

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

233 SCOM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

IX What should be done with the earnings of the fund?

The permanent fund will produce earnings from both corporations. The committee found during its public participation process that demands on these earnings are infinite. Revenue/expenditure projections indicate that the permanent fund will not produce sufficient earnings to provide money for all the suggested projects and programs. (Under the most optimistic projections, at a highly optimistic rate of return of 10 per cent, the permanent fund will return \$150 million in 1985. This is between one-fifth and one-sixth of the current fiscal year's budget.)

The committee has chosen to introduce a separate piece of legislation providing for the use of the permanent fund's earnings. Based on the public's demand for funds for energy, the committee's proposal is to use permanent fund earnings as a guarantee for bonds issued by governmental agencies for power projects.

Guarantees are a commitment to pay any default on interest or principal payments on

bonds. Once the government agency issuing the bonds makes these payments, the portion of permanent fund earnings used as the guarantee would be freed and flow to the permanent fund or general fund.

The committee's recommendation is that the earnings be returned to the permanent fund. Unless this or some other recommendation is approved, the earnings, under the constitutional amendment, will go to the general fund.

This proposal, according to financial advisors, would draw more private money at lower rates to Alaska for power projects. It would not expose the fund's earnings to excessive risk of loss due to default.

The committee's use of earnings proposal is an attempt to assist Alaskans in the creation of power projects. It also is a discussion proposal, designed to spark further debate in the legislature and throughout the state on what Alaskans want permanent fund earnings to accomplish.

X The Renewable Resources Development Fund

In addition to its duty to review and propose permanent fund enabling legislation, the committee is responsible for providing for enactment of the Renewable Resources Development Fund (RRDF).

The RRDF, passed by the legislature in 1974, receives not less than 5 per cent of the receipts from bonuses, rentals and royalties for the rehabilitation, enhancement and development of renewable resource programs.

The committee formed a subcommittee to examine the RRDF. The subcommittee's work over the interim culminated in a work draft which will be taken up once again by the committee when the Tenth Alaska Legislature convenes.

The work draft sets up a corporation, called the Alaska Renewable Resources Corporation (ARRC). The corporation is an independent, non-taxable public corporation managed by a three-member board of trustees. Trustees are appointed by the governor and confirmed by the legislature for four-year terms. They are full-time and

salaried. Trustees are empowered to employ an executive director and staff. They also are empowered to render financial assistance within the constraints set in the work draft.

The corporation is designed to give grants, loans, loan guarantees and other financial assistance to projects and programs that identify and demonstrate new products, markets and technologies in renewable resources.

The corporation is subject to the same conflict of interest and reporting requirements as the permanent fund corporations.

The corporation's purpose is to provide financial and technical assistance to projects and programs that are of higher risk than is acceptable to private financial markets. It is the "leading edge" of the state's efforts to develop viable, stable renewable resource businesses and to provide financing for commercial, traditional and common uses of the state's renewable resources.

XI Summary

The House Special Committee on the Permanent Fund's efforts will result in three bills as described previously. One will establish the Alaska Permanent Fund Corporation, the Alaska Enterprise Investment Corporation and the Investment Oversight Committee. The second will provide for the use of the permanent fund's earnings. The third will establish the Alaska Renewable Resources Corporation. As yet undecided is a fourth bill on formula budgeting.

The committee's package aims at four goals: First, to be consistent with the constitutional amendment and statute creating the RRDF.

Second, to be responsive to public desires and consultant advice.

Third, to insure that the public will remain informed about the activities of its permanent fund and RRDF managers.

Fourth, to fit the permanent fund and RRDF into the existing public financing structure.

In accomplishing this last goal, the committee's proposals seek to avoid both unnecessary risk to the permanent fund and duplication of existing financial services.

In looking at the structure of public finance with the committee's proposals included (Chart 5), it is convenient to divide it into three risk categories; high risk, medium risk and low risk.

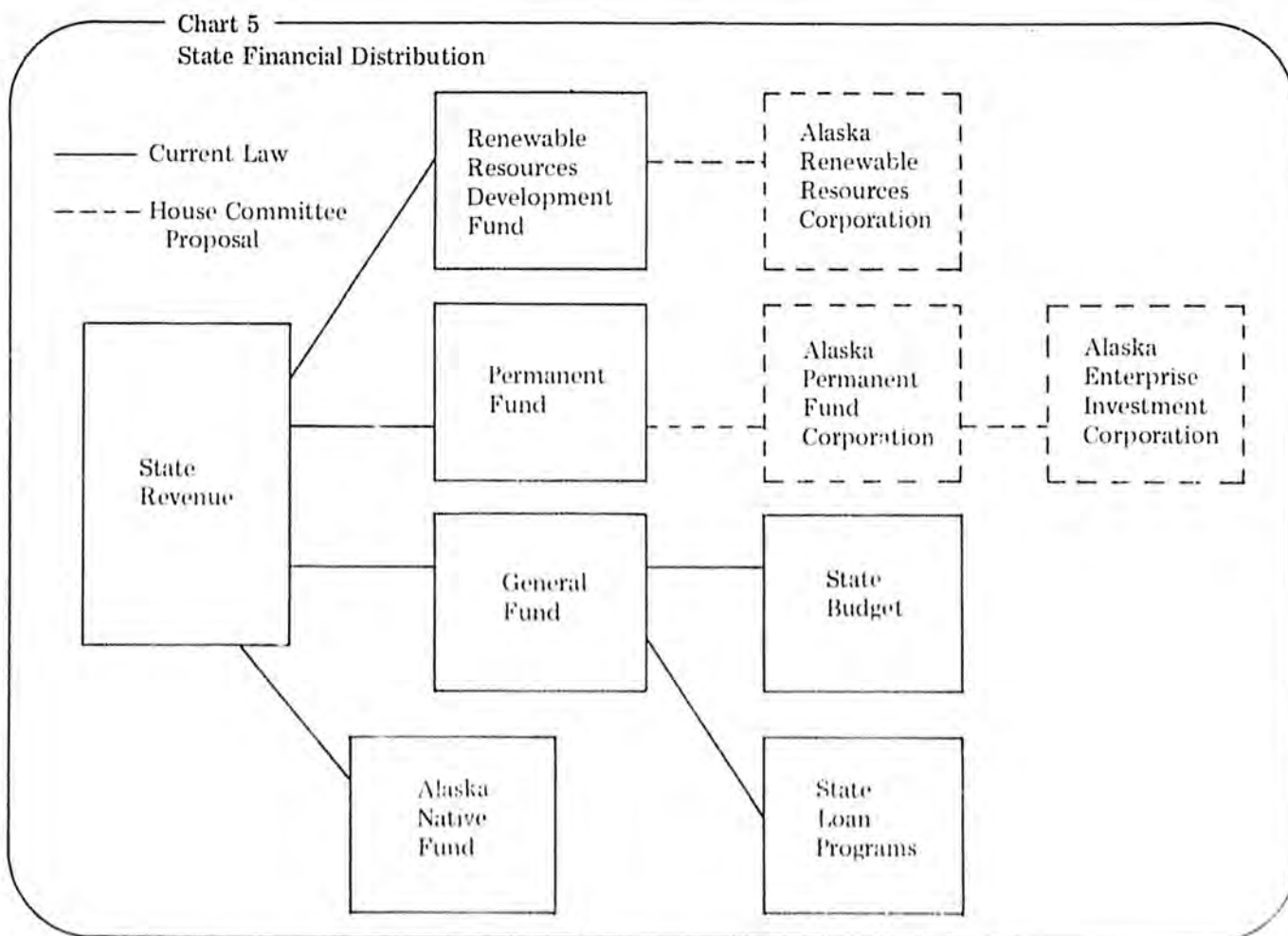
High risk would include portions of the general fund's budget and loan programs and part of the Alaska Renewable Resources Corporation.

