086,948,891	1,479,078 0.136%
Connecticut Mutual Life	3,116,740,666	57,082,944 1.831%
Continental Assurance	1,818,404,188	4,138,855 0.227%
Equitable Life Ins.	14,971,951,691	57,530,742 0.384%
Franklin Life Ins. Co.	1,433,098,891	2,754,778 0.192%
John Hancock Mutual	10,391,836,359	29,414,166 0.283%
Lincoln Nat'l. Life	2,410,340,286	3,649,828 0.151%
Mass. Mutual Life	4,795,468,874	17,907,492 0.373%
Metropolitan Life Ins.	30,286,075,837	99,071,174 0.327%
Mutual Life of N.Y.	4,044,504,230	16,058,497 0.397%
College Retirement Equities Fund	\$ 2,600,056,231	\$ 1,611,552 0.062%
Teachers Ins. & Annuity Assoc.	3,370,887,045	4,657,944 0.138%
Illinois Investment Board	793,726,994	643,628 0.081%
1974 Investment Board	2,520,303,000	524,468 0.0208%

Source: Wisconsin Investment Board

The investment board's administrative expenses are two cents per \$100 of invested assets. As Table 2 shows, in 1974 administrative expenses stood at .0208 percent of assets. This represents a slight decline over the past decade, during which time assets have tripled while staff has doubled. In 1965, the percentage for administrative expenses was .0289.

Several factors may account for the board's low administrative expenses. First, the number of staff and their salaries are less than comparable to private financial institutions. Second, because most funds managed by the board may be pooled, there are significant benefits achieved by a concentration of capital in terms of broker and trader commissions. Third, the board, by being a large institutional investment operation, receives research and related services as a result of its commission fees, that is, no cash outlay. Fourth, the board, like most state agencies, minimizes expenses for amenities and other perquisites.²²

IV. STATE-LOCAL FISCAL COOPERATION

In February 1976, a bill was enacted in Wisconsin which may produce significant economic benefits for local governments in Wisconsin as well as Wisconsin state government. Senate Bill 788 (reprinted in Appendix A) created two local government investment funds to be managed by the investment board—the pooled investment fund and the trust investment fund. The pooled investment fund is already in operation and will receive the bulk of attention in this section.

The pooled investment fund is a voluntary mechanism by which counties, cities, villages, and towns can deposit with the treasurer any state-shared taxes, local revenues, or idle reserves for investment by the state investment board. The interest earned, equivalent to the rate of return for all short-term investments by the board, is credited to the local government, and funds can be withdrawn on one-day notice with no penalties. The trust investment fund permits local governments to establish their own investment accounts with the state investment board and to have their funds managed for a specific period of time.

Background

Legislation authorizing the pooled investment fund was first introduced by the state treasurer in 1967 but was withdrawn after 11 days because of pressure from the banking community. Because of a temporary (15-day) cash flow problem in Wisconsin state government, the program was revived with modifications in the spring of 1976. The State, which needed cash to disburse real property tax credit payments to local governments, was and is prohibited from borrowing more than \$100,000 for current obligations and is prohibited from interfund transfers. Therefore, local municipalities were faced with receiving a prorated amount of their shared taxes. State officials, however, knowing that Wisconsin municipalities collected their main revenues — property taxes — prior to February 28, reasoned that the temporary cash flow crisis could be averted if enough municipalities would defer receiving their state payment for two weeks. As an inducement for such "loans," local governments would receive interest equivalent to that received on short-term investments of the investment board. Nineteen local governments left their funds with the State, and the temporary cash flow crisis was solved.

The pooled investment fund passed the Legislature under propitious circumstances. There was a fiscal crisis situation and the State's bankers were unorganized. While conditions in other States may not be similar, the economic benefits produced by establishment of a pooled investment fund might be sufficiently compelling to overcome opposition.²³ A major hurdle in Wisconsin was obtaining the support of local officials who were concerned about allowing the State to retain their funds in the pool. The local treasurers' association went on record opposing the investment pool. Opposition to the pooled investment trust was softened, however, by also providing for an investment trust fund which would require individual accounts for each locality's funds and for a specified time. If used, the trust fund will not offset the State's cash flow problem since these funds will be tied up for specified periods of time and thus be unavailable to the State.

