

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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

though the value of the land is so great in proportion to the amount of the prior mortgage that there would seem to be a sufficient margin of safety, the difficulty is that a junior encumbrancer cannot control the situation, and there is always the possibility that the senior encumbrancer may foreclose and the junior encumbrance may be cut off. In some circumstances, however, it has been held proper for a trustee to take a junior mortgage.² Thus where he holds a claim in trust which is not otherwise collectible, it may be proper to take a second mortgage from the obligor to secure the claim.³ So also under some circumstances it has been held proper for a trustee who is authorized to sell land to take a purchase-money mortgage even though there is a prior mortgage outstanding. This is true, however, only in exceptional circumstances where the taking of such a mortgage is necessary to effect a sale, since ordinarily it is the duty of a trustee who has a power of sale to sell for cash.⁴

It has been held that it is improper for a trustee to invest trust funds in an equitable mortgage.⁵ Such a mortgage does not cut off prior equities, and is itself liable to be cut off by a transfer of the

v. Moulton, 84 Me. 545, 24 Atl. 1004 (1892).

Maryland: Gilbert v. Kolb, 85 Md. 627, 37 Atl. 423 (1897).

Michigan: Roberts v. Michigan Trust Co., 273 Mich. 91, 262 N.W. 744 (1935), noted in 34 Mich. L. Rev. 898.

New Jersey: Tuttle v. Gilmore, 36 N.J. Eq. 617 (1883).

New York: King v. Mackellar, 109 N.Y. 215, 16 N.E. 201 (1888); National Surety Co. v. Manhattan Mortgage Co., 185 App. Div. 733, 174 N.Y. Supp. 9 (1919), *aff'd*, 230 N.Y. 545, 130 N.E. 887 (1920).

North Carolina: McEachern v. Stewart, 114 N.C. 370, 19 S.E. 702 (1894).

North Dakota: Huso v. Jasper, 48 N.D. 102, 183 N.W. 366 (1921).

Oregon: Roach's Estate, 50 Ore. 179, 92 Pac. 118 (1907).

South Dakota: Dye v. Dodd, 55 S.D. 429, 226 N.W. 565 (1922).

Wisconsin: Estate of Dreier, 204 Wis. 221, 235 N.W. 439 (1931).

² Massachusetts: Taft v. Smith, 186 Mass. 31, 70 N.E. 1031 (1904) (trustees sold a farm subject to a first mortgage and took a note for a part of the

purchase price secured by a second mortgage).

New York: *In re Blauvelt*, 2 Connolly 458, 20 N.Y. Supp. 119 (1890) (purchase-money mortgage).

Pennsylvania: Jacks' Appeal, 94 Pa. 367 (1880) (accepting junior mortgage from predecessor).

In *Pike v. Camden Trust Co.*, 128 N.J. Eq. 414, 16 A.2d 634 (1940), it was held that a trustee which invested in participation certificates on premises which were encumbered by a small municipal lien for an unpaid tax assessment was not subject to a surcharge. The mortgage was for \$200,000 and the assessment was for \$3200 and the mortgagor had promised to pay it if in a pending appeal it was decided that the assessment was valid. The trust instrument permitted the investment in non-legals.

³ See §§ 177, 192.

⁴ See § 190.7.

⁵ Webb v. Ledsam, 1 K. & J. 385 (1855); Swaffield v. Nelson, [1876] W.N. 255; *In re Turner*, [1897] 1 Ch. 536.

August 2, 1977

Memo to: TERRY GARDINER

Re: RENEWABLE RESOURCES DEVELOPMENT FUND

This memo is for the purposes of boiling down the results of our meetings in Juneau and Ketchikan and the conversations and/or meetings we have had in the last 10 days with the following people:

Bob Dupere	George Hohman
Bob Laresche	Russ Meekins
The Governor	Bill Miles
Jim Edenso	Clark Gruening
Tom Singer	Jim Rhode
John Williams	Steve Cowper
John Sund	Walt Parker
Pat Rodey	
Bill Bernier	Research and
John Sackett	Development
Rob Koscis	Committee

It should be noted that all of the discussions with these key people require a follow-up on our part and theirs. Those people from the Executive Branch are vital to the success of our plan regarding research and cooperation prior to the next session. The people from the Senate are integral on all levels and will be active in studying capital needs in renewable resource development. The House members, staff and consultants are seen as the key players in developing the structure and planning policy. I intend to use the above names as a partial mailing list for all further memos regarding the development fund.

A. As I interpret the basic plan, it is to include three major areas of work:

- (1) Renewable Resource Development Planning. Our meetings exposed the need for a comprehensive planning system for renewable resource development. DNR, DPDP, and private consultants will provide a lot of assistance here, and the Research and Development Committee and the Senate to a lesser degree.

The concept of a Research and Development Council to hone the leading edge of the Development Fund has initiated widespread interest. However, it has also made clear that we are weak in the area of a planning system, and it is quite probable we must seek some aid through a contractual proposal.

- (2) Present Fiscal Needs and Tools. We have had no information about fiscal needs or the lack of from anyone not connected with the banking profession, except for in-house staff work. The Senate should be a lot of assistance here. John Williams appears to have the fisheries questions under control. Land, water and non-depleting energy resources have not had the attention they need. Hopefully DPDP and DNR can help us with that.

Present fiscal tools have been superficially analyzed. It is apparent that, since those tools (loan funds, etc.) are spread out through the Executive Branch, there can be no coherent planning system or process that does not pull those tools under one umbrella. This matter has been the subject of previous memos, but I now suggest that we need someone working on a realistic proposal for that umbrella structure. I'll work toward that goal myself, until we can see who would be more qualified to work on such a proposal.

- (3) Structure Policy & Development. Heretofore we have looked at several different structures: (1) development bank; (2) corporation; (3) development and conservation fund; and (4) cooperative bank. The obligation of each of those structures is fundamentally different. I now intend to spend most of my time on developing drafts of these different approaches and analyzing the long and short points. I intend to work closely with Bill Berrier on this and see him as a key player.

As I now understand it, the basic plan encompasses what we have been calling a sub-funding mechanism. Beldon Daniels spoke of financial intermediaries, and those words have caught the ears of the players more. We are trying to balance a continuity of development planning policy against legislative interest in meeting regional needs. It appears that the creation of an intermediary, with funding through legislative appropriation, may be a good balance. Accordingly, I intend to begin drafting revisions to the RRDF to provide for such an approach.

Revenue basically proposed an intermediary for the Permanent Fund, but suggested autonomy that many in the legislative body did not approve of. After our meetings with Jim Edenso, I suggested that Revenue can be of the biggest help in this matter of concern.

- B. Regarding the budget for this plan, I feel the following factors are relevant:

- (1) We will need an RFP for a consultant on a Renewable Resource Development Planning System.
- (2) Analyzing structure policy will call for accountability and evaluation measure research. Tom Singer has and can help us in this matter, but, as we discussed earlier, it appears that we may have to travel to Washington and Boston to meet with the people Guy Martin and Beldon Daniels have recommended.
- (3) Since the Permanent Fund structure is taking shape differently than the RRDF, Juneau is the apparent center of action. I anticipate that you, I, and several members of the Committee should spend more time there. I suggest at least 1 week a month for me. We can coordinate that time with other time demands in Juneau to defray costs, but we should set a work schedule now.

Douglas Pope

SCOMM

9:133

INTERIM RESOURCES PROGRESS REPORT

Representative Gruening



Alaska State Legislature

House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE.

Rep. Alvin Osterback
Chairman

Pouch V, State Capitol
Juneau, Alaska 9981
(907) 465-3715

August 28, 1977

MEMORANDUM

SUBJECT: 1978 Interim Operating Budget

TO: Chairman Mike Miller & Legislative Council Members

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

I am requesting action by the Council to restore approximately \$12,700 back into my 1978 Interim Resources Committee operating budget which lapsed at the end of FY 77.

The Legislative Staff was unable to encumber this amount of money when I was aware that these funds were going to lapse. I am not overexpending my budget in any way. The new budget forecasts were largely caused by our inability to encumber travel funds and by the new staff unfamiliar with what had been happening during the first four weeks of the Interim period (because they were new, they were unable to take the 6 weeks off during the summer as originally planned). Of the \$12,700 needed by the Interim Resources Committee, approximately \$5,500 will be utilized for a typist and \$5,600 for travel. (Attached is a copy of how our travel monies will be spent). Other uses for the money will be evident in the attached budget. Also, in my original request to the Council, I did not include travel to the North Pacific Fisheries Management Council hearings and the Fish Symposium in Seattle. Basically, so far, the North Pacific Fisheries Management Council has been deeply involved in management of a bottomfishery which is of primary concern to our Committee at this time.

I respectfully request that you put back the \$12,700 into my Interim Committee budget at this time. As I stated, these funds are necessary to complete the work I outlined previously to the Council.

Attached is a copy of my Interim Committee Report, and also a comparison of the Interim Resources Committee Revised Budget as approved by the Council with an accounting of monies spent so far by this Committee with a projection of further expenditures to show the need for the reinstatement of the \$12,700.

APPROVED BUDGET

PROJECTED BUDGET

(June 1 - June 31, 1977)

Personal Services

A.A.

Staff Asst.

Secretary

7.35% Benefits

7,800

Travel

2,400

Contractual

31,000

41,200

(June 1 - June 31, 1977)

Personal Services

D. Nelson

2,625.45

J. Nelson

911.60

K. Chappell

843.76

K. Hathaway

971.03

5,351.84

5,351.84

7.35% Benefits

427.65

Travel

1,709.98

Contractual

21,000.00

28,489.47

\$12,710.53 LAPSED BACK INTO THE GENERAL FUND

(August 15 - December 15, 1977)

Personal Services

A.A. (2,474/mo)

9,986

Staff Asst. (1,983/mo)

7,932

Secretary (1,378/mo)

5,512

23,430

23,430

7.35% Benefits = 1,670

1,670

Travel & Per Diem

11,400

Contractual

2,000

38,500

38,500

(July 1 - December 15, 1977)

Personal Services

D. Nelson (2,474/mo)

13,607.00

K. Hathaway (1,900/mo)

10,450.00

K. Chappell (1,300/mo)

5,850.00

29,907.00

29,907.00

7.35% Benefits

2,198.17

Travel & Per Diem

17,000.00

Contractual Services

2,000.00

51,105.17

51,105.17

SHORT \$12,605.17

TRAVEL EXPENDITURE BREAKDOWN

August 21-26	North Pacific Fisheries Management Council Bottomfish Hearings in Sand Point, Kodiak, Anchorage	\$1,500
August 29	Legislative Council Meeting in Anchorage	587
Sept. 21-23	North Pacific Fisheries Management Council Meeting in Anchorage	720
Sept. 20-24	Committee Travel--Bottomfish Symposium in Sand Point, Unalaska, and Kodiak	6,418
October 4-7	Committee Travel--Bottomfish Symposium in Cordova, Juneau, Petersburg, & Ketchikan	3,607
Early Oct. 5 days	Fish Symposium in Seattle	870
October 26-28	North Pacific Fisheries Management Council Meeting in Anchorage	720
November 23-25	North Pacific Fisheries Management Council Meeting in Anchorage	720
	Future Scheduled Legislative Council Meetings (anticipated Sept., Oct, Nov)	<u>1,500</u>
		<u>\$16,642</u>



Alaska State Legislature
House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback
Chairman

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

August 28, 1977

MEMORANDUM

SUBJECT: Interim Committee Progress Report

TO: Chairman Mike Miller & Legislative Council Members

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

I have asked that my staff prepare a progress report as requested by our Executive Director, John Doyle, on July 12, 1977.

Attached you will find the progress report, and if you have any questions, please direct them through me to my staff.

You will also find before you a separate memorandum regarding my FY 1978 operating budget which needs action to restore \$13,000 which lapsed from my FY 1977 budget.

Attachments: Symposium
Travel Schedule
Committee members
Committee staff

INTERIM RESOURCES COMMITTEE PROGRESS REPORT

MAY 30 - JUNE 7

For this week, beginning the day following the end of the legislative session, Jeanne Nelson and Diann Nelson met with resource people--Gregg Erickson of Legislative Affairs to request the assistance of John Williams a Research Analyst, Commissioner McAnerney of the Department of Community and Regional Affairs, Commissioner Hubbard of the Department of Commerce, and Dick Reynolds of the Department of Commerce. The staff set tentative dates for the Interim Committee to travel and revised the work plan. (These are attached to this report).

JUNE 9 - JUNE 17

Jeanne Nelson quit and I was able to hire an attorney. The wages of the attorney will be paid out of our \$30,000 contractual services. His monthly salary will be \$2,500. The attorney, Frank Glass, previously worked for the Limited Entry Commission. In place of Jeanne Nelson, I hired Kathy Hathaway as the Staff Assistant. She was previously a member of Senator Frank Ferguson's staff. I also hired Kim Chappell for this month to fill the secretary's slot. Kim Chappell and Diann Nelson attended the Legislative Council meeting in Anchorage at which time I presented the Council with our revised copy of the Budget and a copy of our revised work plan. We asked that Senator Bill Ray be our representative on the Council and he agreed. Speaker Malone made the motion to approve our revised Interim Committee project. This motion carried at the June 17, 1977 Legislative Council meeting.

JUNE 18 - JUNE 24

This week was spent explaining to the new staff members the work plan for studying the bottomfish fisheries. Also, Frank Glass and Diann Nelson attended the North Pacific Fisheries Management Council meeting on June 23 - 24 at the Hill Building in Anchorage. The NPFMC scientific and statistical committee and the advisory panels met separately one day earlier and the Council conducted a public commentary on the first day and also held a closed session to discuss confidential matters concerning the renegotiation of the International North Pacific Fisheries Convention and the U.S./Canadian talks. The Council approved for printing two management plans--the

groundfish fisheries in the Gulf of Alaska (1978) and the Alaska Tanner Crab fisheries (1978). The Council also announced that the next joint Public Hearings would be held on the two management plans and on joint ventures. Public Hearings proposed by the National Marine Fisheries are as follows: Aug 3--Petersburg, Aug. 5 & 6--Seattle, Aug 22--Anchorage, Aug. 23--Sand Point, Aug. 24--Kodiak. They requested that public testimony be submitted in writing in the event we cannot attend. Frank Glass & Diann Nelson more or less attended the meetings as observers and to familiarize themselves with the functioning of the National Marine Fisheries Management Council.