Medium risk would include portions of those listed above and part of the Alaska Enterprise Investment Fund.

Low risk would include the Alaska Permanent Fund Corporation, part of the AEIC, and some state loan programs.

This then, is the House committee's proposal, to provide for public purposes with public funds from high risk to low.

The committee welcomes any comments you might have on its proposals or any proposals of your own. You can write to the House Special Committee on the Permanent Fund, Pouch V, Juneau, 99811.



Appendix

The following may be found in the appendix to this report:

Reports

"Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers," by Belden Daniels.

"Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability," by Belden Daniels.

"Economic Considerations in the Establishment of Alaska's Permanent Fund," by Arlon Tussing.

"Report on Trust Funds," by White, Weld and Company.

"The Role of the Permanent Fund in Alaska's Future," by the House Special Committee on the Permanent Fund.

Transcripts

Committee Meeting, July 13, Anchorage.
Symposium, September 10, Anchorage.
Public Hearing, September 14, Fairbanks.

Public Hearing, September 15, Anchorage.

Committee Meeting, November 18, Anchorage.

Minutes

Committee Meeting, July 14, Anchorage
Public Hearing/Committee Meeting
September 17, Kotzebue.

Public Hearing/Committee Meeting,
October 20-21, Juneau.

Committee Meeting, November 19, Anchorage.

Committee Meeting, December 12-13, Anchorage.

Memoranda

Revenue Projections, Legislature Affairs
Research.

Revenue Projections, Division of
Legislative Finance.

Questionnaire Returns.

Index to Committee Files (Documents
listed in the index are available upon
request).

Written Testimony

Various

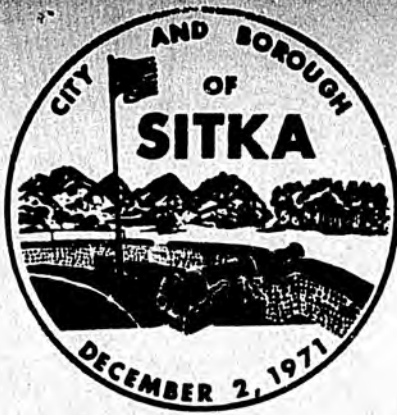
Proposed Legislation

On the Alaska Permanent Fund
On the use of Alaska Permanent Fund
earnings

On the Renewable Resources
Development Fund (work draft)

Special Committee on the Alaska Permanent Fund
Pouch V
Juneau, Alaska 99811





City and Borough of Sitka

P.O. BOX 79 . SITKA, ALASKA . 99835

August 25, 1977

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

Gentlemen:

I wish to thank the House Special Committee on the Alaska Permanent Fund for the booklet, "The Role of the Permanent Fund in Alaska's Future", which I found quite informative. It is only through publications such as this that one learns what his fellow citizens' thoughts are on the fund which creates feedback for the Committee.

The booklet states, "that 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." I will advance the argument that the nonrenewable wealth being extracted should be transformed into another form of wealth in the form of hydroelectric energy wherever possible and practical. This form of wealth meets the criteria of providing the basic necessities and opportunities for future generations by creating a non-depletable resource. To a large degree the funds which will constitute the Permanent Fund will come from the sale of oil and gas which are energy. If future generations of Alaskans are to be guaranteed any opportunities at all, the energy we are now selling must be replaced with alternate sources. I propose that a percentage of the permanent fund be ear-marked for investment in viable alternate producing sources of energy. We cannot allow Alaska to be exported to the point of energy extinction, and now is the opportunity to insure such does not happen.

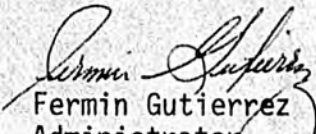
Proposed legislation for investment of the fund would allow 60% to be invested in Alaska development loans, community projects and private dwellings. You will note that the proposed allowable investments all require energy. The well being of the citizens of Alaska today, and in the future will be dependent on a reliable and adequate source of electric energy. Perhaps it is the intent of the legislation already introduced to allow investment from the fund in hydroelectric and other sources of energy. If such is the case, I do not feel the proposed legislation has gone far enough, and feel alternate methods of producing energy should be spelled out in the legislation with a percentage of the fund to be solely invested for that purpose.

Page Two
Special Committee on the Alaska Permanent Fund
August 25, 1977

With all due respect to Dr. Arlon Tussing, I do not agree with the philosophy attributed to him in the booklet wherein he states, "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". I find the contrary to be true at this time. What good has been accomplished for the citizens of Alaska if the permanent fund has been invested outside Alaska, earning 6% to 9%, and diesel oil for generation purposes is escalating at a rate of 11% to 16% in Alaska? I ask, who is subsidizing who under these circumstances.

Investing a percentage of the Permanent Fund to construct alternate sources of energy meets ever prerequisite proposed for the Permanent Fund. In the meantime, keep us apprised of the Committee activities.

Very truly yours,


Fermin Gutierrez
Administrator

FG:mm

August 30, 1977

Fermin Gutierrez
Administrator
City and Borough of Sitka
P.O. Box 79
Sitka, AK 99835

Dear Fermin:

Thank you very much for your letter of August 25, 1977 in response to the Committee's booklet. As you have noted, the bill developed by the State Investment Advisory Committee and introduced by the Governor as HB 298 is broad enough to allow investment from the fund in hydroelectric and other sources of energy. Nevertheless, it may be desirable to specifically designate a portion of the fund for financing non-fossil fuel energy sources or to make other existing funds such as the Water Resources Revolving Loan Fund or the Renewable Resources Development Fund more suitable to these purposes. It is one of the tasks of this Committee to consider how financing energy development should be accomplished and make appropriate recommendations to the legislature.

I'm enclosing a copy of the Committee's work schedule in which the Committee is planning to attend the Southeast Hydropower Conference in Sitka.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosure



Marjorie Wooster - 1
WHEAT Alaska Task Force

World Hunger Education/Action Together

7342 Madelynn Way

Anchorage, Alaska 99504

August 1977

Clark Gruening
940 Tyonek
Anchorage, AK 99501

Dear Rep. Gruening;

Please read, consider, and react to the enclosed resolutions that are part of the results of our lecture/seminar series entitled "FOOD, LAND & ALASKA."

With a grant from the Alaska Humanities Forum, we of the World Hunger Education/Action Together Alaska task group coordinated this five event, six-month effort to focus the Alaskan public's attention on the present world food crisis and explore the implications of this major global issue for Alaskans and Alaska's future, especially in the areas of land use planning and agricultural potential. Four lecture/panel events featured "expert" presentors and local knowledgeable respondents, who discussed in depth the many facets of this issue and related them to Alaskan decisions. The final 2-day seminar included presentations by Martin McLaughlin of the Overseas Development Council in Washington, D.C. and Joseph Collins, of the Institute for Food & Development Policy in San Francisco, California.