Provisions of the Two Local Funds

Senate Bill 788 specifies the major similarities and differences between the pooled investment fund and trust investment fund. First, for both funds, local government officials would tell the state treasurer whether they prefer to have their portion of shared taxes paid directly to them or deposited in their account in one of the funds. Secondly, both funds permit local government officials to augment their accounts in the investment board with idle reserves and any other local funds available for investment. Third, for both funds, a maximum of one-fourth of 1 percent of *earned income* will be deducted by the state investment board for administrative costs.

Fourth, local money in the pooled investment fund, while credited to individual local government accounts, would be pooled with state funds for short-term investments. Local money in the pooled investment fund would earn interest based upon the average yield of all short-term investments determined quarterly by the investment board. Local funds in the trust investment fund would not be commingled with other local funds or state funds and unlike the pooled fund, interest on trust investments will be determined by the yield on each separate local government account.

Fifth, local officials depositing funds in the pooled investment fund need not specify on what date they would like their principal and interest returned. Local officials depositing funds in the trust fund must designate the length of investment time for their funds, and incur any financial penalties for early withdrawal of their monies from the trust fund.

How the Pooled Investment Fund Works

The mechanism for direct transfer of local government funds from the state treasury to the investment board serves two functions: (1) it reduces the amount of time which local government funds would sit idle and not receive interest, and (2) it helps the State handle emergency cash flow problems.

Operationally, the deposit and withdrawal system is quite simple. If a local unit of government is depositing money in the pooled investment fund from its state shared taxes, that government gives the state treasurer written instructions as to the amount which the State should retain. If a local unit of government is depositing idle cash from its own treasury, the local treasurer would ask the local government's commercial bank to transfer the funds to the state treasurer for deposit in the investment pool. The investment board will receive its information from the treasurer's office and it will be included in the daily total cash figure which can be invested. The investment board is not notified by the towns directly.

For withdrawals, the same process would be used. If notice of a partial or total withdrawal of the municipality's funds is made by 10 a.m., the state treasurer's office will issue a check that same day and transfer by telegraph the funds to the working bank of the local government. If the check cannot be issued until the next day, the local government also would be credited with an additional day's interest.

The interest earnings are computed on an average yield for a quarter and are based on the average daily balances of each participant's share of the short-term investment fund. Computer programs are used to determine the balance, deposits and withdrawals on a daily basis for each local government.

Advantages of the Pooled Investment Fund

Both the local governments and the State should benefit from this investment pool. For the State of Wisconsin, the new arrangement of localities voluntarily leaving their funds will provide a mechanism to help it deal with the periodic, temporary cash flow problems. In turn, the State's credit rating will not suffer because of frequent cash flow difficulties. Local government funds provide additional capital to the state investment fund; therefore, the state agency may experience a better rate of return on investments and realize economies of scale on the cost side. Moreover, any constant flow of new short-term capital from local governments will enable placements in those investments that are providing the best current rate of return—thus possibly raising the overall rate of return on the State's short-term investments.

Increased cooperation between state and local fiscal officials, it is hoped, will reduce the distrust of state government by local government officials. Finally, to the extent localities experience an improved financial status, the State benefits indirectly.

For local units of government, the pooled investment fund will operate as a checking or demand account which pays a higher rate of return than local governments could obtain on their invested funds.

Officials in the Wisconsin Department of Administration conducted a comprehensive analysis of local government investment practices and discovered that 81 cities and 67 percent of all towns and villages in Wisconsin received no interest income in the 1974 calendar year. Many local officials simply placed idle cash reserves in noninterest bearing demand accounts in local banks.

Local governments should get higher returns on their funds because the investment board can invest in high-yielding, short-term investments such as repurchase agreements and commercial paper, because of lower dealer fees and because of the greater expertise of the board's professional staff. For example, because local governments will receive the same rate of return regardless of whether they invest \$2,000 or \$200,000 (that is, there is dollar averaging across investors), smaller towns and villages most likely will receive higher interest than if their accounts were invested separately.