During this week we also had meetings with John Williams, Legislative Affairs; Dick Reynolds, Commerce & Economic Development; and Frank Rue, Community & Regional Affairs--having general discussion familiarizing the staff with what everyone else is doing with this subject. We also mailed out the Committee's symposium and travel schedule to fishermen.

JUNE 25 - JUNE 31

I found it necessary to again revise the distribution of funds under personnel services. With two new staff members on board, I found that the A.A. and Staff Assistant were unable to take leave from July 1 to August 15. Since we had an attorney on the staff, I directed that he do legal research on present fisheries loan programs in Alaska, and that he obtain the services of George Rogers, Adjunct Professor, Institute of Social and Economic Research, and Michael Scott also with the Institute, to advise the Committee on the economic consequences of various taxation schemes to enhance the bottomfish industry in Alaska. The funds to pay these individuals would come from our original \$30,000 contractual services. Frank Glass' salary from June, 1977 to December, 1977 at \$2,400 a month comes to a total of approximately \$16,000. That figure deducted from \$30,000 left us with \$13,900. The two short term contracts with George Rogers and Mike Scott come to about \$2,000. Consequently, we had about \$11,900 lapse back into the Council general funds. I was told this amount could not be encumbered for the 1978 Operating Budget even though its loss may cause us to need additional funds for Committee travel this Fall). Since the staff was unable to take the month and a half off because of being new, I had to cut the secretary position in order that we did not overexpend under personal services. So we no longer have a secretary position. However, the Staff Assistant, Kathy Hathaway, has been assigned those duties besides the duties of assisting Diann Nelson and Frank Glass. Earlier this month (June 6) we mailed out the work plan, budget, and travel itinerary for the symposium to all Committee members who are:

Sen. Ray
Rep. Haugen
Rep. Gardiner
Senator Poland
Rep. Akers

Rep. Akers, Rep. Gardiner, and Senator Poland sent back their copies of our travel form indicating the dates they will be able to attend the symposiums. Attached is our copy of the revised travel schedule. The travel schedule was changed to accommodate members of the Committee who requested we make a change.

During this week the staff also met with Walt Jones of the National Marine Fisheries Service; had a telephone conversation with Pete Harris of the New England Fish Company in Seattle to have a preliminary discussion before Diann Nelson met with him in Seattle; and arranged Committee travel in the Chain for the bottomfish symposium. Frank Glass also made a preliminary investigation of existing State and Federal loan and subsidy programs.

JULY 1 - JULY 7

During this week the staff met with the Department of Fish & Game, Industry representatives, and NMFS people in Juneau on what the management plans were on bottomfish in Alaska. They had a meeting with Rick Lauber of the Association of Pacific Fisheries, and did a tying together of resource material and what they had learned in meetings with representatives of Industry and the State and federal governments.

JULY 8 - JULY 13

The staff and I worked on finalizing the agenda for the symposiums. (copy attached). Diann Nelson left for Seattle and met with Pete Harris, assistant to the President of New England Fish Company. The primary purpose of this trip to Seattle was to seek the services of Pete Harris who is a specialist in the bottomfish field. Diann was able to get Pete Harris to travel with our Committee and to take part in the Symposium. She asked that he give a presentation on "Demands and Markets in Bottomfish", and New England Fish Company agreed to finance Mr. Harris' trip with us on our travels. This alone saved a lot of money for the Interim Committee. June 9 - 10 were the dates Diann travelled.

During this week we also began drafting the preliminary report, revised the hearing schedule, and drafted a community questionnaire, which is being looked over by Frank Rue of Community and Regional Affairs before being sent out to the

communities.

Also, some very important companies in Seattle as far as bottomfish are concerned are: King Crab, Inc.; Fish & Oyster (Bill Hingston); Northern Processors (Mr. Daubensbeck). Diann was unable to contact all these companies during her trip. Hopefully she will be attending the North Pacific Management Council meeting in Seattle on Aug. 5 - 6. She could then set up meetins with Northern Processors.

JULY 14 - JULY 20

Diann Nelson was in Anchorage for part of this week as my representative to the D-2 Steering Council meeting. The Permanent Fund was also meeting at this time and Diann had the opportunity of talking with Belden Daniels about our Interim Resource Work Plan for bottomfish. Mr. Daniel's was in Juneau on July 19 and met with the staff regarding the potential role of cooperative banks and production credit associations in the development of the fishing industry. However, Dr. Frank Orth from the University of Alaska will be doing an analysis of fishing cooperatives presently in existence in Alaska, the national status of cooperative banks and their assistance to their clientele, and a discussion of the charters and structure of these two institutions as they affect their potential usefulness to the Alaska fishing industry. The other part of this contract calls for Dr. Orth to investigate the implications of foreign investment in Alaska fisheries, how it may impact the development of the industry and the earnings of Alaska fishermen, and the implications that foreign investment has to the long-run development of the domestic industry and State policy. Dr. Orth will be paid by the Senate Committee on the Alaska Permanent Fund however, and his study ties right in with our project on bottomfish.

JULY 21 - JULY 27

Part of this week Diann Nelson was also in Anchorage as my representative at the D-2 Steering Council meeting. Our office met with various industry people and John Williams. Legislative Research intends to conduct the following investigations: a survey of the financial institutions which have been identified as primary Alaska and Pacific Northwest sources of capital. They plan to discuss the development of the bottomfish industry with bankers to obtain their perception of the potential problems of incipient development. Hopefully, they will identify those portions of the fishing sector which can reasonably expect to obtain adequate financing from the private sector. Also the Research Division will query the processing sector to obtain some knowledge

of their development plans and perceived problems. They are also attempting to acquire some knowledge of their capital needs and perceived bottlenecks to initial bottomfish utilization. They have also specified that they will investigate programs which have been established in other states and other nations to encourage expansion of their fishing sector into new and underutilized species.

I had a request from Representative Haugen to change our travel itinerary on bottomfish from September to the first week in October. No one on the Committee objected, so we then changed our travel schedule (attached).

JULY 28 - AUGUST 3

Frank Glass is continuing this week to investigate State and federal programs which are of assistance to the Alaska fishing industry, and to investigate federal subsidy and loan programs to the fishing industry. In addition, he is seeking to identify possible State roles in the way the market for bottomfish develops. Frank has also asked Jim Baldwin from Legislative Legal Services to undertake two areas in support of our bottomfish investigation. He is conducting a legal review of HB 539, an act establishing renewable resources development incentives and tax credits and repealing the Alaska Industrial Incentive Act and the Alaska Industrial Tax Credit Act; and a review of the institutional and legal mechanisms (other than tax incentives and subsidies) available to encourage domestic development (and discourage foreign development) in the bottomfish industry.

The staff has been continuing research into community resource availability for suitability as locations for on-shore processing plants. They also met with Ed Naughton of the KMIDC, and with Mr. Naughton travelled to the Auke Bay Fisheries Lab to take a look at their resource material.

AUGUST 11 - AUGUST 17

During the week Belden Daniels of the House Permanent Fund met with the staff and learned that Mr. Daniels had done a previous study in Boston on bottomfish and I was quite interested in having his opinion of our work. Representative Clark Gruening has agreed to allow Belden Daniels to use 2 days of his time on retainer to review our work plan and projects presently ongoing in support of bottomfish. And in addition, Clark has agreed to lend Belden Daniels for an additional two days to review the final product of the bottomfish plan and to suggest ways and means of implementing the findings of the Interim Committee staff. My office sent Belden a copy of our work plan and tasks that we hope to accomplish by December.

AUGUST 18 - AUGUST 24

During this week and almost all of the previous two weeks our staff assistant, Kathy Hathaway, has been compiling information on the infrastructural needs of an expanding bottomfish industry, and is obtaining information on the infrastructure presently existing in Alaska coastal communities which are propitiously located to serve as on-shore locations for an expanding processing and fishing industry. She has also coordinated travel for Committee members and keeps our own ledger on expenses. During this week she will be attending the the D-2 Steering Council meeting in Kotzebue because Diann is unable to attend in my place.

AUGUST 25 - AUGUST 28

We hired a typist the week of August 1 to assist in preparing various reports. This week Frank Glass and Diann Nelson were both attending the North Pacific Fisheries Management Council hearings in Sand Point and Kodiak. We compiled this report during this week for the Council and all three of the staff are present to answer any questions you may have.

In the event anyone has any questions, please feel free to ask my staff.

9/15/77

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback, Chairman

R E V I S E D T R A V E L F O R M, # 2

Aleutian Chain:

Sand Point	September 20 - 21
Dutch Harbor	September 22 - 23
Kodiak	September 24

Southeast:

Ketchikan	October 4
Petersburg	October 5
Juneau	October 6
Cordova	October 7

S Y M P O S I U M

BOTTOMFISH IN ALASKA

September 1977

WELCOME - OPENING REMARKS

ALVIN OSTERBACK
CHAIRMAN
INTERIM RESOURCES
COMMITTEE

BOTTOMFISHERIES IN ALASKA

DICK REYNOLDS
FISHERIES SPECIALIST
DEPT. OF COMMERCE &
ECONOMIC DEVELOPMENT

FISHERIES: DEMANDS & MARKETS

NEW ENGLAND FISH CO.

PRESENT INDUSTRY IN ALASKA

PETE HARRIS, NEW ENGLAND
FISH COMPANY

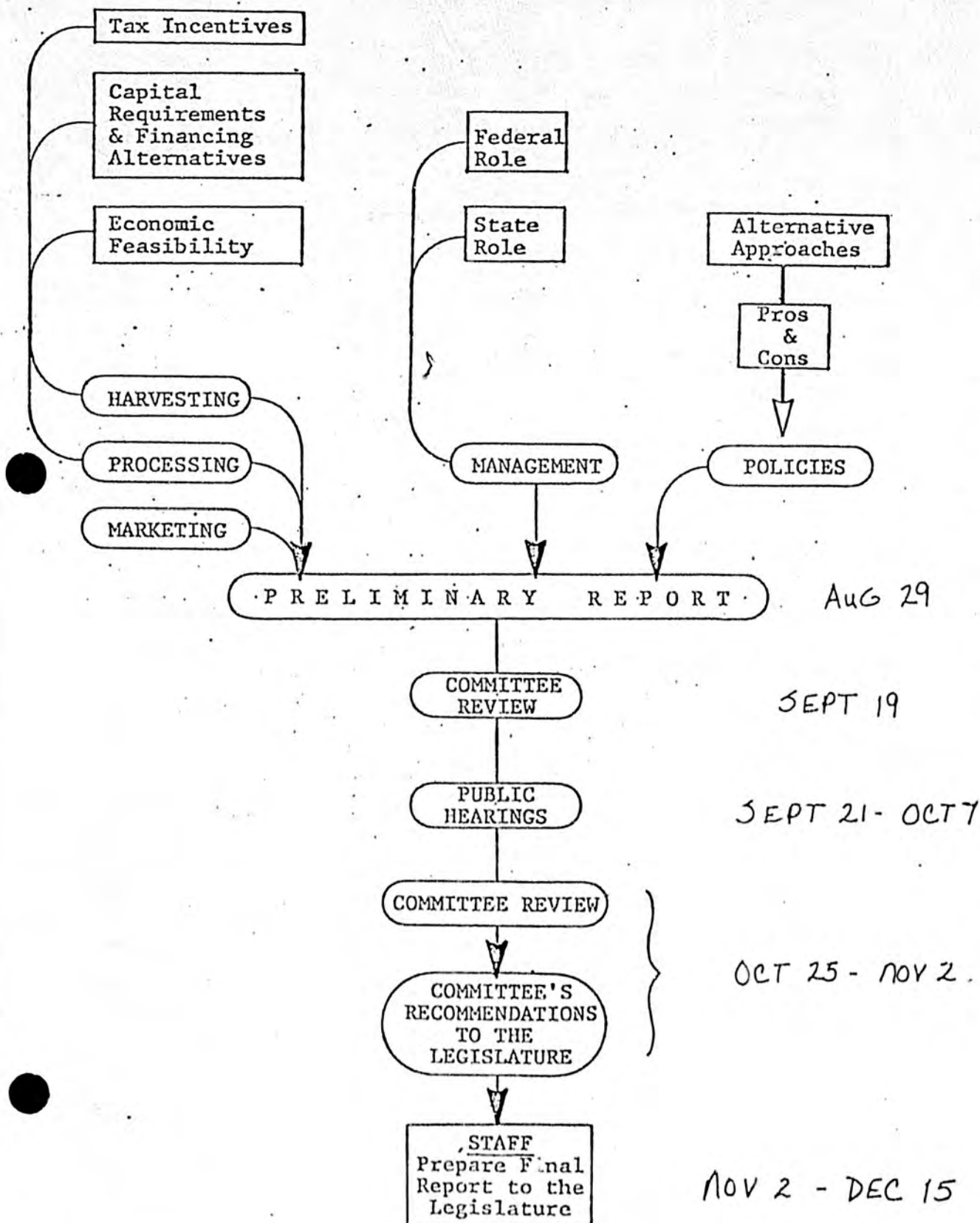
FRANK GLASS, CONSULTANT

PUBLIC COMMENT

INTERIM RESOURCES COMMITTEE

BOTTOMFISH WITHIN THE 200-MILE LIMIT

WORK PLAN



August 19, 1977

P R E S S R E L E A S E

REP. ALVIN OSTERBACK, CHAIRMAN OF THE STATE LEGISLATURE'S INTERIM RESOURCES COMMITTEE, ANNOUNCED TODAY THAT THE INTERIM RESOURCES COMMITTEE WILL BE HOLDING A BOTTOMFISH SYMPOSIUM IN SEVERAL ALASKAN COMMUNITIES IN SEPTEMBER AND OCTOBER. MEMBERS OF THE INTERIM RESOURCES COMMITTEE ARE REP. TERRY GARDINER, SEN. BILL RAY, REP. ERNIE HAUGEN, REP. BILLY AKERS AND SEN. KAY POLAND. THE BOTTOMFISH SYMPOSIUM WILL INFORM THE PUBLIC ON ALASKA'S BOTTOMFISH INDUSTRY, ITS MARKETS AND DEMANDS. THERE WILL BE A PERIOD FOR PUBLIC COMMENT. ALL INTERESTED PERSONS ARE INVITED TO ATTEND.