All the events were attended by people who were interested in and/or concerned about world hunger and Alaska's development. The resolutions were passed by a two-thirds vote of the fifty persons who attended the final seminar and participated in the intensive discussions of the issues.

We ask your careful consideration of these resolutions, and would appreciate your written response on how you see these might best be implemented.

Sincerely,

Marjorie Wooster

Marjorie Wooster
WHEAT Task Group on behalf
of the "Food, Land & Alaska" sponsors

tp

FOOD - LAND - ALASKA

Recommendations - June 10, 1977

Preamble: We recognize the viability of Alaskan agriculture, and its agricultural lands as part of the world food source. The aim of Alaska agriculture should be self-sufficient food production, as far as possible, for Alaska and possible future export of food to areas of greater need.

1. We support legislative action strengthening State-Federal co-ordination in the creation of one statewide land-use plan, containing a specific agricultural development plan which includes economic incentives to farmers and agricultural infrastructure.
2. We recommend that, from the permanent fund, a significant proportion of the annual disbursements should be allocated for implementation of the agricultural portion of the State-Federal Land Use plan.
3. We recommend that a significant proportion of Alaska permanent fund moneys be used to help finance locally owned agricultural and aquacultural production, processing, and marketing with emphasis on co-operative enterprises.
4. We recommend that the State of Alaska, through the Dept. of Community and Regional Affairs, and utilizing permanent fund moneys, enable local communities or regions to establish Renewable Resource Centers to provide technical services in the development of resources for that community or region such as food, fiber, and other amenities.
5. We recommend that the Dept. of Community and Regional Affairs and the Dept. of Education initiate the development of materials and programs which educate Alaskans at all levels of our educational system concerning the value of agriculture and aquaculture in Alaskan society.
6. We recommend that a Nutritional Impact Statement be attached to any State legislation on land use.

August 30, 1977

Marjorie Wooster
WHEAT Alaska Task Force
World Hunger Education/
Action Together
7342 Madelynn Way
Anchorage, AK 99504

Dear Marjorie:

Thank you so much for a copy of the "Food-Land-Alaska Recommendations" dated June 10, 1977.

I am in full agreement with the preamble and paragraph one. We need State-Federal coordination in a land use plan which includes promotion and development of agriculture in Alaska. The Udall bill or HR 39 now being considered by the U.S. House of Representatives as one of the proposals for classification and use most of the remaining unreserved federal land in Alaska could very seriously damage (if it becomes law) the ability of Alaska to have self-sufficient food production or a viable food export. At the very least, the remaining key agricultural lands ought to be excluded from the wilderness classification established by HR 39 so that these lands can be available for agricultural purposes.

Paragraphs 2, 3, and 4 deal with the use of Permanent Fund money to help plan and finance viable agriculture and aquaculture production in Alaska. I support the use of public monies for the purposes outlined in the task force's recommendations. The state presently has agricultural and aquaculture revolving loan funds. In addition, there is a Renewable Resource Development Fund which could also be a source of capital for food production enterprises as well as Alaska food production research and development. The Permanent Fund is, therefore, not the only possible source of public money for these purposes. One task of the House Special Committee of the Permanent Fund will be to consider your proposal along with the numerous other suggestions for use of Permanent Fund money and decide which of the above mentioned funds including the General Fund is most appropriate for the task.

Marjorie Wooster

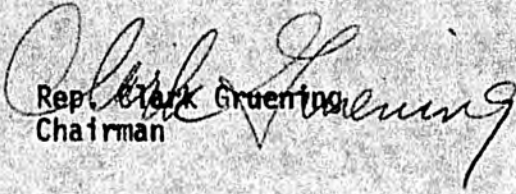
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August 30, 1977

Please find enclosed a copy of the Committee's publication with the attached questionnaire. If you would like additional copies or further information, please feel free to contact us.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosure

Dear Representative:

Plent

I am interested in more information on what types of ideas & uses we & yourselves are planning for our permanent fund.

Thank you.

Marie Motchman

ITT Arctic Services

Barrow AK

99723

Permanent Fund
528 W 5th Ave
Anch. AK 99501

August 29, 1977

To whom it may concern,

"Should the money, which by law must be income producing," etc.

I'm quoting this out of the paper because it says alot. In other words spend the money, yet make it back, with of course a profit.

So by 1985 you could have 2 billion? Wow! ⁽¹⁾ I say give it to any resident on a loan basis. For businesses, homes, and land. Or just anything cars, boats, T.V's. With a much, much lower interest rate on the money loaned.

(2) There is \$4 million now, well use it today, tomorrow there could be a earthquake, then it wouldn't do anyone any good. The maximum amount that could be loaned would be \$7,000.00. Just a random number that came into my head, yet \$7,000.00 goes into 4 million (which is what I understand the pot has now) 571,429 times. I understand the population is 500,000 more or less. Not everyone is gonna want a loan like children. So the rest of the money that is not loaned out could be used for my second choice, Which is research into alternate energy. " Solar I prefer, even Jimmy Carter likes it."

As far as the question you asked "Should the money be loaned to develop new industry in the state, with an emphasis on renewable resources? Please answer that question for me. Don't they already have trillions of money?

Management of the funds. I'm a bondable person and have great references/.

Don't consult, consultants any further, its cracking the golden egg little by little.

I hope you take me seriously. I'm perfectly sober when I typed this.

Sincerely yours,

Ps: Banks will not like my idea. I hope ~~XXXXXX~~ they are not that powerful to stop me.

Ms. Julie Kressler
833 A St. #4
Anchorage, AK.

Phone: 276-8240
work: 276-5676



J. Krusler 835 H 6649
Anch, AK.
Preferred General Agency of Alaska, Inc.

1550 WEST EIGHTH AVENUE, SUITE 201, ANCHORAGE, ALASKA 99501



Acme: School of American Research
Pueblo Art USA 13c

528 W. 5th Ave.
Suite 270
Anchorage, Alaska 99501

VII. Permanent Fund Questionnaire

A. Investment

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 income-producing for the Permanent Fund? [Example - invest in blue chip, preferred stocks]
2. What objectives are achieved by your proposal? [Example - high return, flexible, no growth impact on Alaska, investment as secure as stock market]
3. What objectives are avoided by this proposal? [Example - no diversification of Alaska economy, does not affect unemployment, does not effect consumer loans].
4. What may limit the effectiveness of this proposal? [Example - government can't move quickly in the stock market, investment is high and tied up for the duration of the investment, possible large losses]
5. Which groups would benefit from this proposal? [Example - financiers, brokers]
6. What groups are likely to oppose this proposal? [Example - developers, people looking for a government dole through a subsidized loan, people who don't trust the stock market]
7. What other comments do you have on this proposal?

Permanent Fund Questionnaire

B. Management

In addition to the investment of permanent fund monies a policy on the management and control of the Fund must also be established. What are your suggestions for who should manage the Fund? Would you please take the time to share your proposals with the committee and answer the following questions about your suggestion?