In addition, the pooled investment fund, by providing local officials an alternative investment option, may force banks to provide more services to local governments in order to maintain the locality's operating funds.

For some municipalities the flexibility of the pooled investment fund will permit an integration of local governments' investment policies with their cash flow system. As noted previously, local governments may invest funds for any amount of time—one or two days or much longer periods. This "variable date" provision ensures that municipalities will not be penalized for early withdrawal or caught in a cash flow problem because of illiquid investments. In fact, the liquidity of the short-term investments and the mechanism for rapid transfer of funds from the state treasurer to local treasurer will enable local governments to receive their funds on the same day or one day after their notice of withdrawal.

Costs involved to state and local governments from the local government pooled investment fund are nominal. Local governments, in fact, incur only the costs of a phone call or postage for a letter to the state treasurer. The state investment board, as stated in the legislation, will deduct a maximum of one-fourth of 1 percent of all earned interest for administrative expenses. It is anticipated the actual administrative costs will be significantly less than this amount.

One possible difficulty that could arise for the State involves money left by local governments in the general fund at the request of state officials, for use in temporary cash flow difficulties, which is not invested but distributed to local governments who need their share. Lender local governments will receive interest on these funds just as if they were being invested by the investment board. Since these funds were not invested, there is an interest expense for the State that must later be appropriated from the general fund. It is not clear how much of a problem this will be and state officials do not agree. While there is a cost to the State of Wisconsin associated with operating the pooled investment fund during cash flow difficulties, this cost will be less than through borrowing on the short-term markets which is not legal under present law. Of course, any final solution to the cash flow problem must await statutory changes that spread payments throughout the year rather than require very large payments once or twice a year.

The Investment Trust Fund

As established, the local government trust-investment fund will be a vehicle for longer-term fixed investments by local governments. The trust fund, then, is conceived as a different type of investment option than the pooled investment fund.

Unlike the pooled investment fund, capital in the trust fund cannot be used by the State for cash flow purposes because it is in fixed investments. In terms of administrative/bookkeeping costs, the trust fund also is less advantageous—the Department of Administration must set up an individual account for each municipality (potentially 1,400) and maintain records on the type of investment interest earned, compute penalty charges for early withdrawals, and set up procedures for notifying local governments when their investments have become mature. In contrast, for the pooled investment fund, the Department of Administration, in cooperation with the state treasurer's office, needs only to maintain records on the average daily balance of a municipality's account during each calendar quarter as all accounts will receive the same rate of return.

If most local governments use the trust fund for long-term investments (over six months), the administrative task would be manageable, although still an additional burden to the investment board. If local governments wish their funds to be managed and rolled over frequently in short-term investments, the board might be overwhelmed, given present staffing.²⁴

Initial Results of the Pooled Investment Fund

The pooled investment fund became effective March 1, 1976, with \$61.5 million in deposits from local governments that left their state shared taxes with the State to assist with cash flow problems. After the temporary cash emergency, local governments withdrew over \$45 million. Five cities kept their shared taxes in the investment pool during the month of March and received a 7.44 percent rate of return, the overall short-term investment yield for the first three months of 1976. Madison, Wisconsin, earned approximately \$62,000 on its one-month investment of \$9.7 million.

Overall, the pooled investment fund has been well received, and now, after the initial period of communicating the details of the program to local officials, participation is increasing. In one two-week period in mid-May, 26 additional local units of government invested cash in the pooled fund. As of July 12, 1976, local governments had nearly \$28 million in the fund.²⁵

Start-up costs of the pooled fund were minimal as coordination for the program involved no budget and limited staff time. It appears no additional state employee must be hired for investment purposes. One person may be hired to serve as the principal information and resource contact for local governments although a final decision has not been reached.