THE SYMPOSIUM WILL BE HELD IN SAND POINT ON SEPTEMBER 21, AT THE CITY BUILDING FROM 9:00 A.M. - NOON, AND FROM 1:00 P.M. - 4:30 P.M.; IN UNALASKA ON SEPTEMBER 23 AT THE SCHOOL GYM, FROM 9:00 A.M. - NOON; IN KODIAK ON SEPTEMBER 24 AT THE BOROUGH ASSEMBLY CHAMBERS FROM 7:00 P.M. - 9:30 P.M., AND ON SEPTEMBER 25 AT THE BOROUGH ASSEMBLY CHAMBERS FROM 9:00A.M. - NOON IN KETCHIKAN ON OCTOBER 4 IN THE COUNCIL CHAMBERS FROM 9:00 A.M. - NOON, AND FROM 1:30 - 4:30; IN PETERSBURG ON OCTOBER 5 IN THE COUNCIL CHAMBERS FROM 1:30 P.M. - 4:30 P.M.; IN JUNEAU ON OCTOBER 6, ROOM 118 OF THE CAPITAL BLDG. FROM 1:30 P.M. - 4:30 P.M.; IN CORDOVA ON OCTOBER 7 IN THE LIBRARY MEETING ROOM FROM 1:30 P.M. - 4:30 P.M.

XII. COVER LETTER

Application for Regrant

THE APPLICANT House Special Committee on The Permanent Fund
528 W 5th Suite 270 Anchorage Alaska 276-3433
(Address) (City) (State) (Phone)

requests financial assistance for undertaking and maintaining a program to relate the humanities to public policy issues in the State of Alaska.

THE APPLICANT HEREBY GIVES ASSURANCE TO THE STATE COMMITTEE THAT:

1. The activities and services for which assistance is sought will be administered by or under the supervision of the applicant.
2. Any funds received under this grant shall not be used to supplant funds normally budgeted for services of the same type.
3. The applicant will assure that it and any organization assisted by it will comply with Title VI of the Civil Rights Act of 1964 (PL 88-352) to the end that no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or otherwise subjected to discrimination under any program or activity for which the applicant received financial assistance from the State Committee of the Alaska Humanities Forum.
4. The filing of this application has been authorized by the governing body of the applicant, and the undersigned representative has been authorized to fill this application for and in behalf of said applicant, and otherwise act as the authorized representative of the applicant in connection with this application.
5. The applicant will expend funds received as a result of this application solely on the described projects and programs and separately provide funds for the maintenance of the organization.
6. The applicant will maintain all financial records for a period of not less than three (3) years and will submit them to the Alaska Humanities Forum on request.

SIGNED,

Clark Gruening, Chairman
(Name)

528 W 5th Suite 270 Anchorage Ak
(Address)

House Special Committee on The
(Sponsoring Organization)
Permanent Fund

(Date)

Aug 29, 1977

PROPOSAL TO THE ALASKA HUMANITIES FORUM
FROM
THE HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

August 29, 1977

PROGRAM OBJECTIVES

The objective of the symposium is to confront Permanent Fund policymakers and the public with the implications of stated goals of the Permanent Fund. By inviting representatives of both ends of the spectrum of economic theory to speak, the symposium will have two distinct perspectives on those goals. The symposium's purpose is as much to raise pertinent questions as to provide adequate answers. Indeed, we expect no consensus to result. Rather, our goal is to sharpen public debate by defining the trade-offs inherent in stated Permanent Fund goals. An example is the apparent inconsistency between the Fund as strict savings vehicle and the Fund as in-state investment vehicle.

It is difficult, therefore, to state criteria for judging the success of the symposium. The quality of the debate it generates is as important as, if not more important than, any participant changing his or her mind. Simply put, we will be satisfied if the symposium makes people question whether they can "have their cake and eat it too." That result will be seen mainly in the way people debate the issue at and after the symposium.

HUMANITIES

In attempting to secure speakers for the symposium, we first contacted Milton Friedman, the noted conservative economist, and John Kenneth Galbraith, the noted liberal economist. Although neither was able to appear, they offered suggestions as to whom we might invite. Following those suggestions--and after checking with Dr. Lester Thurow of Massachusetts Institute of Technology and Professor Richard Coffman of New York City's Leeman College--we reached agreement with our speakers.

Dr. Donald Gordon is an American economist teaching at Canada's Simon Fraser University. He has had considerable experience in advising Canadian and U.S. legislative bodies. Dr. Gordon was suggested by Milton Friedman.

Dr. Barbara Bergman teaches at the University of Maryland. Her speciality has been the economics of labor and employment. We reached her by following the suggestions of John Kenneth Galbraith.

We also anticipate the presence of Dr. Belden Daniels of Harvard University, to the Committee.

In addition, we are in the process of putting together a panel of Alaskans to represent the spectrum of stated opinion on the Permanent Fund. The proposed list includes: John Havelock, Director of the University of Alaska's Criminal Justice Center; Eric Wohlforth, a member of the State Investment Advisory Committee; Dr. George Rogers, noted Alaskan economist; Jamie Love, director of the Alaska Public Interest Research Group and a member of the State Investment Advisory Committee; and Dr. John Lindauer, chancellor of the University of Alaska, Anchorage.

STATE THEME

The use of the Permanent Fund will be a major factor in creating the future Alaska. It can serve the purpose of diversifying the state economy, providing operating revenue for state government, fulfilling unmet human needs, to mention but a few. What is done with the Permanent Fund will be of tremendous importance to the state and its people now, tomorrow and in 20 years. The issue of how to best use the Permanent Fund clearly addresses the central dilemma of Alaska: the relationship of growth and the preservation of the Alaskan way of life. Thus, the use of the Fund will determine both economic and social change in the future.

PUBLIC POLICY

Alaska's Permanent Fund was created by voter approval of a constitutional amendment. The Fund will be structured by legislative and executive action. Therefore, it is by definition a matter of public policy. The first step in structuring the Fund is to identify what Alaskans want it to do, and it is to this the symposium speaks.

PROGRAM NARRATIVE

The symposium, to be held September 10 in Anchorage, is built around the presentations of the main speakers. Following those presentations will be questions posed by members of the Committee, the citizen panel and the audience. After a lunch break, those in attendance will break into smaller groups for further discussion of points raised during the morning session.

SPONSORING ORGANIZATION

The House Special Committee on the Permanent Fund was created by the Speaker of the House to provide alternate forms of enabling legislation for the Permanent Fund and to recommend legislation to implement the Renewable Resources Development Fund. Attached is a copy of a report to the Legislative Council providing more detailed information on the Committee's activities and plans.

EVALUATION

The direct evaluation process will be from written comments of participants, including the speakers and citizen panel members; responses to questionnaires handed out at the symposium in the Committee's brochure, "The Role of the Permanent Fund in Alaska's Future."

Indirect evaluation will come from press accounts of the symposium, statements to the Committee at subsequent public hearings, statement to the Public Forum and so forth.

BUDGET

The Committee has a budget of \$185,000. However, as the attached report to the legislative council shows, much of that budget has been committed. The remaining money is necessary to fund the Committee through the completion of its assigned duties. As a result, the Committee's budget is much thinner than it seems at first glance.

The attached budget proposal is evidence of an attempt to keep costs down. Much of the program work is being done by employees of the Committee rather than by a separately hired project director. Likewise, the Committee's current office is used, rather than opening a new one.

This is a projected rather than an actual, budget. The final cost of the symposium may be somewhat higher or somewhat lower than the attached figures show.

XIII. PROPOSED BUDGET

ITEM	FORUM FUNDS	LOCAL FUNDS	LOCAL FUNDING SOURCE	TOTAL
1. PERSONNEL	750	-0-		750
1.1 Salaries				
12. Contractual Services (Consultant's Fees, etc.)	1,125	1,125	HPF Committee	2,250
2. TRAVEL				
2.1 Travel	394.15	394.16	HPF Committee	792.31
2.2 Per Diem	375	375	HPF Committee	750
3. OFFICE				
3.1 Rental	-0-	-0-		
3.2 Telephone	100	-0-		100
3.3 Supplies	-0-	-0-		
3.4 Equipment	-0-	-0-		
3.5 Other	-0-	-0-		
4. PROMOTION				
4.1 Printing	-0-	-0-		
4.2 Postage	-0-	-0-		
4.3 Media	1,000	-0-		1,000
4.4 Other	-0-	-0-		
5. EVALUATION	-0-	-0-		
6. OTHER (Explain) Sound system for hall	125	125	HPF Committee	250
TOTALS	\$3,869.15	\$2,019.16		5,887.31

REPORT TO THE LEGISLATIVE COUNCIL
FROM
THE HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

August 29, 1977

I INTRODUCTION

The House Special Committee on the Alaska Permanent Fund was created during the past session by the Speaker of the House to consider alternate forms of enabling legislation on the Alaska Permanent Fund and make recommendations on legislation to implement the Renewable Resources Development Fund. This report to the Legislative Council summarizes the Committee's efforts thus far to discharge both duties.

Before continuing, note must be taken of the cooperation the Committee has enjoyed with other persons and groups involved in the Permanent Fund. A list of these includes, but is not limited to, the Senate Permanent Fund Committee, the Department of Revenue, the Division of Policy Development and Planning, the Alaska Growth Policy Council and the Alaska Public Forum. Special note must be taken of the efforts of the State Investment Advisory Committee in preparation of House Bill 298, entered for discussion during the past session.

II WORK COMPLETED

At its meeting of July 15 and 16 in Anchorage, the Committee heard and discussed the results of studies it had commissioned with two consultants.

Dr. Belden Daniels of Harvard University's Department of City and Regional Planning, under a contract for a maximum of \$7,000, presented "Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers." Copies of the contract and report are attached, and are available to the public upon request.

Briefly, Dr. Daniels emphasized that no development bank can create economic activity not already feasible; if there is no market or costs are too high, "artificial" investment from the Permanent Fund will not help. Dr. Daniels suggested that the Fund could provide needed commercial credit and financing of small and medium scale enterprises in Alaska, but that fund managers should, in most cases, insist on market return for Fund investments.

A possible exception is economically feasible joint ventures with regional development corporations outside the major population centers. Dr. Daniels emphasized the importance of coordinated planning between the Permanent Fund and the General Fund.

Dr. Arlon Tussing of the University of Alaska's Institute of Social and Economic Research, under a contract for a maximum of \$6,000, presented "Economic Considerations in Establishment of Alaska's Permanent Fund." Copies of the contract and report are attached, and available to the public upon request.

Briefly, Dr. Tussing emphasized that there is no need or useful function for Permanent Fund investment in major industrial or commercial enterprise in Alaska unless special reasons exist to subsidize them. Dr. Tussing's report inferred that, at least initially, it makes more sense to invest the major portion of the Fund outside the state.

On August 19, the Committee mailed out some 1,500 copies of its preliminary report, "The Role of the Permanent Fund in Alaska's Future." The report was prepared under the Committee's supervision by Judy Brogan. A copy of the report is attached and further efforts are being made to distribute it to the public.

In addition to providing a synopsis of Permanent Fund history and the Committee's efforts, the report includes a questionnaire on uses of the Permanent Fund from which the Committee hopes to derive substantial public opinion on Fund goals.

Last week the Committee completed a series of radio and television public service announcements designed to attract public participation in its work. The announcements, prepared under Committee supervision by Media Specialist Sherida Hughes, are scheduled to begin appearing in many Alaska cities this week. A list of those cities is attached.

III WORK IN PROGRESS

Consultant Studies

The Committee has let a second contract with Dr. Belden Daniels to pursue some of the implications of his earlier report. A copy of that contract is attached and available to the public upon request.

Briefly, Dr. Daniels is to examine the structure of certain existing development banks; report on possible methods of regionalizing the Permanent Fund; present options for ensuring public accountability for the Permanent Fund; and be available for consultation to the Committee. Maximum payment under the contract is \$19,500.

The Committee and the Department of Revenue are in the final stages of negotiations for two contracts.

The first, with Arthur D. Little, is for a sectoral analysis of the Alaskan economy to provide information on possible investment areas and rates of return.

The second, with the University of Alaska's Institute of Social and Economic Research, is for projections, based on the Institute's Man in the Arctic Program economic model, of potential economic impacts of several suggested methods for using the Fund's principal and interest.

The Committee and the Legislative Finance Committees are in the final stages of negotiations on two contracts. The contracts, with Price Waterhouse & Co. and White Weld & Co., are for management and financial advice. These may include an analysis of institutional barriers to investment in Alaska and the Investment Advisory Committee's discussion bill together with alternative legislative proposals.

Public Participation

In addition to the brochure and public service announcements already noted, the Committee is proceeding along two paths to gain informed public opinion about the Permanent Fund.

The first is a series of public discussions on Permanent Fund goals, listed on the attached schedule. The initial discussions are scheduled to the named Alaskan cities and are designed so that those who wish to state their opinions directly to the Committee may do so.

Leading into these discussions is a symposium on Permanent Fund goals being planned for Anchorage, also shown on the schedule. The symposium will feature presentations by Dr. Donald Gordon of Simon Fraser University, a frequent advisor to U.S. and Canadian legislative bodies, and Dr. Barbara Bergman of the University of Maryland. The presentations by representatives of opposite ends of the spectrum of economic theory will be followed by questions from the audience and a discussion of the issues in smaller groups.

The second path is through the Alaska Public Forum, insofar as the two groups' schedules and requirements permit. At present, the Committee is involved in the design of questions about and background of the Permanent Fund for the forum program.

Generally, it has been the Committee's interest that the questions be asked in the light of the trade-offs inherent in various uses of Fund money and that forum participants rate their priorities for use of Fund money in light of those trade-offs. Although results from the forum program appear unlikely to be available before the Committee finishes its assigned duties, the Committee is working with the forum to obtain interim results.

Committee Work Sessions

The Committee's work sessions are shown on the attached schedule.

IV RENEWABLE RESOURCES DEVELOPMENT FUND

Because the Committee is charged with dealing with the Renewable Resources Development Fund as well as the Permanent Fund, a Renewable Resources Subcommittee, chaired by Rep. Terry Gardiner, was formed.

The Subcommittee has defined three main tasks with regard to drafting legislation on the Renewable Resources Fund: examining management of existing renewable resource monies in the state; defining renewable resources and the goals and objectives of the renewable resources fund with regard to that

definition; examining possible structures for distributing money from the Fund.

Both the Committee and Subcommittee are working on methods of coordinating the activities of the Permanent Fund and the Renewable Resources Fund.