1. Proposal for management of the Permanent Fund. [Example - two-tiered board, with policy board appointed by governor, confirmed by legislature; management board of financial consultants hired by policy board. Board monitored in relation to their achievements. A five-year investment plan presented to and adopted by the legislature, reviewed and updated annually]
2. What objectives are achieved by this proposal? [Example - maintains accountability through annual adoption of investment plan, removes political tinkering through use of professional financial staff]
3. What objectives are avoided by this proposal? [Example - doesn't directly involve citizens in investment decisions, no direct control by the governor or the legislature, doesn't allow great flexibility in investment except for annual updates of five-year plan]
4. What are the constraints of your proposal? [Example - policy board could become too powerful if the legislature doesn't thoroughly review the investment plan, the integrity of both policy board members and management board members must be unquestionable]
5. What other comments do you have on this proposal?

A 1. Suggest setting base below which principal must not be allowed to fall. A balance of "safe" and speculative investments of principal that will allow this base to be maintained. To list specific type investments is questionable since market, money and need conditions change. Would suggest consideration of permanent fund investments in programs with broad benefits such as developing alternate energy sources or research and assistance in developing our renewable resources such as timber and fisheries.

2. Protection of base funds, flexibility to vary investments for highest return and greatest benefit to Alaskans, ability to drop investments that go sour fairly quickly or the absorb losses from these investments.

3. The necessary highly qualified management is expensive; short-term, special interest groups or regional political pressures could hamstring investment program (the alternative of over-insulating management from public pressures should be avoided, however); no matter what investment programs finally are selected, somebody is going to bitch.

4. Returns from research and development programs could be slow (in some instances there possibly would be no dollar return at all); political and special interest pressures cannot be wholly avoided.

5. Hopefully, we all would. Care should be taken to avoid drizzling away the money for half-baked schemes or in vague and fuzzy studies.

6. Certainly persons who hope to make a political or financial "killing" from the permanent fund and are barred from doing so (if this is possible) would be unhappy. There will be proposals for investment--seemingly valid--that will benefit too few persons for the dollars expended or will offer too little likelihood of financial payback to the fund to be acceptable and certainly these people would object. Those who are hopeful of eliminating the state income tax no doubt would have a word or two to say.

7. Your examples certainly are leading, are they not?

B 1. Your example looks pretty good to someone unfamiliar with management. Suggest that policy board membership be large enough so that segments of the public often overlooked could be included. Both boards certainly should be accountable and accessible to the general public, either through its elected representatives or directly. Since it appears that the income from the permanent fund will go into the general fund, there should be some protection against milking the permanent fund for high returns while overlooking some very necessary public needs that the permanent fund could meet but for which the returns might be less.

2. Allows for the broadest possible public participation with-

out surrendering necessary controls. Professional financial staff a must but its investment thinking must jibe (at least to a large degree) with that of the general public or be acceptable to it.

3. No particular thoughts.

4. Unless the boards have some direct contact with the general public--so that the public understands what they are doing and why--legislative or executive branches could twist board action for political gain. While the integrity of board members should be above question, integrity sometimes is a poor shield when an unscrupulous person hopes to make political hay. For that reason, the accountability of the boards should not be restricted to the legislature.

Sept 3, 1977

From the desk of Andrew Klein:

Concerning input on the use of money in the Alaska Permanent Fund.

I feel that Alaska and Alaskans have been very foolish in the wise use of new money and old. I have been in Alaska 13 yrs and it is pathetic where our priorities lie, from all aspects of Alaskan ventures. In some areas we have been wise, but very few. If Alaska is to grow the people of this state have to start thinking like sensible sane people and not money hungry "get all I can for it all goes" illiterate slob. If we take it easy on plan wise use and get the Fed. gov out of a lot of our business, Alaska can lead the way not fall in behind the rest of the mistakes of those before us who developed the so. US.

Now for a few ideas I have on use of this Fund.

1. We could let it ride in the fund and use the interest for

A. Construction of adequate sewage and water & elec power in all rural villages. With the use of some of the people right in the area to do the work.

B. Education of natives (Indian, white, etc) how to sustain their life styles to go along with needs.

C. Upgrade roads and equipment and train those in area to maintain.

2. Could invest it in Alaska not a so. US venture.

a. Free our State Fish & Game from politics and get the biologist out in the field.

b. Clean up W.W II debris and other eyesores.

c. Build a better Marine Hwy and own the rail road too.

A Rural Capital
Needs
B Education
C Infrastructure
Dramatic effect on
creation of local
jobs
(10-state investment)

D. Build facilities for sports and similar activities
to give our youth and adults constructive outlets
to relieve long winter nights.

E. Up grade the social services with competent people.

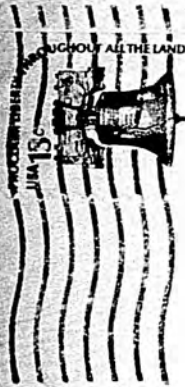
All I know is that we have to plan for tomorrow
sensibly with Alaska the land in mind and its people
blending in not devastating. This is not the Last
Frontier. This is the New Frontier for tomorrow. We
can use it or abuse it. The Choice is mine to use
it in an asthetic or pleasing manner.

Thank you

Andrew Klein

P.S. Not able to make the Sept 15 public hearing be-
cause I will be guiding.

Andrew Klein
4401 Forest Rd #2
Anch. Ak 99503



Alaska Permanent Fund
528 W. Fifth Ave
Suite 270

Anch. Ak 99501

August 31, 1977

Richard D. Seifert
Research Associate in Water Resources
Institute of Water Resources
University of Alaska
College, AK 99701

Dear Rich:

I very much appreciate your thoughtful letter on the concept of using income earned by the Permanent Fund for seed money for relevant research projects to test, develop and demonstrate renewable, alternative energy resources for Alaska.

I do agree that there is a great deal of relevant research that could be performed on Alaska problems which usually do not attract sufficient federal funding.

This Committee, in addition to the task of developing proposals for the management, investment, and goals of Permanent Fund principal and earnings, is also examining new enabling legislation for the Alaska Renewable Resources Development Fund. The Renewable Resources Development Fund, which was set up in 1974, dedicates five percent of the same non-renewable resource revenues that are also subject to contribution to the Permanent Fund. One main difference between the two Funds is that monies from the Renewable Resources Development Fund can be appropriated (grants as well as loans) only for capital and operating expenditures for the rehabilitation, enhancement, and development of renewable resource programs.

This Committee has a Renewable Resource Subcommittee headed by Rep. Terry Gardiner. The Subcommittee is considering, among other things, the establishment of a research and development council which could be

Richard Seifert

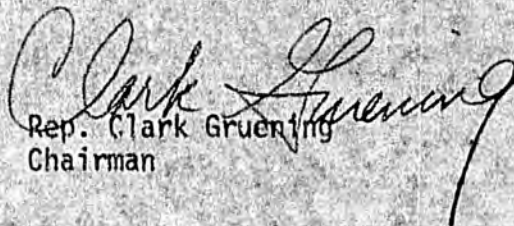
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August 31, 1977

located outside existing agencies. In any case, I think your idea is adaptable to both Funds; and I am forwarding to Rep. Gardiner a copy of your letter together with a request that you be informed of its meetings. Enclosed is a copy of our meeting schedule which includes Fairbanks on September 14, 1977.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosurecc: Rep. Sall

cc. Rep. Sally Smith
Rep. Terry Gardiner



UNIVERSITY OF ALASKA
COLLEGE, ALASKA 99701

August 3, 1977

Representative Clark Gruening
940 Tyonek
Anchorage, Alaska 99501

Dear Clark:

It has come to my attention, and fortunately, that you are a major functionary in the Legislative Committee which deals with recommendations for the permanent fund. I have a concept which I would like to present in a letter concerning the use of these revenues which will result from the use of the permanent fund. The concept stems from discussions with Representative Sally Smith here in Fairbanks and also from many deliberations with friends and associates at the University of Alaska, Fairbanks.