Few complaints have surfaced to date. One city treasurer who has left shared taxes in the pool and also has transferred an additional \$2.1 million of the city's cash to the pool sees only two needed modifications. First, according to this official, the investment board should disseminate brief biweekly or monthly reports on what types of short-term investments are being made. This information, he suggests, would be useful for his own investment operation and could also be used to inform the elected city officials that the pooled fund will provide a superior economic return.²⁶

Secondly, the city treasurer hopes that when local governments withdraw their funds from the pool, the interest will be returned immediately with the original funds. Currently, earned interest will be returned at the end of the next calendar quarter when the investment board computes the rate of return on short-term investments. Local treasurers can, of course, make estimates of their cities' interest income.

Implementing the Pooled Investment Fund in Other States

In Wisconsin, the pooled investment fund benefits state and local treasuries. In States without a centralized investment unit, establishing an investment mechanism for local governments would be considerably more difficult. States without financial expertise in short-term investments probably should not initiate a pooled fund until an investment board is operational for several years or until appropriate staff can be hired. States with an existing investment agency will need to consider how a sudden influx of local funds will alter current operations. For instance, computer programs must be developed by the investment agency or treasurer's office for proper crediting of municipal accounts. And, until other States duplicate Wisconsin's rapid deposit and withdrawal system, some mechanism must be established so that local governments do not lose substantial interest income from slow transfer of funds.

Not all States may wish to assume additional functions and not all States would receive as many economic benefits as Wisconsin. If a State is not investing in the short-term area, local government funds would not permit a concentration of capital and higher yields. If a State is not experiencing cash flow problems or distributing large sums of cash to local governments, the pooled fund would be less attractive. If there are many cities with their own investment programs, participation in the pooled fund would be less beneficial.

The pooled investment fund would appear to offer many economic benefits to state and local governments, given an appropriate investment framework. This fund will not solve any major existing problem but it may generate state and local revenues without extracting these resources from reluctant taxpayers. Few programs can be assessed so favorably.

V. THE STATE WORKING BANK

Another aspect of the overall cash management system in Wisconsin is the "state working bank." The state working bank is selected by the State of Wisconsin Investment Board. Authority for selecting the bank is found in Section 25.17 of the Wisconsin Statutes:

(61) [The Board Shall]. . . designate public depositories for the deposit of public moneys. . . coming into the hands of the state treasurer; allocate the deposits of all public moneys coming into the hands of the state treasurer, and limit the amount of such public moneys, as determined from the state treasurer's records, which may be deposited in any public depository so designated. . . only such banks as have been named by the investment board as working banks shall carry state deposits on which checks are drawn to conduct the daily business of the state, all of which deposits shall be payable on demand.

The Legislature wisely avoided enumerating the selection criteria leaving that task to the board. Although the law would permit more than one working bank, the State of Wisconsin Investment Board has concluded that the operational advantages of using only one bank outweigh any operational or political disadvantages. Thus, there is only one Wisconsin bank serving as a depository for the State's funds. There are both operational and fiscal advantages from having one state bank instead of two. Coordination among a single working bank, the investment board, and the treasurer's office is an easier task because of a single disbursement account. Fewer man-hours are required to resolve any problems or issues when there is only one bank and better service usually results from having a super account with one bank instead of medium-sized accounts with two banks. The use of one bank instead of two has a fiscal benefit as well in that no interest will be lost due to transfer time between banks.²⁷

The state working bank in Wisconsin is selected on the basis of proposals submitted by the interested banks.²⁸ Under the most recently used procedures, there is no ending date—a six-year working arrangement has been normal. It is anticipated that a thorough review of costs and services will occur at two-year intervals. Either the State or bank can terminate the arrangement with 12 months notice.

Activities of the State Working Bank

As banker for the State, the First Wisconsin National Bank will provide many of the services it provides for its largest corporate customers. In its relations with its banker, the State's objectives are the same as a corporation's: (1) accurate reflection of its cash situation at any point in time, (2) efficiency in the provision of services at a reasonable cost, and (3) rapid and accurate transfer of funds in order that the State can make maximum earnings on its funds.

The state account ranges from \$2 million to \$100 million on any particular day. Thus, the volume of work is considerable. During the year, there will be eight million deposit items to the state account that must be processed. There will be 4.6 million checks and 4.5 million