BUDGET

The Committee's budget as of this date is as follows:

100	Personal Services		\$ 27,160
	1 Administrative Assistant	14,000	
	1 Secretary	8,160	
	1 Media Consultant	5,000	
200	Travel/Per Diem	12,500	12,500
300	Contractual		67,500
	Office	6,000	
	Telephone	1,200	
	Publications	6,100	
	TV/Radio	750	
	Clipping Service	1,700	
	Consultant Reports	32,500	
	Legal	11,750	
	Symposium	7,500	
400	Commodities	1,000	1,000
500	Equipment	-0-	
TOTAL		\$108,160	

The Renewable Resources Development Fund Subcommittee's budget as of this date is as follows:

100	Personal Services		\$ 17,500
	1 Administrative Assistant	11,500	
	1 Secretary	5,500	
200	Travel/Per Diem	4,300	4,300
300	Contractual		6,000
	1 Planner	6,000	
400	Commodities	2,200	2,200
500	Equipment	-0-	
TOTAL		\$ 30,000	
Total expenses/encumbrances		\$138,160	

CITIES REACHED BY PUBLIC SERVICE ANNOUNCEMENTS

Radio and Television

Anchorage

Fairbanks

Sitka

Juneau

Bethel

Petersburg

Ketchikan

Barrow

Kodiak

Kotzebue

Nome

Those stations using Public Broadcast Commission videotapes

Radio Only

Glennallen

Kenai-Soldotna

Seward

Cordova

Dillingham

Wrangell

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
(907) 276-3433

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

[POUCH V. JUNEAU, AK. 99811]
(907) 465-3873



MEMBERS

REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS M. NELSON
REP. BILL MILLS
REP. LEO SCHAEFER
REP. RICK UNION

House of Representatives

November 7, 1977

Gregg Erickson
Director of Research
Legislative Affairs Agency
Pouch Y
Juneau, AK 99811

Dear Gregg:

Enclosed is a copy of the Committee's report to the Legislative Council as you requested. I believe all the attachments should be available to you in Juneau. If you find that any are missing, please do not hesitate to get in touch with me.

Sincerely,

A handwritten signature in cursive script that reads "Mike".

Mike Doogan
Administrative Assistant

Enclosure

REPORT TO THE LEGISLATIVE COUNCIL
FROM
THE HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

November 15, 1977

I. INTRODUCTION

Since its last report (August 29, 1977), the House Special Committee on the Permanent Fund has continued its efforts to discharge the duties assigned it by the Speaker of the House. This report summarizes those efforts.

As in its last report, the Committee wishes to note the cooperation of other persons and groups involved in the Permanent Fund issue.

II. WORK COMPLETED

Since its last report, the Committee has:

1. Sponsored a symposium in Anchorage on goals of the Permanent Fund (September 10).
2. Held public hearings on Permanent Fund goals in Fairbanks (September 14), Anchorage (September 15), Kotzebue (September 16), and Juneau (October 20).
3. Held Committee meetings in Kotzebue (September 17) and Juneau (October 21).
4. Received reports from Dr. Belden Daniels (September 17) and White, Weld & Co. (October 21).

Briefly:

1. The symposium, co-sponsored by the Alaska Humanities Forum and the National Endowment for the Humanities, presented statements by national economists and Alaskans involved in the Permanent Fund issue and by members of the public.

Generally, the discussion explored the main questions and trade-offs involved in different strategies for use of the Fund's principal and interest. A transcript of the symposium is being prepared and will be available from the Committee when complete.

2. The public hearings likewise focused on major Permanent Fund questions and trade-offs, particularly with regard to use of the earnings. Public testimony recommended use of Fund earnings for everything from art centers to sonic collars for whales. Transcripts of public testimony are being prepared and will be available from the Committee when complete.
3. The Committee meetings involved discussion of questions in drafting legislation for the Permanent Fund and the Renewable Resources Development Fund. As a result Committee members are exploring a trust approach for investment of Permanent Fund principal, the creation of an Alaska Enterprise Investment Fund and several suggestions for use of Fund earnings. Minutes of these meetings are being prepared and will be available from the Committee when complete.
4. The report from Dr. Belden Daniels reviewed the structure and management of several existing development banks, strategies for regionalizing a development bank and options for assuring public accountability for the Fund. Copies of Dr. Daniels' report are available from the Committee upon request.

The report from White, Weld & Co. focused on existing public methods of investing state funds and information on various types of investments for such funds. Copies of the firm's report are available from the Committee upon request.

III. WORK IN PROGRESS

The Committee's efforts are continuing along three lines: the work of consultants to answer various specific questions, public participation and Committee efforts to draft legislation.

Consultants

In addition to its on-going contract with Dr. Daniels, the Committee has current contracts with:

1. Douglas Pope for consultation on legal questions.
2. White, Weld & Co. and Price Waterhouse for financial and management consultation, respectively. These contracts are through the Division of Legislative Finance.
3. The University of Alaska's Institute for Social and Economic Research for computer modeling. This contract is through the Department of Revenue.
4. Brian Rogers for research on potential uses of state funds to encourage Alaska-specific technology and small-scale businesses.

Public Participation

In addition to the compilation of results from the Committee's public hearings, the Committee is:

1. Analyzing the results of questionnaires returned by those who received the Committee's brochure, The Role of the Permanent Fund in Alaska's Future.

Page 4

2. Awaiting the receipt of preliminary results from the Alaska Public Forum's questions on the Permanent Fund.

Committee Meetings

Committee meetings are scheduled on November 18 and 19 and December 9 and 10 in Anchorage.

REPORT TO THE ALASKA HUMANITIES FORUM
from
THE HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

October 10, 1977

INTRODUCTION

This report was prepared at the direction of Committee Chairman Clark Gruening by Committee Administrative Assistant Mike Doogan. It is designed to fulfill the Committee's obligation to the Humanities Forum under the terms of the application for regrant for the Symposium on Goals of the Alaska Permanent Fund held September 10 in Anchorage.

DOCUMENTATION

The following documentation is attached as proof that the Committee fulfilled its intention of holding the Symposium and that the Symposium accomplished its purpose:

- a) A copy of the transcript made from the Committee's taping of the Symposium;
- b) A copy of the Symposium agenda;
- c) A copy of the sign up sheet from the Symposium;
- d) Evaluation sheets from participants;
- e) Copies of newspaper articles about the Symposium;
- f) A budget showing how grant money was spent.

As is often the case, all evaluation material is not available at this writing. It is our intention to forward such material as soon as it is received. The Committee stands ready to provide additional documentation upon request.

NARRATIVE

The purpose of the Symposium was to involve Alaskans in examining pertinent questions about the uses of the Alaska Permanent Fund, particularly the trade-offs involved in various uses. No consensus was sought and none was reached.

The Symposium began with presentations by Dr. Donald Gordon of Simon Fraser University and Dr. Barbara Bergman of the University of Maryland. They were followed by statements from members of the citizen panel: Dr. George Rogers and John Lindauer, John Havelock, Tim Bradner and Jamie Love. Legislators attending included Reps. Clark Gruening, Bill Miles, Russ Meekins of the House Committee, and Mike Beirne, Larry Carpenter, Chat Chatterton, Tim Kelly, Randy Phillips, and Kay Poland. Also in attendance from the Senate Permanent Fund Committee was Senator Pat Rodey.

Following the formal presentations were questions, comments, and proposals from members of the audience. We estimate that between 50 and 75 persons attended the Symposium.

Information the program generated reached a larger segment of the public through the newspapers and through a half-hour television program prepared by the University of Alaska's Media Services. The program has been shown on public and private television in Anchorage. Finally, the information will reach Permanent Fund policymakers by the inclusion of the transcript in the House Committee's report to the full House at the beginning of the next legislative session.

Generally, the Symposium broke into two parts: examination of economically viable options for use of Permanent Fund money and the potential effects of those options; examination of specific proposals for use of Permanent Fund money. The latter, as the transcript shows, included everything from the construction of curling rinks in rural areas to state purchase of federal offshore oil leases.

EVALUATION

Our own evaluation of the Symposium is that its main value lay in exposing participants to economic realities. Statements like that of Dr. Bergman--that the only way to prevent importation of population was for the state to be poor and unattractive--presented to participants the basic dilemma of going from being poor to being rich. We hope that those who were present and those who saw or read accounts of the Symposium came away with the realization that there are no easy answers.

BUDGET

The money granted by the Alaska Humanities Forum has been expended as follows:

Travel

Dr. Barbara Bergman	\$ 516.19
Dr. Donald Gordon	270.40
Dr. George Rogers	<u>163.02</u>
TOTAL	\$ 949.61

Fees and Expenses

Dr. Barbara Bergman	\$1091.00
Dr. George Rogers	23.05
Dr. Donald Gordon	<u>1000.00</u> (encumbered)*
TOTAL	\$2114.05

Equipment

Sound system	\$ 852.50
OVERALL TOTAL	\$3915.16

*A final billing has not yet been received from Dr. Gordon

Senate Permanent Fund Committee
First Interim Report
August 29, 1977

I. INTRODUCTION

This Interim Report of the Senate Permanent Fund Committee outlines those areas which have been under study or on which further work and study will take place through January 9, 1978.

Our initial effort has been to outline the tasks to be undertaken if meaningful information is to be made available to the Senate for its decision making process. Thereafter, to determine which committees and agencies have produced studies and reports that are useful, acquire same and reduce the material to a summary form for the convenience of the Senate committee members.

A review of past and existing contracts was made to avoid duplication. Contact with other legislative committees and the administration was made and will be maintained, again in an effort to avoid duplication.

Where additional information was needed, an effort to acquire the material has been initiated (refer to outline). This data, as well as other material from other legislative committees and the administration, will be added to subsequent interim reports.

The study effort can then be summarized into the following categories:

1. What investments should be made from the Permanent Fund, and to what extent will loans to Alaskans be a part of these investments?
2. Determine how the investment effort and the loan programs should be organized.

The results of the completed studies and those being undertaken will provide assistance in this decision making process--but only the legislature can make the final decision.

After various policy options are presented to the Senate Permanent Fund Committee and direction given by a majority of the committee, legislative alternatives will be drafted.

II. ANALYSIS OF STUDIES

A. Previous Studies (through 5/31/77)

B. New Studies (dated after 6/ 1/77) (attached)

1. Thinking About the Alaska Permanent Fund: A Cautious Approach
for Alaska Policymakers
2. Economic Considerations in Establishment of Alaska's Permanent
Fund

C. Contractual Studies--Senate Permanent Fund Committee

1. F.L.Orth, Sea Grant Program, University of Alaska
 - a. review implications of foreign investment in expansion
of Alaska's bottomfish industry
 - b. investigation of fishing cooperatives, PCA's and potential
advantages of establishment of a development bank for fisheries
in Alaska
 - c. completion date October 10, 1977
2. M. DeMan, Alaska Native Foundation
 - a. provide assistance in developing work plans for Permanent
Fund research
 - b. completion date November 30, 1977

D. Bibliography

1. Updated to August 22, 1977 (attached)
 - a. various materials and publications requested to be
added to future bibliography updates

E. Synopsis of Each

1. All previous studies, new studies and contractual studies to
be summarized
2. Completed synopses (attached)
 - a. Structuring Decisions for the Alaska Permanent Fund (1976)
 - b. Report to the State Investment Advisory Committee re:
Domestic, National and International Banks (1976)
 - c. A Prospectus of the State of Alaska's Finances and Its
Development of Economic Diversity (1976)
 - d. The Alaska Series--The Alaska Permanent Fund in Perspective (1977)
 - e. The Alaska Series--The Alaska Permanent Fund and Other
Significant World Funds (1977)

II. E. Synopses (cont.)

- f. Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaska Policymakers (1977)
- g. Economic Considerations in Establishment of Alaska's Permanent Fund (1977)
- h. Report to the State Investment Advisory Board re: Development Banks (1976)
- i. State of Alaska Permanent Fund Investment Objective Options (1976)
- j. Citizen Feedback #2, Rowan Group (1977)

III. ANALYSIS OF EXISTING LOAN PROGRAMS

A. Schedule of Existing Loan Programs

- 1. 13 state loan programs identified for further investigation
- 2. 8 federal loan programs identified for further investigation

B. Description of Existing Programs

- 1. Primary information gathered from administering agencies,
 - Alaska Administrative Code and Alaska statutes
 - a. statutory authority
 - b. administrative regulations, if promulgated
 - c. eligibility criteria
 - d. loan amount limits and repayment terms
 - e. implementation
- 2. Information requested of Division of Loans-State of Alaska
 - a. number of loans outstanding in all programs
 - b. dollar amount of loans granted in all programs
 - c. employment generated by loans in all programs
 - d. no response to date
- 3. Primary information request regarding federal loan programs operating within Alaska
 - a. responses
 - (1) Small Business Administration (SBA)
 - (2) Bureau of Indian Affairs (BIA)

C. Organization, Staffing and Cost of Operations - state loan programs

- 1. Request Budget and Audit Committee to Provide Information
 - a. staff member assigned to project
 - b. projected completion date September 30, 1977

III. D. Program Compliance With Legislative Directives

1. Request Budget and Audit Committee to provide information
 - a. staff member assigned to project
 - b. projected completion date September 30, 1977

IV. INVENTORY OF SUGGESTED PROGRAMS

A. Schedule of Inquiry and Scope of Inquiry

1. Questionnaire to banks and other financial institutions in

Alaska (attached)

- a. business loans - urban/rural
- b. personal loans - urban/rural
- c. mortgage loans - urban/rural
- d. loan denial factors - urban/rural
- e. areas of perceived credit scarcity - urban/rural
- f. comment on state loan programs
- g. comment on federal loan programs
- h. comment on Permanent Fund role
- i. mailed August 15, 1977
 - (1) 15 banks, savings/loan associations, financial institutions in Alaska

2. Rural outreach questionnaire (attached)

- a. business ownership
- b. consideration of business ownership
- c. granted/denied business or home loan
- d. comment on perception of bank consideration of loan application
- e. other sources of loans considered
- f. comment on availability of capital in rural Alaska
- g. familiarity with state loan programs
- h. impressions of state loan programs
- i. comment on interest charged by state loan programs
- j. familiarity with federal loan programs
- k. comment on areas of possible Permanent Fund loans
- l. mailed August 22, 1977
 - (1) 87 village councils
 - (2) 200 village corporations
 - (3) 12 regional corporations
 - (4) 10 agricultural policy task force members
 - (5) 138 miners/mining companies
 - (6) 44 fishing associations
 - (7) 176 holders of Alaska business licenses in various occupations