Before I get into the specifics of that proposal, however, I would just like to say that I enjoyed seeing you and having you in a group at the public forum meeting here in Fairbanks in April. It is my only association with you so I can envision speaking to you from that point of view. I mentioned the public forum because it is a factor in one of the decisions to consult with you about this concept. The public forum was designed to reach out to the community and get its input as to the many uses for our oil revenue and some of our public policy issues, not the least of which of course was the permanent fund money. In reviewing some of the results of the early public forums in Alaska, I note that renewable resource development was extremely high on the list of public recommendations for uses of the permanent fund. For instance, on question number 1, on what to do with the oil and gas wealth, southeast Alaska recommended that it be reinvested in renewable resource development, the second choice on the north slope was that the oil and gas wealth be reinvested in renewable resources, again it was suggested in southcentral Alaska, that for the permanent fund the first choice for that investment be renewable resource development. The reason I am dwelling on renewable resources is because that's where my concept lies. In addition, although results aren't in from the Fairbanks and latter series of public fora, 41 percent of the people in Fairbanks who responded to the questionnaire, stated that their first priority would be to loan permanent fund money to develop renewable resource industries, so it seems fairly well established that at least the public that responded to the fora is very interested in renewable resource development in Alaska as a wise use of short term capital gains from the oil industry.

Representative Clark Gruening

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August 3, 1977

As a further explanation, let me say that I am a professional research scientist at the University and I can see that as somewhat of a bias as to what I am going to propose. However, I think you will see that the basis of my proposals are also deeply rooted in a philosophical approach to the future and have a great deal of merit in their beneficial possibilities for Alaska's public.

Also, for more background, let me give you a scenario of what presently exists in the research system for funding proposals in Alaska. I, as a researcher, can conceive of an idea in my office and the first step would be to sit down and propose it in writing, first perhaps to my supervisor, then perhaps to a government agency. At present, however, the situation in energy research is national in scale and often Alaska's problems are very esoteric and unique only to Alaska. Consequently, Alaskans, when they go to the federal funding sources -- ERDA, and the Department of Housing and Urban Development -- must be able to document the national need and the national applicability of every proposal. One can easily see that because of Alaska's unique climate and environment we can't always meet those conditions. A logical alternative in this case would be to go to the state for problems which are most relevant to the state and are unique to the state. However, our state has a fiscal problem as it is and the burden of large scale research projects at present are not easy to deal with from the fiscal point of view, so the motivations for getting research projects in Alaska, at present, often result in projects that are not always beneficial to the State of Alaska in a specific sense. They are of a more general nature, perhaps military in nature, or can exploit the unique conditions which Alaska avails to scientists, such as the auroral research and research in arctic problems and engineering. What this results in, in effect, is a research establishment and a research program which often is very vulnerable to attacks of relevance. By its very nature the system excludes projects which can be specifically relevant to Alaska. Therefore, I would like to propose a new and improved system, a system that can work if its done correctly, without the creation of a new, large bureaucracy to cope with it, a system which can enhance the value of the University to Alaskans in general, and perhaps give greater security from the threat of fossil fuel shortages, and the resultant social chaos which inevitably follows from energy crises.

Recent discussions with Sally Smith and my good friend, Lee Leonard, who is also an energy scientist, have brought us to the point of posing this concept of using the earned revenues from the permanent fund for seed money for research projects to test, develop and demonstrate renewable, alternative energy resources for Alaska. Now, the question immediately arises: how will this work, in effect, and how will it be administered, and how will it benefit Alaskans? First of all, this will show that the State of Alaska is willing to put its confidence in its own research to solve its own problems and will allow researchers who are interested in getting federal funding, to demonstrate with much more legitimacy than they presently do, that the problem has a very high degree of state interest, that the state is interested enough to put its own money into the research, and consequently will make it easier to satisfy

Representative Clark Gruening

- 3 -

August 3, 1977

and convince federal funding agencies of the value of this project to the state, and perhaps to the rest of the country. Undoubtedly there will be spinoffs from our own research when successful that can be used in other areas. We have the psychological advantage in Alaska that when projects are successful, especially applications of alternative technologies, the severity of the climate, the renowned difficulty of living in Alaska makes a very strong case in support of any device or technology which is successful here. As to the administration of such a fund, it would necessitate funding through a state agency. However, it is my belief that the present University administration could easily adapt to the administering of such a program at the state level. Presently there is a Vice Chancellor for Research and Advanced Study in the University system. He could appoint a deputy that could administer the program of energy research partially funded by the permanent fund without any huge bureaucratic system which would tend to just eat up the money and not be productive in terms of serving the prescribed goals of the concept. In this way the system could be used as I stated earlier, to improve the image of the University in its role as improver of the commonweal and promoter of technologies which will better enable Alaskans to live their own lives according to their own standards and their own aspirations.

Lastly, one of the benefits of such a system would be to establish a resource base which would be valuable in its continuity. At present, ongoing programs are very, very rare, and seldom do research projects last more than two years and three years is an absolute maximum. Consequently, if solutions to problems can't be reached in that time, the problems are not usually viable for refunding even though a solution may be reached farther along with new breakthroughs, new applications, or new insights. Nothing seems more logical at this point in our history than looking ahead to the future, seeing that oil will be depleted, realizing that the capital supplied by oil can be very productive in providing us with a sustained, economically viable, environmentally enhancing technology which can sustain us indefinitely after the period of oil wealth has declined.

As a further statement and recommendation in support of this concept, I would like to cite quotes from the summaries of the report to the Governor from the Interior Alaska Energy Analysis team. This quote has just recently been released and includes the following recommendations of interest to this proposal: (1) that the State of Alaska must clearly and firmly establish and follow a strong policy on energy planning. Primary attention should be given to insure the stability of energy supplies through a mix of energy sources. (2) that the use of solar heating and the utilization of waste heat should be encouraged in the private sector, possibly through tax incentives and advantages. It is noted that the proposed federal policy is now a favorable tax advantage of 40 percent on the first \$1,000 cost and 25 percent on the next \$6,400 cost. This should be a minimum starting point. (3) the state should expedite an active and aggressive research program of all sources of energy with full consideration of multiple values.

Representative Clark Gruening

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August 3, 1977

Lastly, I would like to offer my time for any consultations you would like to have on this matter. Again, it seems like a very wise and logical path to choose, allowing us to use our oil wealth for a better, cleaner and renewable future. I look forward to your response and to the possibility of supportive legislation in lieu of this concept.

Yours sincerely,



Richard D. Seifert
Research Associate in Water Resources

mh

cc: Lee Leonard
Sally Smith

9-15-77

Permenant Fund Committee
528 W. 5th Ave.
Anchorage, Ak.