IV. A. Schedule of Inquiry and Scope of Inquiry (cont.)

3. Chamber of Commerce questionnaire (attached)
 - a. refer to IV.A.2. sections a-k
 - b. comment on areas of possible Permanent Fund loans/investments
 - c. mailed August 18, 1977
 - (1) to be distributed by D. Dickey, President, Alaska State Chamber of Commerce, to 750 individuals throughout Alaska
4. Governmental National Mortgage Association information request
 - a. explanation of association's procedures and practices a secondary market for housing loans
 - b. statistical data for last five years' activity in Alaska
 - (1) number of units financed
 - (2) dollar amount of mortgages written
5. State Department of Labor information request
 - a. method of cost of living indices formulation
 - b. existence of cost of construction indices compiled at state or federal level
6. Commerce and Economic Development Departments of other 49 states information request
 - a. types of loan programs
 - b. terms of loans
 - c. interest rates
 - d. publications describing loan programs
 - e. mailed August 24, 1977

B. Schedule of Responses

1. Bank/Financial institution questionnaire
 - a. no response to date
2. Rural outreach questionnaire
 - a. no response to date
3. Chamber of Commerce questionnaire
 - a. response requested by September 15, 1977
 - b. no response to date
4. Governmental National Mortgage Association
 - a. no response to date
5. State Department of Labor request
 - a. informal meeting with research staff member
6. Other states' Commerce and Economic Development Information request
 - a. no response to date

IV. C. Inventory of Capital Improvement Needs of Alaskan Communities (attached)

1. Type of project
 - a. description of needs
 - b. cost per unit
 - c. estimated population to be served
 - d. estimate direct construction costs
 - e. estimated total costs
 - f. expected funding sources
 - g. mailed August 23, 1977
 - (1) 8 boroughs
 - (2) 11 home rule cities
 - (3) 21 first class cities
 - (4) 107 second class cities
 - (5) 1 federal reservation
2. Project work sheet (attached)
 - a. for familiarization with cost projection components
 - b. mailed August 23, 1977
 - (1) refer to IV.C. 1.g. (1)-(4)

D. Schedule of Responses

1. Municipal League member cities (50)
 - a. response requested by October 15, 1977
 - b. no response to date
2. Non-member cities
 - a. response requested by November 15, 1977
 - b. no response to date

V. ORGANIZATION

A. Inquiry of State Treasurers as to Organization of Treasury Management

1. Letter of inquiry to selected state treasurers
 - a. management of state funds
 - (1) general fund-temporary investment
 - (2) dedicated/trust funds with protected principle
 - (3) organizational/staff operational charts
 - (4) accomodation of management of fund size of Permanent Fund
 - (5) suggestions, comments, observations

B. Schedule of Responses

1. Michigan

V. C. Inquiry of Organization and Operation, Treasury Division, State of Alaska

1. Prior audit reports
 - a. refer to bibliography Audit Reports section
2. Consultant review
 - a. Lombard and Wall
 - b. preliminary reports generated by September 2, 1977

D. Inquiry of Method of Financing Program

1. Other states
2. State of Alaska and agencies

VI. FINANCIAL PROJECTIONS

A. Acquire Present Projections

1. Permanent Fund and Revenue Projections
Legislative Affairs Agency, July 1977
 - a. general and permanent fund balances 1978-1985
 - (1) low income-high expenditure model
 - (2) medium income-medium expenditure model
 - (3) high income-high expenditure model
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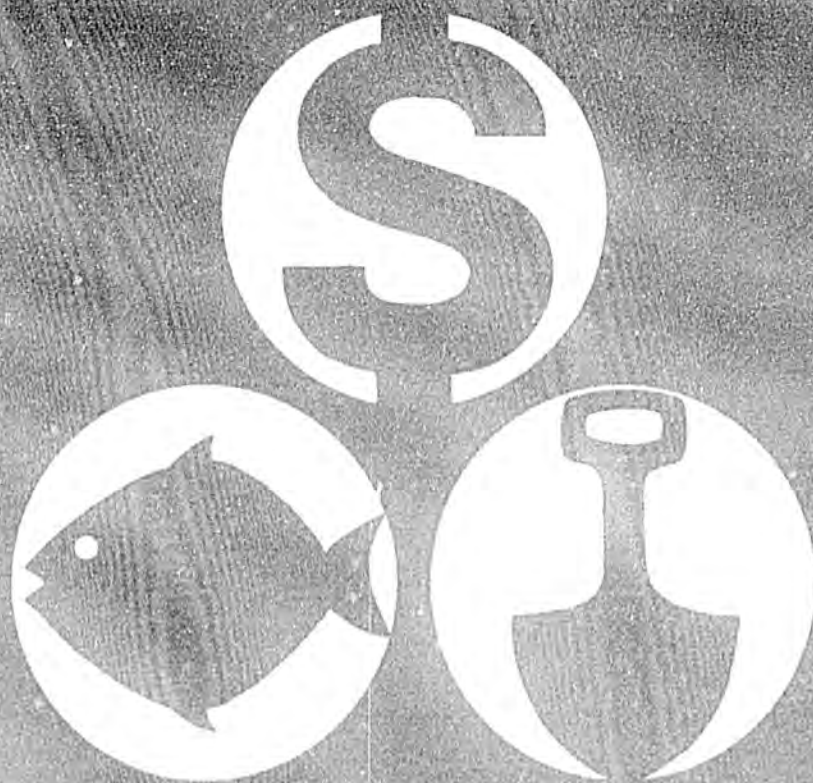
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January 9, 1978

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The Role of the Permanent Fund in Alaska's Future



**A Preliminary Report by
the House Special Committee
on the Alaska Permanent Fund**

Special Committee on
The Alaska Permanent Fund
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I Introduction

An overwhelming majority of Alaska voters approved an amendment to the state constitution in November 1976 which provides that at least 25 percent of certain state nonrenewable resource revenues be placed in a permanent fund. The amendment requires that the fund's "principal shall be used only for those income-producing investments" the legislature designates as eligible for permanent fund money. The amendment also provides that income from the investments will go into the State's General Fund (where all other revenues and taxes are deposited) unless the legislature designates that income for other purposes.

In 1978 the Tenth Alaska Legislature will consider several different proposals for management and organization of the fund and use of the fund's earnings. Three bills introduced in the 1977 session were referred to the House Special Committee on the Alaska Permanent Fund. Our task is to find out what Alaskans want the fund to achieve and to recommend legislation for a permanent fund that can best attain those goals.

The intent of this report is to inform Alaskans about the Alaska Permanent Fund—how it evolved, present management, possible future roles, and investment and management options for

its principal and earnings. This report also allows committee members to state what they feel are the main issues to be resolved in the permanent fund enabling legislation.

We hope that you will take the time to study this booklet, jot down your comments and questions as you read, and send us your views by filling out and mailing the questionnaire on the back cover. You may obtain further information about the Alaska Permanent Fund by calling or writing:

House Special Committee
on the Alaska Permanent Fund
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Above all, please watch for and participate in the public meetings and forums on the Permanent Fund to be held throughout the state beginning in September. If we have your comments by then, we can incorporate your ideas in the Public Forum program. Legislators will attend each forum to discuss the Permanent Fund, answer your questions, and find out what you want your Permanent Fund to be.

II Evolution of the Alaska Permanent Fund

The permanent fund idea in Alaska gained popularity only after the \$900 million North Slope lease sale in 1969. Following this sale, the Brookings Institute conducted a series of seminars concerning "The Future of Alaska." More than 100 Alaskans were invited to attend, to explore some of the major emerging policy issues, and to set forth a plan for Alaska's future. The participants agreed that the "Alaska way of life" should be preserved. They defined this life-style as one which combines the conveniences of technological innovation with the opportunity and values of living as close to nature as possible.

After the Brookings seminars, several bills were introduced in the 1970 legislative session to establish some sort of "permanent fund" with the \$900 million. However, other more immediate uses for the money were judged to be more important, and no permanent fund was established.

The 1974 legislature passed a bill creating the Alaska Renewable Resources Development Fund. This legislation provides that not less than five percent of nonrenewable resources income will be deposited in a separate fund beginning July 1, 1978. Monies can be appropriated from the fund only for capital and operating expenditures for the rehabilitation, enhancement, and development of renewable resources programs.

Another bill, which would have created a permanent fund by statute, passed the legislature in 1975. However, because of a disagreement with the legislature over constitutionality, the governor vetoed it. The 1976 legislature passed House Joint

Resolution 39, calling for a constitutional amendment to establish the Alaska Permanent Fund. The voters approved that amendment in November 1976 by a margin of nearly nine to one.

The amendment lifted the prohibition against special dedicated funds to allow a minimum of 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue-sharing payments, and bonuses to accumulate in a special fund separate from the General Fund. The only restriction on the use of the principal of the fund is that it must be for "income-producing investments" and, therefore, not for the general operating costs of government. The income from these investments will be deposited in the State's General Fund unless otherwise provided for by law.

The Joint House Finance and Judiciary Committee Chairmen's Report, detailing legislative intent for HJR 39, stated that sufficient revenue would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources. The report noted that the fund would be restricted to income-producing investments "which the legislature would establish and change from time to time to meet the needs of the state." Use of the fund's earnings was left open to the legislature "to give future legislatures the maximum flexibility in using fund earnings—ranging from adding to fund principal to paying out a dividend to resident Alaskans."

The principal represents Alaska's mineral wealth transformed into dollars through the sale of natural resources to private developers. The legislature must decide what forms of wealth-preserving and income-producing assets this money should take. Our mineral sale revenues have recently been financing about 60 percent of state expenditures. When revenue from mineral sources begins to decline, part of the future role of the Permanent Fund may be to supplement the General Fund with earnings from fund investments or to help create a tax base to provide new state revenue sources.

Presently, the income earned by permanent fund investments can be channeled into any use the legislature designates. The House Committee on the Permanent Fund, therefore, must also recommend where and how to use the fund's earnings which, unlike use of the principal, need not produce income.

The governor anticipated voter approval of the permanent fund amendment. In August 1976 he temporarily expanded the membership and duties of the State Investment Advisory Committee, which is charged by statute to advise the commissioner of revenue on investment policy for the State. He directed the advisory committee to study and report on the estimated size, investment goals, management, organization, and public interest in the Permanent Fund.

The State Investment Advisory Committee conducted its deliberations with energy and diligence. Members conferred with consultants to produce draft legislation for a permanent fund structure. To arrive at its findings, the State Investment Advisory Committee examined consultants' reports on many of the resource-based monetary funds and development banks throughout the world.

In March 1977, two bills were introduced in the State House to begin debate on the structure of the Permanent Fund. Both bills would structure the Permanent Fund essentially as a development bank. Both measures propose a two-board management system, a policy board with overall policy-

making power, and a committee under the policy board to approve investment proposals. Both bills also give the president of the permanent fund corporation strong executive power and sole responsibility for presenting investment proposals to the investment committee. Both proposals require that at least 40 percent of the fund must be placed in high-grade securities, but allow up to 30 percent of the assets to be invested in Alaska development loans and another 30 percent in community projects and private dwellings. Except for the appointment of the policy board members (who are subject to legislative confirmation under only one of the bills), both proposals would allow the fund to operate rather independently from the executive and legislative branches.

In 1977 the legislature passed an interim permanent fund management bill that will stay in effect until specific investment objectives and management structure have been thoroughly examined and agreed upon. It directs the commissioner of revenue to invest permanent fund money into various "money-market instruments," such as U. S. Treasury notes, certificates of deposit, and high-grade securities (not stock), all of which are relatively liquid and secure. As of July 15, 1977 four million dollars had accrued to the Permanent Fund and had all been invested in a savings account in the Bank of America and in U. S. Treasury notes. Almost \$45,000 in interest has been earned in the first five months of its existence.

The House Special Committee on the Alaska Permanent Fund met on July 15 and 16, 1977 and heard testimony from a number of expert witnesses; two of whom presented papers on the establishment of the fund ("Economic Considerations in Establishment of Alaska's Permanent Fund" by Arlon Tussing, Institute of Social and Economic Research, University of Alaska and "Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers" by Belden Daniels, Department of City and Regional Planning, Harvard University). Copies of both papers are available from the Committee on request.

One of the major thrusts of Dr. Tussing's testimony was that there is no need or useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless special reasons existed to subsidize them. Dr. Tussing's report infers that, at least initially, it makes more sense to invest the major portion of the fund outside the state.

Dr. Daniels emphasized that no development bank can create economic activity not already in existence; if there is no market or if costs are too high, "artificial" investment from the Permanent Fund will not help. Dr. Daniels suggested that the fund could provide needed commercial credit and financing of small- and medium-scale enterprises in Alaska but that fund managers should, in most cases, insist on market return for fund investments. A possible exception is economically feasible joint ventures with regional development corporations outside the major population centers. Daniels emphasized the importance of coordinated planning between the Permanent Fund and the General Fund.

During the 1977 legislative session, the Speaker of the House and the President of the Senate appointed special committees to consider alternative proposals for the Permanent Fund during the legislative interim. The committees will gather and distribute information, listen to public opinion, seek expert advice, consider how the fund should be administered, establish major goals for the fund, and present their recommendations to the full legislature in January 1978. The committees will make major efforts in the areas of public education and participation to learn what Alaskans want their permanent fund to be. This booklet marks the beginning of this phase.

Robert Lewellen



III The Fund in Relation to the Constitution and Other State Funds

Oil and minerals are a removable portion of Alaska's statehood entitlement to its citizens—past, present, and future. This nonrenewable wealth is now being extracted and transformed into another form of wealth—money. Dedication of that wealth to the Permanent Fund should provide an opportunity to make this wealth a renewable resource for many generations.

Although the form of the wealth is changing, the State still stands in the role of trustee, holding this resource wealth in trust for the benefit of the people of Alaska. Any objectives established for the Permanent Fund must be consistent with the same legislative obligations required for resource management. The legislature must decide into what income-producing assets permanent fund money should be placed. It is important to clearly define the obligations of the State before setting fund objectives.

The income earned from fund investments provides another source of wealth. Presently, a significant portion of state expenditures relies on oil revenues. The legislature has already stated that one objective of the fund is to diversify the state economy. As oil wealth declines, the Permanent Fund may bear the responsibility of supplementing the General Fund through income from fund investment, creation of an expanded tax base, or some combination of the two.