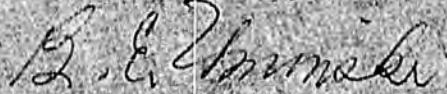
Gentlemen:

As a long-time Alaskan I would like to see the Permenant Fund used for such projects as the building of the "Bradly Lake Hydro Project". This would pay for itself over the years, returning the moneys, plus interest, back into the Permenant Fund.

Perhaps a toll-bridge accross Turnagain Arm, maybe a dam would produce electricity. (I am aposed to a Knik Crossing because it would benefit the "large land investor" and not the Alaskans.)

There must be other resource developments that would return funds to the Permenant Fund.

Yours very truly:



B.E. Uminski
Box 1258

Homer, Ak. 99603

P.S: I made the above suggestions to (then) Governor Egan, he never replied. A banker told me, "if Egan gets back in the millions will disapear in no time. I found it unbelievable at the time. I would hate to see the same thing happen to our Permenant Fund.

Municipality of Anchorage



3000 ARCTIC BOULEVARD
ANCHORAGE, ALASKA 99503
(907) 277-7622

GEORGE M. SULLIVAN,
MAYOR

DEPARTMENT OF ENTERPRISE ACTIVITIES
Sewer & Water Utility

September 30, 1977

Representative Clark Gruening
Chairman, Permanent Fund Committee
House of Representatives
State of Alaska
528 West Fifth Avenue
Anchorage, Alaska 99501

Dear Representative Gruening:

During the next six years the Anchorage Water Utility projects its needs to be in the area of 49 million dollars. The largest dollar amount is for water resource development; this totals 18.5 million dollars. Close behind is distribution and transmission projects which total 17.6 million dollars. The Municipality will be seeking long-term financing for those projects in the form of revenue bonds if a capital structure can be obtained from which to base financing. This particular area is where the permanent fund can best help the Municipality of Anchorage Water Utility. The Municipality of Anchorage Water Utility feels that, whatever the final program approved, it must be one which will sustain the fund in perpetuity. That will require some form of strong commitments being guaranteed from the agencies using the funds.

As I have stated previously, the Municipality of Anchorage Water Utility has projected for the next six years funding requirements totaling 49 million dollars. Of this amount, 36.1 million is for large resource development and transmission projects. These projects will be on-going for a long period of time, possibly three to five years. Our current ruling from the Alaska Public Utilities Commission does not allow us to earn on construction work in progress, unless it is used and useful within one year. Thus this puts the Utility in a poor position to attract debt for projects needing large amounts of funding. Thus for long-term, phased construction requiring large amounts of debt service, the Municipality should support direct long-term loans with a sliding-scale interest rate and with a clause for rear-end loading. This would then allow the Utility to earn on that amount of funding when the plant is used and useful. To facilitate this type of loan, the State must be assured that a viable capital structure and all other facets of the financial picture are



Representative Clark Gruening
September 30, 1977
Page 2

healthy and will remain that way throughout the life of the loan. Guidelines must be developed which will assure that the financial projections used are realistic and meaningful. Proper master development plans must be developed and kept current.

~~Loan guarantees, especially where a legal challenge has held up financing on a needed project, would also be desirable.~~ Guarantees which back a municipality's bonding requirements would greatly enhance the attracting of debt. A word of caution here is due. We hope no one will get the idea that "so ~~what if we default, the State will pick up the debt~~". Again, this method of financing must have its safeguards.

Sincerely,

George M. Sullivan
Mayor


Dale R. Merrell, P. E.
Manager, Anchorage Water Utility

DRM:cr

Municipality of Anchorage



3000 ARCTIC BOULEVARD
ANCHORAGE, ALASKA 99503
(907) 277-7622

GEORGE M. SULLIVAN,
MAYOR

DEPARTMENT OF ENTERPRISE ACTIVITIES
Sewer & Water Utility

September 30, 1977

Representative Clark Gruening
Chairman, Permanent Fund Committee
House of Representatives
State of Alaska
528 West Fifth Avenue
Anchorage, Alaska 99501

Dear Representative Gruening:

Out of 51 letters sent requesting information to be submitted on the subject of the permanent fund, we received 10 comments:

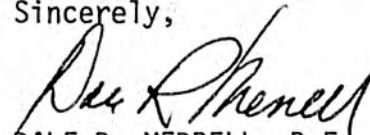
Port Lions	Needs \$500,000 - \$800,000 for water system improvements. In the form of direct loans.
Ouzinkie	No thoughts rendered.
Kodiak	1977-87 will need \$10,000,000 for water system improvements. 1987-97 will need \$15,000,000 for water system improvements. Has no comments on financing options.
Kenai	Need \$500,000 to \$1,000,000 per year for water construction. Prefer low cost financing for bonds to be used for construction.
Unalaska	Need \$6,000,000 in next 20 years for water systems. Need some- way to back revenue bonds.
Nome	Indicated they would reply directly to Chairman of Senate Permanent Fund Committee.
Juneau	Have replied to Senate Committee on Permanent Fund
Scammon Bay	No need expressed.
Fairbanks	\$53,000,000 over next 20 years. Direct low interest loans - used as a continuing source of long-term financing.



Representative Clark Gruening
Chairman, Permanent Fund Committee
September 30, 1977
Page 2

Anchorage \$49,000,000 over next 6 years, of which 18.5 million would be for water resource development and 17.6 million for transmission and distribution projects. For long-term, phased construction requiring large amounts of debt service, direct, long-term loans with a sliding-scale interest rate and with a clause for rear-end loading would be preferred.

Sincerely,



DALE R. MERRELL, P.E.
Manager, Anchorage Water Utility

DRM:ks

November 28, 1977

Dale R. Merrell, P.E.
Manager, Anchorage Water Utility
Municipality of Anchorage
3000 Arctic Boulevard
Anchorage, AK 99503

Dear Dale:

Please excuse the delay in acknowledging your two letters of September 30, 1977 outlining the need for water utility projects in Anchorage and in those municipalities responding to your inquiry.

Your letters have been incorporated in record of the Committee's hearing which include all the written and oral testimony received to date on the structure and management goals of the Permanent Fund.

The House Committee is considering draft legislation which would establish a Permanent Fund board of trustees appointed by the Governor and confirmed by the legislature. In order to sustain the Fund in perpetuity, the overriding statutory investment guideline for these trustees is to invest the Fund monies in such a way to bring the highest net return to the Fund consistent with the safety of principal of the Fund.

To the extent, the Fund is involved in water utility projects, including hydroelectric projects, it would be to guarantee loans or revenue bonds either through pledging a portion of the Fund investment securities or earnings stream to back the repayment and not by making direct loans. Moreover, the Fund would probably best operate through intermediaries such as the Alaska Power Authority and the Municipal Bond Bank. In any event, the Fund, as a tax exempt entity, would probably not be investing in the tax municipal bonds.

Dale Merrell

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November 28, 1977

Since you mentioned that any bond guarantee program must have its safeguards, I wonder if you have in mind any particular provisions for safeguarding the Fund. In this regard, I would also appreciate your view on allowing the Municipal Bond Bank to sell revenue bonds to assist the water projects you outlined.