The Permanent Fund is one of several tools policy makers can use to achieve public objectives. Each year the legislature appropriates money from

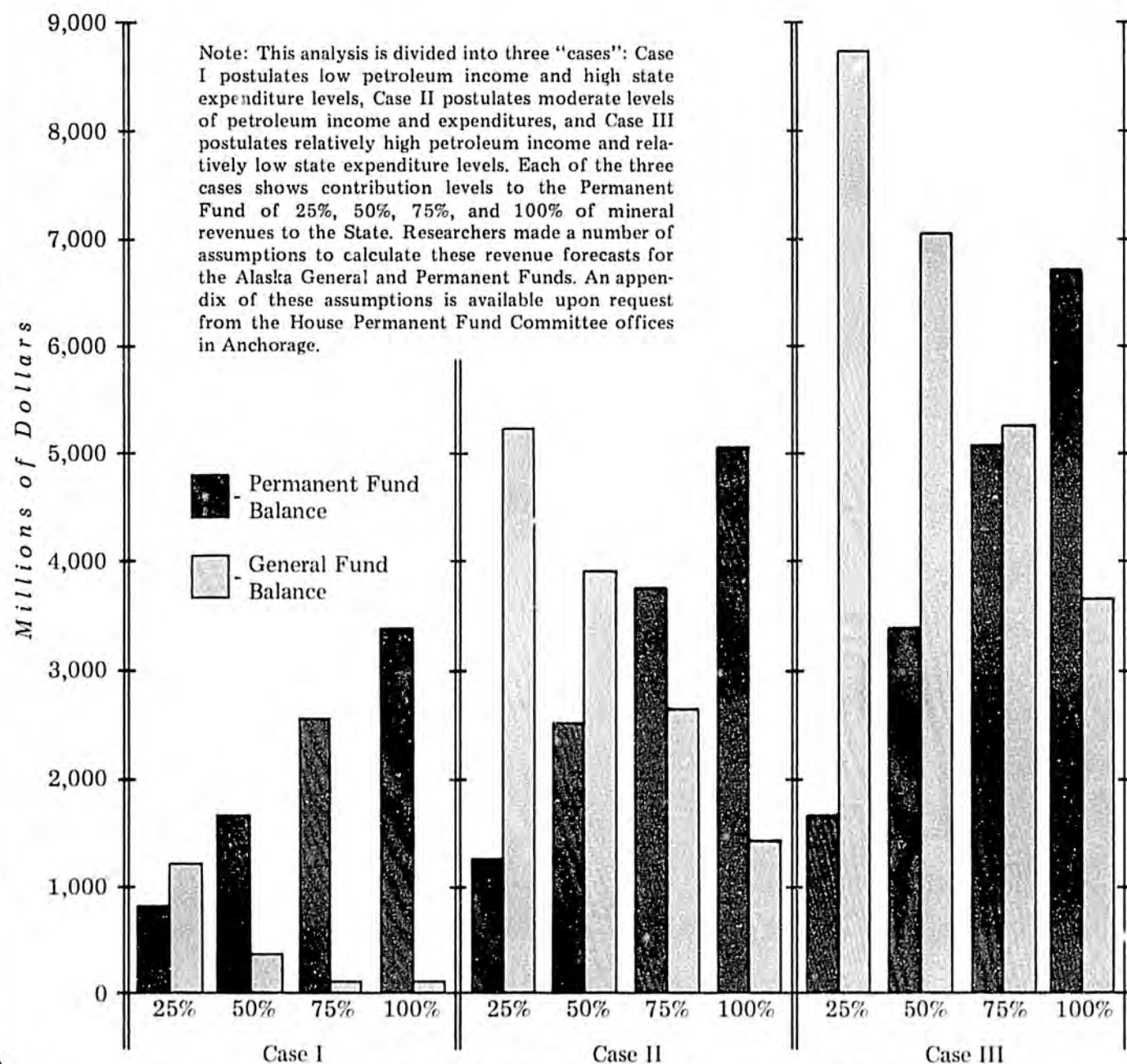
the General Fund to finance state activities. As required by the constitution, the General Fund is the sole repository (with the exceptions of the Alaska Permanent Fund and the Renewable Resources Development Fund) of all state revenues from all sources. The legislature is the only body empowered by the constitution to appropriate money from the General Fund.

The objectives of some of the general fund expenditures may be similar to those of certain investments of the Permanent Fund. For example, the State currently maintains loan programs to promote a variety of interests, ranging from business to home loans and senior citizen housing. Careful coordination with existing loan activities will help avoid duplication and conflict of programs.

The State also possesses extensive bonding powers and can pursue major projects by issuing general obligation or revenue bonds. Special purpose agencies, such as the Alaska Power Authority, can (with legislative approval) provide for the financing of specific facilities. The State additionally has mechanisms, such as the Municipal Bond Bank, to assist local governments borrowing money to achieve their objectives.

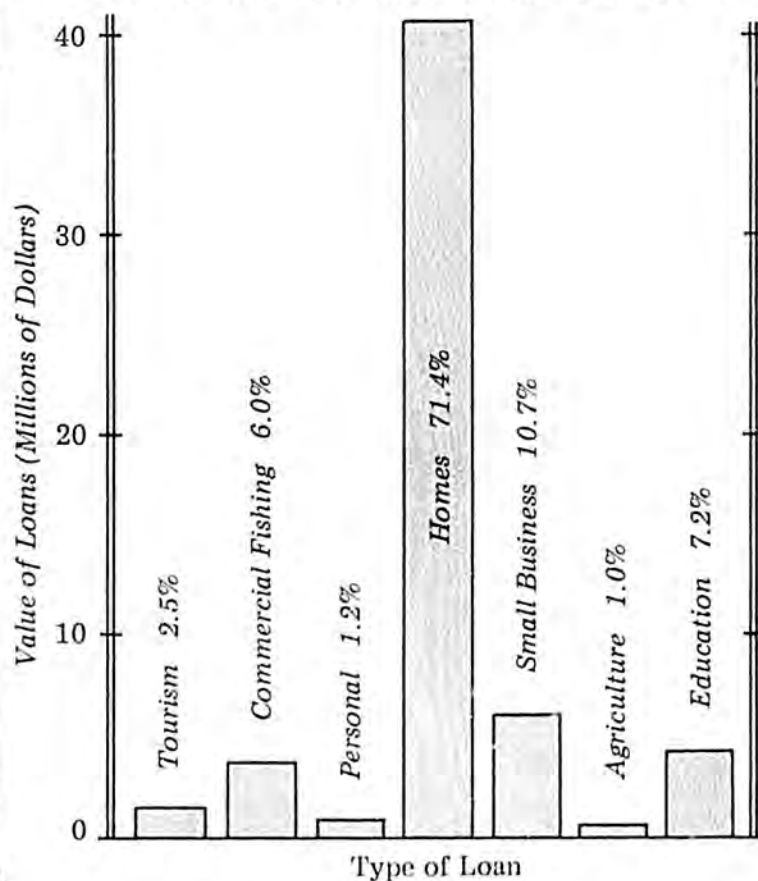
These various tools should be considered as we ponder alternative fund uses so that we can best match tools with objectives. Further, provisions for coordinating permanent fund and other government activities will be a crucial element in developing the enabling legislation.

Figure 1
Revenue Projections through 1985



Source: State of Alaska, Legislative Affairs Agency, Research Division, July 14, 1977.

Figure 2
Loan Fund Activity: Fiscal Year 1976



Source: State of Alaska, Office of the Governor,
Division of Budget and Management, October 11, 1976.

The following state loan programs and activities are potentially eligible for permanent fund investment (i.e., they are "income producing," although the rate of return will vary):

(1) The Scholarship Loan Program provides loans to Alaska residents for postsecondary vocational and academic training with a forgiveness incentive for remaining in Alaska after completing school.

(2) The Fisheries Enhancement Revolving Loan Fund supports loans to nonprofit organizations or individuals for the development of hatcheries.

(3) The Municipal Bond Bank Authority is an independent public corporation to help Alaska communities develop needed public facilities by marketing general obligation bonds. The bond bank will purchase these bonds, offering its own revenue bonds to the public bond market.

(4) The Division of Business Loans administers five revolving loan funds and two public corporations—the Small Business Revolving Loan

Fund, the Tourism Revolving Loan Fund, the Commercial Fishing Revolving Loan Fund, the Child Care Facilities Revolving Loan Fund, the Water Resources Revolving Loan Fund, the Alaska State Development Corporation, and the Small Business Development Corporation. These five loan funds enable qualified businesses and public utilities to obtain long-term financing for developing, expanding, or modernizing their operations.

(5) The Veterans Affairs Revolving Loan Fund makes loans to qualified Alaska national guardsmen and veterans in Alaska. These loans may be used to purchase, refinance, build and remodel homes, farms, businesses, and multiple dwellings. In addition, a qualified veteran may receive a loan for education, fishing, mining, or personal use.

(6) The Agricultural Revolving Loan Fund provides long-term, low-interest loans to promote rapid development of agriculture as an industry throughout the state.

(7) The Senior Citizen Housing Development Program provides loans and grants to municipalities, housing authorities, and other nonprofit local sponsors to stimulate new housing construction and for rehabilitation of existing units for senior citizens.

(8) The Alaska State Housing Authority (ASHA) and the Alaska Housing Finance Corporation (AHFC) are operated by the State for public and low-cost housing programs and state-supported financing for low- and moderate-cost private sector housing development. Currently, ASHA receives almost all of its funding from the U. S. Department of Housing and Urban Development and manages housing units throughout the state. AHFC makes or buys mortgages on low- or moderate-income housing, insures mortgages, and makes home improvement loans and loans for other associated costs of home ownership, including down payments, to qualified persons or developers. In addition, the State has established 13 regional Native housing authorities with powers essentially similar to those of ASHA. The federal government provides virtually all of the funds for these activities, so State participation is minimal and limited to insured short-term loans.

(9) The Alaska Power Authority is designed to promote the development of hydroelectric and fossil fuel power sources for domestic Alaska usage. The authority is generally empowered to issue bonds and notes to finance power development activities in the State, with the debt being secured by the projects themselves or by the earnings of these projects. This program is still in the formative stages and has yet to issue bonds.

IV Objectives for Permanent Fund Investment

The people of Alaska should establish the overall objectives for their permanent fund. The committee hopes to achieve this through public meetings and other public participation and information programs to be held throughout the state in the coming months and through direct solicitation, such as the attached questionnaire. We need to know your priorities to write permanent fund enabling legislation.

The proposals listed below have emerged from the Alaska Public Forum, the State Invest-

ment Advisory Committee, survey research, and concerned individuals. The list is not exhaustive, nor are the proposals or objectives mutually exclusive. Remember that the types of investments made will determine the amount of income the fund earns.

Before you evaluate these proposals, consider the following: Many of the proposals for in-state investment may involve an interest or risk subsidy; that is, the money is loaned at lower interest or in greater quantities than borrowers can

Figure 3
Possible Objectives and Implications for Investment Proposals

Investment Proposal	Possible Objectives	Possible Implications
Loans or loan guarantees subsidizing various in-state basic industries with emphasis on renewable resources.	-Diversify the Alaska economy. -Employ Alaska residents. -Enhance a stable economy. -Prepare for oil production downturn. -Create future economic tax base.	-Greater government intervention in the Alaska economy. -Lower return, higher risk. -Possible stimulus for immigration. -High potential for government inability to achieve objectives. -Environmental degradation. -Government growth through increased demand for facilities and services. -Less equal distribution of benefits.
Investment in high-yield, low-risk securities either inside or outside the state.	-Provide earnings higher than available from subsidized loans. -Maintain flexibility and security of the fund during economic fluctuations.	-State economic development will follow normal national and international trends. -Less economic diversification. -Less economic activity.
Loans to or loan guarantees for small business and for purchase of homes.	-Encourage small business and home ownership. -Expand availability of consumer loans to distribute benefits of resource wealth. -Stimulate the economy.	-Fund used more for consumption, less for investment. -More equal distribution of benefits. -Lower earnings than highest possible.

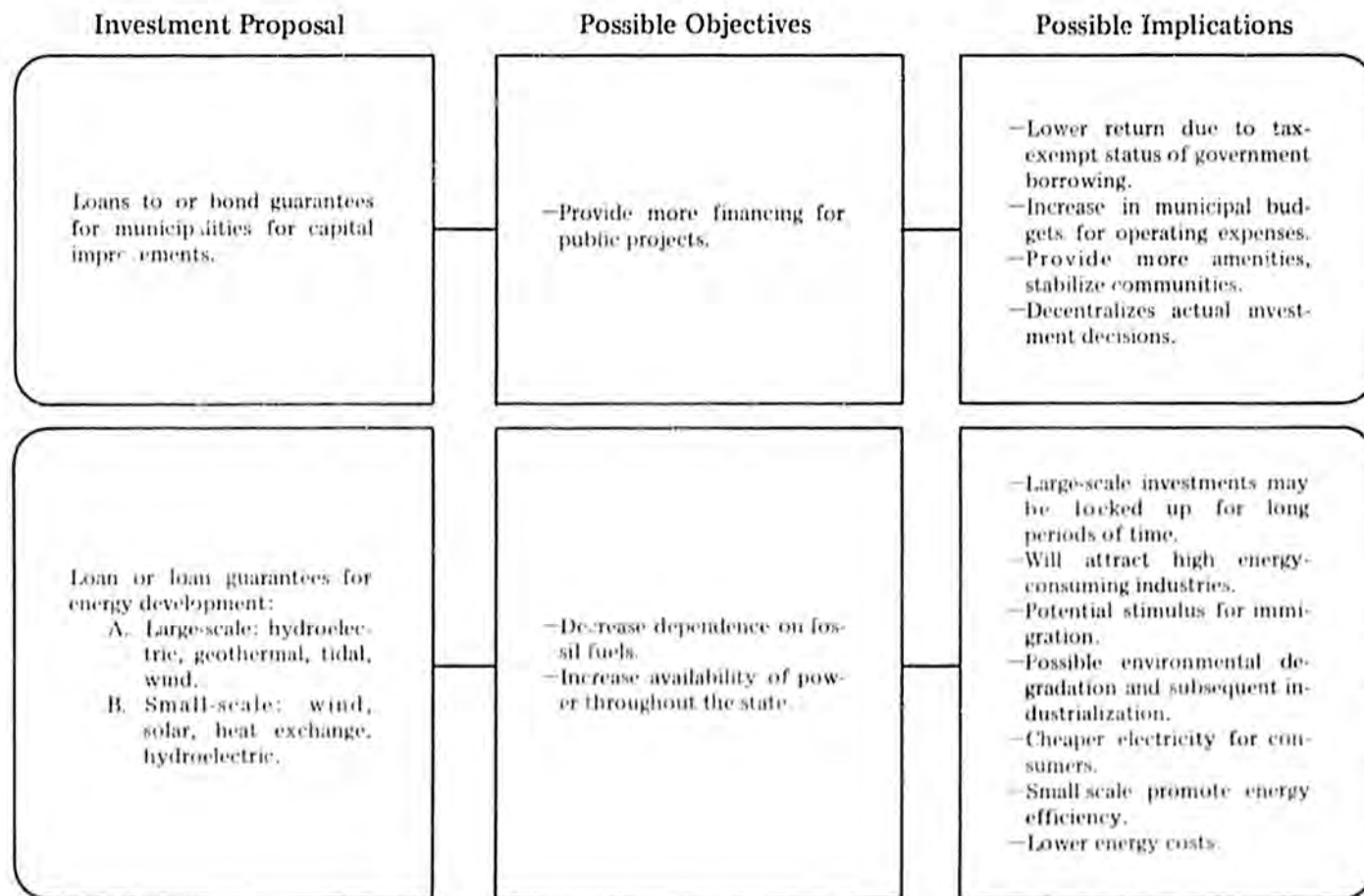
obtain from private lenders. The fund would earn a lower return than the market rate unless the General Fund makes up the difference (which has been proposed).

Subsidies may only make sense if the loan or guarantee launches an in-state enterprise that not only repays the loan but also creates new individual tax sources to cover the original subsidy as well as the cost of additional state and local government services and environmental and social costs generated. If no in-state opportunities exist, the Permanent Fund cannot create them. All investments must be thoroughly evaluated to separate the winners from the losers.

Another point to ponder is that objectives may often conflict. Although different strategies

may be used to pursue the same objectives, each proposal lends itself to the achievement of some objectives more than others and even some to the exclusion of others. For example, a strategy which seeks to distribute fund benefits directly to individuals, such as consumer loans, will provide public facilities, such as through loans to municipalities. Likewise, strategies which seek to guide the State's economy through economic diversification, for example, probably will not maximize investment income.

Trade-offs are inevitable. As you identify the proposals that might best achieve your objectives, think about the likely trade-offs involved. Figure 3 shows sample investment proposals, their objectives, and a brief outline of the implications.



V Use of Fund Income

The income derived from investment of the Permanent Fund can be used for any purpose designated by the legislature. Before we present some of the most-often discussed proposals for use of the earnings from the Permanent Fund, we invite you to invent your own and include it as part of your response to this booklet.

The people who attended Alaska Public Forum meetings throughout the state last year and those who mailed in forum questionnaires expressed three main preferences for use of permanent fund income:

- (1) Reduce taxes for Alaska residents.
- (2) Loan it to Alaskans for renewable resource development.
- (3) Return it to the Permanent Fund for reinvestment.

The governor has proposed that a portion of the income be distributed directly to Alaska residents. This plan, which he calls "Alaska, Inc.," would issue "shares" to each Alaskan based on residency. Each shareholder would receive a percentage of the fund income as a dividend, a process which the governor feels would draw public attention to the operation and effectiveness of permanent fund investments.

Each of these options for use of the fund income involves trade-offs, as discussed in the previous section on objectives for investment of the principal, and you should consider them as you decide how you would like the income used. Since the investment policy of the fund will determine the amount of earnings and the potential impact permanent fund investment will have on the Alaska economy, the committee feels that the use-of-income question should not overshadow thorough analysis of permanent fund investment goals.



Yvonne Mazzei

VI Objectives for Control and Management of the Permanent Fund

A common concern of many Alaskans after realizing the potential dollar magnitude of their Permanent Fund is who will control this wealth. The only other fund of similar or larger size in state government is the General Fund. As discussed earlier, the constitution requires that all appropriations from the General Fund be made by the legislature and be subject to gubernatorial veto. After appropriation by the legislature, some agency of the executive branch usually administers general fund money.

The state constitution requires that the legislature determine what kind of investments are eligible for permanent fund money. However, the day-to-day management of the money may be delegated to an agency in the executive branch (as it is presently) or to an organization or organizations outside the legislative and executive branches.

The two critical management questions are: How much control over policy should be delegated by the legislature to another agency or agencies? To what extent will the managers in those agencies be accountable to the people of Alaska, either directly or through their elected officials?

If the legislature simply directs the managing agency to diversify the Alaska economy by making sound investments in Alaska's renewable and nonrenewable resources (one of the investment guidelines in H.B. 298), a great deal of discretion is left to the managing agency as to what is a sound investment, what resources to invest in, and which individuals or corporations will receive financing. For example, fund managers may decide to invest in a multimillion-dollar hydroelectric project, or they could use the same money for home loans to individual Alaskans.

Permanent fund managers must be account-

able to elected officials and the public, but at the same time, they should not be vulnerable to political and special interest pressures in the loan-making process. "Politics" will not necessarily be kept out of loan decisions by placing experts on a board which is not accountable to the executive or the legislature. Clear, widespread notice to the public about the types of loans that qualify, how loans are applied for and granted, disclosure requirements for decision makers, publishing lists of loans or guarantees made, and regular auditing by the executive and legislative branches of government might provide at least a partial remedy to the control and accountability problems.

Current proposals call for appointment of managers by the governor (one adds confirmation by the legislature) with removal only for cause. The State Investment Advisory Committee discussed the possibility of elected members, but a brief look at Alaska's highly centralized government (with only the governor, legislators, and lieutenant governor being elected) indicates why this probably would not have been consistent with the state constitution.

An alternative to the highly centralized and rather independent management structure proposed in H.B. 298 would be for the legislature to provide for the administration of the Permanent Fund under the existing constitutional power of appropriation. The legislature, with approval of the governor, would designate eligible investments by law. The legislature annually would pass an investment bill for the Permanent Fund, much like the budget bill for the General Fund. The permanent fund investment bill would apportion available permanent fund money among the eligible investments.

Funds deposited in the Permanent Fund would temporarily be invested in liquid and secure money-market instruments pending each year's investment bill, as is now being done with permanent fund receipts. The legislature might choose to create new types of financial intermediaries and designate them as eligible for loans or loan guarantees in order to meet Alaska's changing capital needs. For example, the development bank corporation proposed in H.B. 298 could be one of the new financial intermediaries designated as an appropriate recipient of fund money. At the very least, legislative authorization could be required before loans exceeded a specific dollar amount.

The organization of the fund may profoundly affect how the fund performs, but the organization should reflect—not determine—the goals of the fund. Goals established today may not be those held by tomorrow's Alaskans. There must be built into any permanent fund structure both ability to protect the principal of the fund and responsiveness to meet changing goals.

National Park Service



VII Permanent Fund Questionnaire

The Permanent Fund belongs to you. What are your suggestions for use of the money? Would you please

Place
Stamp
Here

Special Committee on the Alaska Permanent Fund
528 West Fifth Avenue, Suite 270
Anchorage, Alaska, 99501

VII Permanent Fund Questionnaire

The Permanent Fund belongs to you. What are your suggestions for use of the money? Would you please take the time to share your ideas with us by indicating your preferences for permanent fund investment proposals. For each proposal, please answer the following questions. Feel free to suggest as many proposals as you think we should consider.

1. What investment proposal do you suggest and how is it income-producing for the Permanent Fund?
[Example — invest in blue chip, preferred stocks]

2. What objectives are achieved by your proposal?

3. What objectives are avoided by this proposal? [Example — no diversification of Alaska economy, does not affect unemployment, does not affect consumer loans]

4. What may limit the effectiveness of this proposal?

5. Which groups would benefit from this proposal? [Example — financiers, brokers]

6. What groups are likely to oppose this proposal?

7. What are your suggestions for management of the Permanent Fund?

A Proposal for the Alaska Permanent Fund

Final Report by the House Special Committee on the Alaska Permanent Fund



Rep. Clark Gruening, Chairman
Rep. Terry Gardner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins

Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

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I Introduction

In November 1976 Alaskan voters overwhelmingly approved an amendment to Section 15, Article IX of the state constitution creating the Alaska Permanent Fund.

The amendment reads:

"At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

The amendment defines the permanent fund in broad terms. It leaves to the legislature and the governor the task of refining the fund: what it is, what it does and how it works.

These refinements will be contained in the permanent fund enabling legislation passed by the House and Senate and approved by the governor.

The House Special Committee on the Permanent Fund was created during the past legislative session to consider proposed permanent fund enabling legislation and to propose its own enabling legislation. The committee has been working during the interim to determine what Alaskans see as the permanent fund's goals and how to best achieve those goals.

(For a more complete history of the Alaska Permanent Fund, see the committee's preliminary report, *The Role of the Permanent Fund in Alaska's Future*.)

When the second session of the Tenth Legislature convenes (in January 1978), the committee intends to hold public hearings on its proposed permanent fund enabling legislation.

This report is intended to review what the committee has done and what its proposed enabling legislation will do about the Alaska Permanent Fund.

II What the public said

In an attempt to determine what Alaskans thought about the permanent fund, the committee engaged in a wide-ranging program of public participation. This program included the mailing of the committee's preliminary report, which contained a questionnaire to be filled out and returned; a symposium on goals of the permanent fund in Anchorage, cosponsored by the National Endowment for the Humanities and the Alaska Humanities Forum; public hearings in Anchorage, Fairbanks, Kotzebue and Juneau; and participation with the Alaska Public Forum in its questions on the permanent fund.

The committee received various proposals for use of permanent fund money. Everything from preserving artifacts to tracking whales was suggested. But several general points emerged from the public participation process.

First, the permanent fund was created as a depository for mineral revenues in excess of current state needs.

Second, the mineral revenues put into the permanent fund (the principal) should stay there and not be dissipated by using it to pay for the operations of state government or by investing it unwisely.

Third, where there are sound investments in Alaska the permanent fund should make them

without duplicating financial services already available.

Fourth, money earned by permanent fund investments (the earnings) should be used for the identifiable benefit of current and future Alaskans.

Fifth, the management of the permanent fund should be insulated from politics but should be accountable to the public.

Sixth, the management of the permanent fund should not make decisions properly made through the political process.

These general points guided the committee as it worked on its proposal for permanent fund enabling legislation.

In addition, the public made two main points on how it wanted state government to assist it in shaping the future Alaska.

First, state government should provide sufficient funds and programs for the proper development of renewable resources.

Second, state government should provide sufficient funds and programs for the development of alternate energy.

Again, these two main points guided the committee as it worked on its proposal for permanent fund enabling legislation.

III What the consultants said

In conjunction with its public participation program, the committee hired consultants and lured advisors to assist it.

The consultants were Dr. Belden Daniels of Harvard University's Department of City and Regional Planning; Dr. Arlon Tussing, Dr. Scott Goldsmith and Lee Gorsuch of the University of Alaska's Institute for Social and Economic Research; the financial consulting firm of White, Weld and Company; the financial management consulting firm of Price Waterhouse and Company.

The advisors were Dr. Donald Gordon of Simon Fraser University; Dr. Barbara Bergman of the University of Maryland; Robert Blixt, executive secretary of the Minnesota State Board of Investment; Terry Magrath of Fidelity Management; and representatives of Manufacturers Hanover Trust.

Additional assistance and advice were gathered from state offices and agencies, particularly the Legislative Affairs Agency. The committee also drew heavily upon previous work done by the State Investment Advisory Committee.

In order to keep this report as concise as possible, no detailed explanation of the advice of every consultant and advisor is offered here.

Rather, a brief summary of the main points of consensus illustrates the principles that guided the committee.

First, the permanent fund is not necessarily a vehicle for financing major commercial or industrial enterprises in Alaska. Such enterprises, if sound, will receive financing from existing sources. If they are not sound then they are not proper investments for the permanent fund. In some cases it may benefit the state to offer guarantees for the financing of projects, but such policy decisions properly are made through the political process.

Second, the permanent fund cannot create sound enterprises. If other factors are adverse (lack of market, product cost) permanent fund investment will not help.

Third, financially sound small and medium scale enterprises, particularly in rural areas of Alaska, might be proper permanent fund investments because they may not be receiving money from existing sources due to institutional barriers (lack of knowledge, distance).

Fourth, permanent fund managers ought to be allowed maximum latitude for making specific investments consistent with policy direction.

Fifth, permanent fund managers ought to be accountable to the public through the legislature and governor and through public reporting requirements.

IV What the committee did

While gathering public opinion and professional advice, the committee began working on its proposal for permanent fund enabling legislation. This work focused on five main questions.

First, how much money should be put into the permanent fund?

Second, what should be the fund's financial goals?

Third, how should the fund be managed?

Fourth, how should fund managers be made accountable to the public?

Fifth, what should be done with the earnings of the fund?

V How much money should be put into the permanent fund?

The constitutional amendment requires that at least 25 per cent of the specified revenues be put into the permanent fund. This means, obviously, that more money could be put into the fund. But, in all probability, at least a portion of the specified will be needed to finance state government.

In the foreseeable future the vast majority of permanent fund dollars will come from the fund's share of the state's 12½ per cent royalty share of Prudhoe Bay oil. While the committee was working, projections of revenue from this source turned downward.

This downturn was caused primarily by two events.

First, the explosion at Pump Station 8 limited the amount of oil flowing through the trans-Alaska pipeline. This, in turn, limited the amount of oil the state received as its royalty share. It is estimated that Pump Station 8 will be repaired by March 1978. But until it is repaired the state's royalty share will be roughly half of what had been anticipated.

Second, the rejection of the Interstate Commerce Commission's interim pipeline tariff put into effect substantially higher tariffs requested by the trans-Alaska pipeline's owners.

The tariff is the fee charged by pipeline owners to transport oil through the pipeline. The higher the tariff, the lower the profit per barrel of oil for the owner of the oil. With the exception of the State of Alaska, the owners of Prudhoe Bay oil also are the owners of the trans-Alaska pipeline. So, the interim tariff rejection means that the state must pay an additional \$1.35 per barrel, on the average, to transport its oil through the pipeline. The result: the state loses an average of \$1.35 per barrel profit on its royalty share of Prudhoe Bay oil.