Cordially,


Rep. Clark Gruening
Chairman

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

House Special Committee
on the Alaska Permanent Fund
528 West 5th Ave., Suite 270
Anchorage, Ak. 99501

Gentlemen:

This letter constitutes written testimony in response to the flyer sent to our home this month. It seeks to make the one point that the value of the Permanent Fund must be judged relative to the size of the population and the need for government services.

Assuming the Fund finally totals \$5 billion. If that Fund has been used to diversify the State's economy by direct investments or guarantees, we can expect to have a larger population and demand for government services. Unless that diversification pays very clearly in tax receipts for the needs of the larger population, when the oil flow stops or declines the \$5 billion will have to cover a large shortfall between receipts and the demand for government services.

Assume again that the Fund finally totals \$5 billion but that it has been invested out of state with the objective of growth in capital and maintenance of purchasing power, Fund loans and guarantees will not have been added to State general fund investments, ANCSA corporation investments, OCS investments, capital move expenditures, and other private investments in the total of funds injected into the economy. The State will not attract as large a population. The need and expectation of services will be smaller. The shortfall between receipts and the demand for government services should be smaller.

A smaller shortfall should give the State time to react to any decline in the economy since Permanent Fund moneys will not have to be used up quickly to maintain our standard of governmental services. More funds will be available per each individual in the population.

The desire to maintain maximum value of the Permanent Fund as a "nest egg" is the primary reason I believe most people voted for the Fund. Any of the alternatives which involve either major investment projects or guarantees or loans to businesses which would not otherwise be funded will only increase the eventual shortfall and thus lower the value of the Fund as a reserve. Those investments are also among the most likely not to pay their way in taxes beyond the costs they add to the public.

House Special Committee on
the Alaska Permanent Fund
August 30, 1977
Page Two

I believe that the State should rely primarily on private capital and general fund capabilities for in-state investment and that the Permanent Fund should be invested with an objective limited to growth in capital and maintenance of purchasing power, preferably in out of state investments.

Very truly yours,


Olof K. Hellen

Alaska Methodist University

Anchorage, Alaska 99504

Office of the President
907-276-8181

September 30, 1977

Representative Clark Gruening, Chmn.
House Special Committee on
The Alaska Permanent Fund
528 W. 5th Avenue, Suite 270
Anchorage, Alaska 99501

Dear Representative Gruening:

We in the field of postsecondary education are just beginning to fully realize the potential benefits of The Alaska Permanent Fund in pursuing the "good life" for generations to come. From our perspective in private institutions of higher learning we view the Fund not simply as another source of dollars to pay the bills, but as a real opportunity to think in terms of great learning centers.

I appreciate the invitation you and the Members of your Special Committee have extended to Alaskans to express thoughts and suggestions on objectives and management philosophy of The Fund.

As a distinct component of a higher quality of life, postsecondary education--vocational as well as academic--will not flourish by random attempts at securing support. It will prosper on "permanence" as well as diversity. With these components, Alaskans can renew themselves, that is their minds and skills, to meet the future's challenges. I hope we can all agree in the concept of renewing our educational resources and place at least as high a priority on that as we might on wind generation, fishery enhancement and other nominal "renewable resources."

Secondly, higher education is a job-producing and job market enhancing sector of the state economy; let us rid ourselves of any preconception that may be held that education is non-productive in the pure economic sense. Well developed, quality educational curricula can and have in many localities formed an attractive magnet for greater economic activity. Training and retraining employees right here can also help keep enterprises and public entities from having to go Outside for their academic and vocational support. There are many centers of education all over the world which form the heart of local/regional economies. Why not try it in Alaska? Is education one of the stable, clean industries we hear ourselves yearning for?

It is my firm belief that postsecondary education here (1) ought to be intensively developed and (2) must be extended to embrace varied philosophies. While the role of publicly financed institutions is legitimate, so too is the casting of schools

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

that rely primarily on non-public sources of funds. Not only are state schools and private schools important to their respective communities of interest, but in fact each needs the other in order to reach its highest potential. We need a strong, balanced critical mass on which to found the industry of the future. An analogy, though imperfect, is in a statement made by the Alaska Manager of J. C. Penney, Inc. When asked his opinion of the effect of an impending decision to locate a major department store across "D" Street from his store, he replied that to give him a good competitor nearby would double his business. We are in an era of comparison shopping.

The philosophy of Alaska Methodist University toward its educational mission is quite distinct from any competing institution. Colleges, universities, and vocational centers are part of various "communities". Without trying to limit any other institution by enumeration, suffice to say Alaska Methodist University is carving out a unique set of communities of interest not previously developed. One of these is the Pacific Rim focus currently under way. We are very enthusiastic about its possibilities for a broad area of specialty.

What then does this have to do with The Alaska Permanent Fund discussions? Simply this: Over the next thirty to fifty years Alaska is projected to grow and develop as a world center for natural resources and northern culture. With this growth will come increasing demands for postsecondary educational services to residents as well as participants in the larger communities in which we play a leading part. Hence it is important to encourage varying mechanisms or vehicles to gear up to deliver these services. And we need more than one university, more than one corporate educational policy, if we are to realize the full potential of this future industry. What remains is to examine in what ways can the proceeds or royalties from non-renewable resources be utilized to provide the financial foundation making development of this renewable resource possible.

Before I present the University's suggestions for your consideration, let me turn first to a question which may arise and which some consider basic to this proposal.

Is it legally appropriate to use Permanent Fund monies in support of private institutions of learning? I am not certain this question will come up, but in the event it does, my response is this: The principal and income of the Permanent Fund are not tax dollars; they are royalties (equivalent to gifts) derived solely from nature's storehouse of non-renewable energy resources. Even those claiming it is illegal for the legislature to appropriate funds from state tax revenues for aid to private education (a view which has serious flaws and is being challenged) would agree that there are no such restrictions on use of The Permanent Fund monies. Naturally, the investment of the Fund principal must adhere to the constitutional amendment requiring investment in "income producing assets". Similarly use of the income of the Fund must be in conformance with legislative mandate as required. If, however, diversification of the state economy is one of the objectives finally adopted, making a loan to a private university should be no different than making

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

a loan to any other business enterprise. In fact, clean industry should probably have priority.

With these thoughts in mind, we urge the Special Committee to provide authorization or policy guidance to achieve the following specific objectives:

- Define education, including postsecondary vocational and academic education, as an integral part of the state economy for purposes of the Permanent Fund.
- Authorize investment of the principal and income of the Fund in private institutions of learning as well as public. Permit funds to be invested in such institutions in any manner permitted other private enterprises. Such investments in private institutions of learning may be accomplished via other lending or investment vehicles of the State of Alaska, including the
 - * Scholarship Loan programs
 - * Fisheries Enhancement Revolving Loan Fund
 - * Municipal Bond Bank Authority
 - * Business Revolving Loan programs
 - * Veterans Affairs Revolving Loan Fund
 - * Agricultural Revolving Loan Fund
 - * Alaska State Housing Authority and Alaska Housing Finance Corporation
 - * Industrial Development Authority
- Provide for special incentives to clean industry.
- Provide for special incentives to stable industry.
- Provide for special incentives to recipient industries or enterprises which are not eligible for other state funding.
- For private, non-sectarian institutions of learning provide for funding on a matching basis of a significant endowment program where it is demonstrated that such assistance is used to achieve overall objectives of the Permanent Fund.