Higher tanker charges and unanticipated field treatment charges also may reduce the state's profit on its royalty oil.

This downturn of revenue from Prudhoe Bay has had a similar effect on the state's general fund, creating a deficit in anticipated revenue for the current fiscal year of between \$50 million and \$100 million as of this writing.

Adjustments in the state's oil taxation policy could help offset this general fund revenue deficit. But such adjustments would not make more money available to the permanent fund since tax revenues cannot go into the permanent fund.

The other factor affecting the amount of money available for the permanent fund is the level of state spending. Money spent on state government projects and programs cannot go into the permanent fund.

This has led some to suggest that 100 per cent of the specified revenues be put into the permanent fund so that none of the specified revenues can be used to finance state government. But such an approach, revenue/expenditure projections show, would soon leave insufficient revenue to finance state government even if there was no real growth (that is, more dollars spent per person after inflation effects are subtracted) in the state budget. (See chart 1)

Such a situation, called deficit spending, is prohibited by the state constitution.

Projections, it is important to remember, carry no guarantee. Changes may occur (tariffs may be lowered once again, new sources of revenue may be found) that the projections do not take into account. They are planning tools and are not intended as outright projections of the future.

The committee took these projections into account as it worked on its proposed permanent fund enabling legislation.

It is important to note that, in addition to whatever money is put into the permanent fund, there are previous constraints on state revenue. These include a 5 per cent dedication to the Renewable Resources Development Fund, payments to the Alaska Native Fund and fixed assets in various state loan funds.

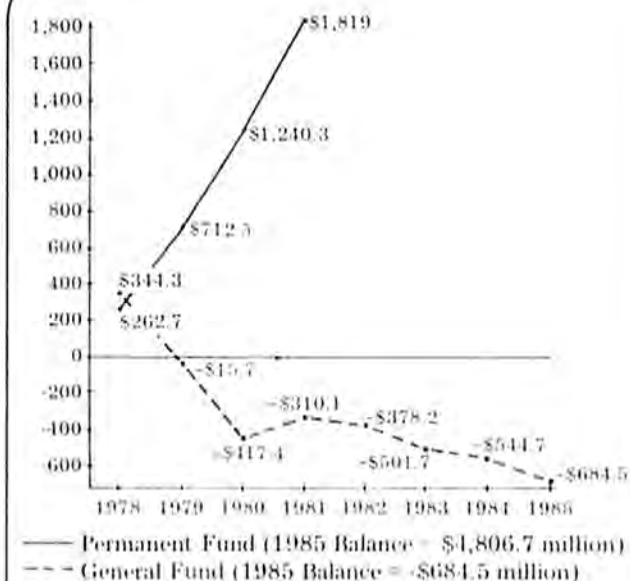
The committee's proposal puts 30 per cent of the specified revenues, with the exception of bonuses, into the permanent fund. The latest revenue/expenditure projections show that this would put the permanent fund's value by 1985 between a low of \$903.3 million and a high of \$1.5 billion. These figures do not include any earnings from the permanent fund that might be returned to the permanent fund. (See charts 2, 3 and 4)

The committee's proposal puts 100 per cent of bonuses (minus 5 per cent for the Renewable Resources Development Fund and 2 per cent, until it is paid off, for the Alaska Native Fund) into the

permanent fund. The committee decided that no bonus money should go into the general fund because such a policy could lead to the premature sale of leases simply to balance the state budget.

The committee is continuing to study its formula budgeting concept, although it is not contained in the committee's proposal. Generally, this concept requires the establishment of a formula, based on the previous year's budget, for setting budget growth. Once the revenue required by the formula was provided, all other revenue would flow to the permanent fund. The formula, of course, could not allow the permanent fund contribution rate to fall below the 25 per cent required by the amendment.

Chart 1
100% Contribution



Note:

The underlying assumptions are: the rate of interest on permanent and general fund investments is 7%; the percentage of current year expenditures in the general fund cash balance is 20%; 100% of royalties, leases, and bonuses are deposited in the permanent fund; the annual increase in the budget is 15%; 50% of the permanent fund earnings go to Alaska, Inc. payments or for other uses outside permanent or general funds.

Source: Division of Legislative Finance

Chart 2
30% Contribution

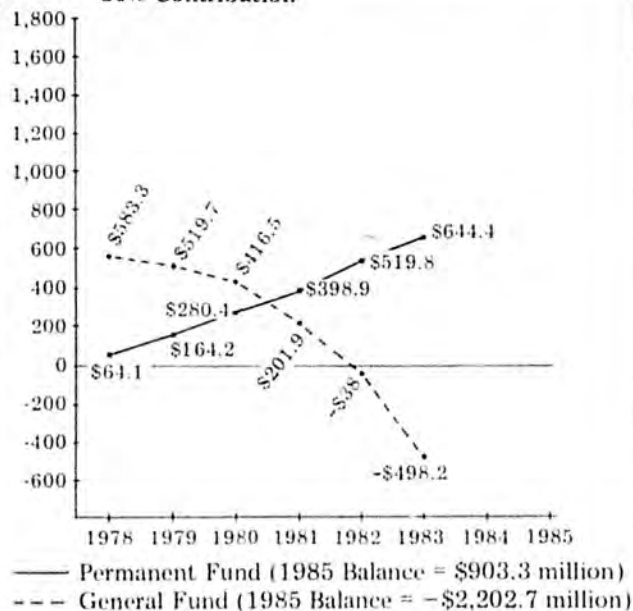
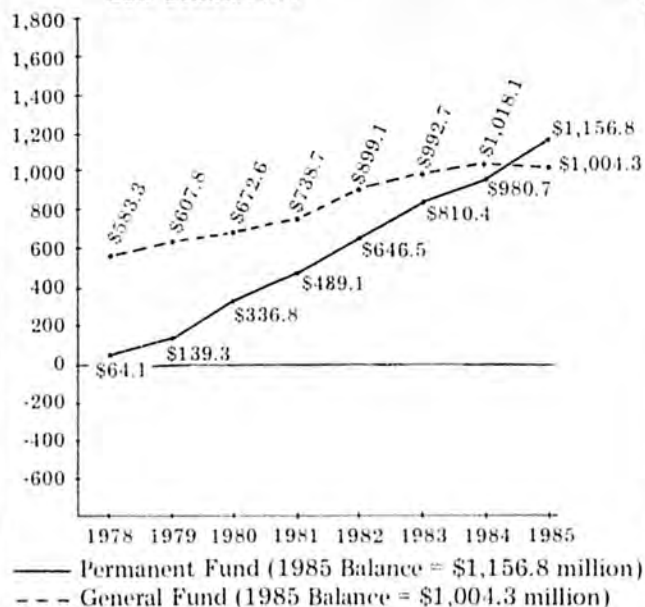


Chart 3
30% Contribution



Note:

In all cases permanent fund earnings are assumed to return to the general fund. Other underlying assumptions are:

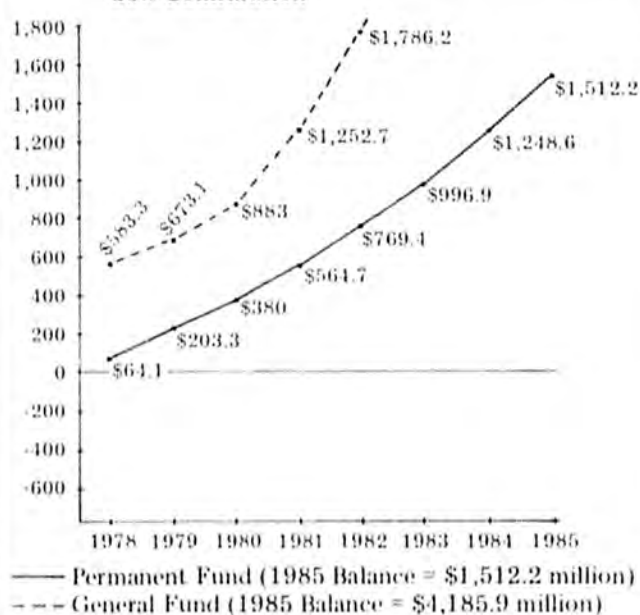
In Chart 2, wellhead values increase 2.5% annually; expenditures increase 15% annually; tariffs are about \$6.25 per barrel; the State loses the dispute over deduction of treatment costs for royalty calculations; the state severance tax "floor" remains at 80¢ per barrel (equivalent to a wellhead value of about \$6.53 per barrel).

In Chart 3, the State is successful in its suit to halt deduction of field treatment costs for royalty calculations and that the tariff dispute is resolved by "splitting the difference" between the interim tariff of \$4.90 per barrel and the company tariff of \$6.25 per barrel. With those additions to wellhead value, 1979 and subsequent years' oil prices increase 3.75% annually; the state severance tax "floor" remains at 80¢ per barrel; and state expenditures increase 10% annually.

In Chart 4, the State prevails in both the treatment cost and tariff dispute, adding about \$1.97 per barrel over current value; oil prices rise 5% annually; expenditures increase 7.5% annually; the severance tax "floor" remains at 80¢ per barrel.

Source: Division of Legislative Research.

Chart 4
30% Contribution



VI What should be the financial goals of the fund?

The financial goals, generally, are dictated by the constitutional amendment. On questions where the amendment is mute, the committee looked to expressed public opinion and professional advice for its answers. Based on this, the committee made three basic decisions on the fund's financial goals and embodied them in its proposal.

First, the main goal of the permanent fund is permanence; that is, the fund's primary purpose is to preserve the money put into it. This dictates that investment risk be minimized, that permanent fund investments be as secure as possible.

Second, fund investments must produce income. This rules out investments in projects and programs that will not return income directly to

the fund. Without dictating a specific level of return, the committee decided that permanent fund investments must meet market rates and terms to insure, insofar as possible, their security and ability to produce income.

Third, a portion of the permanent fund should be used for the benefit of current Alaskans, as long as that use is secure and income producing.

In making these decisions the committee realized that it was ruling out many types of investments, including highly speculative and subsidized investments. It also realized, however, that the permanent fund is only one of several financing vehicles available to the state and that it was unnecessary, as well as unwise, to try to design a permanent fund to do all things.

VII How should the fund be managed?

Based on its decision on the fund's financial goals the committee, with the assistance of its consultants and advisors, created two corporations.

The first, called the Alaska Permanent Fund Corporation (APFC), is essentially a trust fund. It receives five-sixths of the permanent fund revenue until the second corporation is paid its \$100 million; then it receives all the permanent fund revenue.

The Alaska Permanent Fund Corporation is an independent, non-taxable public corporation managed by a three-member board of trustees.

The APFC board's members are appointed by the governor and confirmed by the legislature for four-year terms. They receive no salary and serve on a part-time basis. The trustees are empowered to manage and invest the corporation's assets within the constraints of the committee's proposal.

These powers include hiring an executive director and approving staff, as well as contracting with private firms.

The constraints on the trustee are as follows: They must manage the corporation's assets prudently and maintain a reasonable diversification of investments. They may not borrow money or provide loan guarantees. Their investments must be income producing and are limited to U.S. government guaranteed bonds, first mortgages and corporate stocks and bonds. No more than 30 per cent of the corporation's assets may be invested in stocks. The trustees are subject to public reporting requirements and external audit.

The second corporation, called the Alaska Enterprise Investment Corporation (AEIC), is essentially a development bank. It receives one-sixth of the revenue dedicated to the permanent fund up to \$100 million. When that amount has been paid into the AEIC that one sixth reverts to the Alaska Permanent Fund Corporation.

The Alaska Enterprise Investment Corporation is an independent, non-taxable public corporation managed by a seven member policy board. One member of the policy board is appointed by the governor from the executive branch. The other six are appointed by the governor and confirmed by the legislature from the general public. The public members are unsalaried, part-time and serve four-year terms.

The policy board members are empowered to appoint an executive director and members of the investment committee, set policy for the AEIC within statutory constraints and monitor the corporation's plans and performance.

The executive director is empowered to hire and fire staff and serve as a member of the investment committee. He is responsible to the policy board for the corporation's performance.

The other four members of the investment committee also are appointed by the policy board. They are full-time, salaried and serve four-year terms. The investment committee is solely responsible for approving all investment proposals.

The corporation is designed to provide financial assistance to financially sound small and medium scale productive private enterprises and community development projects. In doing so it may borrow up to \$100 million, provide financial guarantees and loans, and purchase up to a 25 per cent ownership in an enterprise or project. Up to 50 per cent of its financial resources may be used to finance private enterprises; the other 50 per cent may be used for community development projects.

All corporation investments must be made according to market rates and terms. The corporation may not give financial assistance of more than \$2.5 million to any enterprise or project without legislative approval. The corporation may not use its money to replace private capital.

The corporation is subject to public reporting requirements and external audit.

Thus the House committee's proposal sets aside most of the permanent fund as a trust to preserve its principal and produce earnings from secure investments. The balance of permanent fund revenues, up to \$100 million, are designated for a development bank designed to find and fill capital gaps in Alaska on an income-producing basis. Both corporations are insulated from politics in their day-to-day operations but subject to policy decisions made by the public through the political process.

The committee's proposal, in short, is designed to provide both financial security and reasonable financial assistance to current and future Alaskans.

VIII How should the fund managers be made accountable to the public?

Since the permanent fund is public money, the committee realized the need for those who managed it to be accountable to the public for their actions. So the committee's proposed permanent fund enabling legislation includes several provisions designed to insure that accountability.

First, members of the APEC board of trustees and the AEIC policy board are appointed by the governor and confirmed by the legislature. This insures that the public's elected representatives must be sure that members of the boards are qualified.

Second, the proposal requires that both corporations report directly to the public in plain English what they have done and why during each year.

Third, all board members and employees of both corporations are subject to the state's conflict of interest law.

Fourth, both corporations are constrained in several ways by the provisions of the committee's proposal.

Fifth, the committee's proposal creates an Investment Oversight Committee (IOC) of the legislature, designed to monitor the activities of both corporations and all other agencies of the state which perform lending, borrowing or investment functions (this would include the Renewable Resources Development Fund, the existing state loan programs and the Department of Revenue).

The IOC is composed of eight members: the President of the Senate, the Speaker of the House and three members appointed from each house. At least one member from each house shall be a minority member.

In addition to its monitoring responsibilities, the IOC must report to the legislature its recommendations regarding the confirmation of suggested appointees.