As you can readily see from these comments and suggestions we in postsecondary education are fervently working toward an oft-stated Permanent Fund objective, higher quality of life for Alaskans over the long haul. With vigorous, wise leadership we can find a way to turn a fledgling industry into a winner. Alaska's future is marked by rapid growth and international attention, and we believe a joint effort by publicly financed and private institutions--and only through joint effort--will result in educational greatness. If private institutions are to play a part, The

Page 4

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

Permanent Fund is a key facilitator. It is our hope the Special Committee will adopt the same view and translate these ideas into legislative policy.

Cordially,

A handwritten signature in cursive script, appearing to read "Glenn", written in dark ink.

Glenn A. Olds
President

GAO:ec1

cc: Jay S. Hammond, Governor
Members, House Special
Committee on The Alaska
Permanent Fund

December 23, 1977

Glenn A. Olds, President
Alaska Methodist University
Anchorage, AK 99504

Dear Dr. Olds:

Thank you very much for your letter outlining a proposal for use of the Alaska Permanent Fund. I apologize for having taken so long to reply.

I appreciate the fact that you took the time to reflect upon uses of the Permanent Fund and offer your views to the committee. It is, I believe, only through a thoughtful approach that we will be able to realize the potential the Fund embodies.

The committee is in the process of preparing its proposed Permanent Fund legislation and final report for submission when the legislature convenes. We hope to be able to circulate both to those, such as yourself, who have expressed an interest in the Permanent Fund. We will be soliciting written comment on the legislation and intend to hold public hearings on the proposal, perhaps as early as late January.

The section of the proposed bill that seems most likely to apply to your suggestion is the Alaska Enterprise Investment Corporation, designed to provide financial assistance to small and medium scale productive private enterprise and community development projects.

However, whether or not private educational institutions would qualify is unclear, if not doubtful. The constitutional amendment requires that Permanent Fund investments be income producing, which the Committee has defined as meaning that such

Galeen Olds

-2-

December 23, 1977

investments would have to produce a direct financial return in addition to repayment of principal.

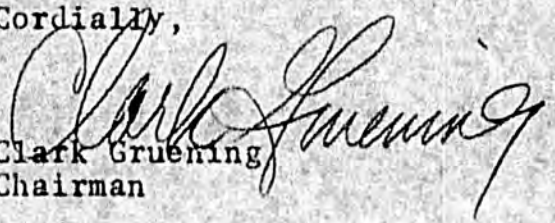
The committee likewise has approved a proposal for use of Permanent Fund earnings to provide guarantees for power projects. This is, I point out, a discussion proposal and we anticipate substantial debate on the use of Permanent Fund earnings.

It seems clear, however, that proposals to use the earnings for private educational institutions will face tough sledding until the whole issue of public financial support for private education is resolved. It seems unlikely that the legislature would concur in your characterization of mineral royalties as gifts. Indeed, royalties are far more likely to be considered simply as public revenues and under the same constitutional constraints as other revenues, including taxes.

Nevertheless, I have always supported the tuition grant program and AMU specifically.

Again, I thank you for your letter and hope that you will continue to focus your attention on the Alaska Permanent Fund.

Cordially,


Clark Gruening
Chairman

CG:LAD

ERIC WOHLFORTH

TO: ALASKA STATE CHAMBER OF COMMERCE

DATE: FRIDAY, SEPTEMBER 30, 1977

AS PART OF A PANEL: "PROSPECTS FOR THE PERMANENT FUND"

DEVELOPING GOALS AND EFFECTUATING LEGISLATION FOR THE
USES OF THE PERMANENT FUND MUST START WITH A REALIZATION
THAT THE PERMANENT FUND IS A UNIQUE VEHICLE IN A UNIQUE
POLITICAL AND ECONOMIC ENVIRONMENT IN THE UNITED STATES.
THE PERMANENT FUND IS UNIQUE IN CARVING OUT OF GENERAL FUND
REVENUES, A PERCENTAGE OF RESOURCE REVENUES WITH THE EXPLICIT
RECOGNITION THAT THE RESOURCE REVENUES ARE FINITE AND ARE
NON-RECURRING. IN MY VIEW, THE VOTERS RECOGNIZED THIS IN
STATING THAT THERE MUST BE A RESIDUUM OF CASH ASSETS AVAIL-
ABLE FOR FUTURE GENERATIONS WHEN NORTH SLOPE OIL IS EXHAUSTED.
ALASKA'S ECONOMIC AND POLITICAL SITUATION IS UNIQUE SINCE WE
COMBINE A STATE WHICH IS PREDOMINANTLY DEPENDENT UPON GOVERN-
MENTAL ACTIVITIES, AS WELL AS OIL AND GAS RESOURCES FOR THE
FORESEEABLE FUTURE. THUS, ALASKANS FEEL SOMEHOW THAT OUR
ECONOMIC BASE MUST BE BROADENED AND THAT THE FUND MAY PRESENT
AN INVESTMENT VEHICLE FOR THIS PURPOSE.

IN LIGHT OF THESE PROPOSITIONS, IF THEY ARE ACCEPTED,
THE QUALITY OF THE PROCESS OF DEVELOPING PUBLIC VIEWS AS TO

THE GOALS AND USES OF THE PERMANENT FUND BECOMES IMMENSELY IMPORTANT IF WE ARE TO EXPECT A RATIONAL RESULT. AS YOU KNOW, THE INVESTMENT ADVISORY COMMITTEE WAS THE INITIAL EXECUTIVE EFFORT IN CONSIDERATION OF USES OF THE PERMANENT FUND. THIS EFFORT WAS PREDOMINANTLY EDUCATIONAL TO THE COMMITTEE. ADVISORS WERE CONSULTED TO EDUCATE THE COMMITTEE ON DEVELOPMENT LOAN AND PERMANENT FUND SYSTEMS IN PLACE ELSEWHERE. THE EFFORT DID NOT INTENSIVELY INVOLVE THE PUBLIC BUT BASICALLY WAS DESIGNED TO DEVELOP A KNOWLEDGE BASE AS TO WHAT HAS HAPPENED ELSEWHERE. CURRENTLY, THE TWO LEGISLATIVE COMMITTEES ARE APPARENTLY HOLDING PUBLIC HEARINGS ON THE SUBJECT MATTER THROUGHOUT THE STATE. AT THE MOMENT, I DO NOT SEE THE BRIDGE BETWEEN THE EDUCATIONAL EFFORTS OF THE INVESTMENT COMMITTEE WITH THEIR ADVISORS AND THE PUBLIC HEARINGS BEING HELD BY THE LEGISLATIVE COMMITTEES. IN MY VIEW, PUBLIC EDUCATION AS TO THE PARAMETERS OF THE ISSUES OF DEVELOPMENT LOAN BANKING IS NECESSARY TO EVOKE AN INTELLIGENT PUBLIC RESPONSE. FAILING THIS, I BELIEVE THAT PUBLIC RESPONSE WILL CONSIST OF REQUESTS FOR NEW LOAN PROGRAMS BY SECTORS OF THE ALASKA ECONOMY IN THE NATURE OF SPECIAL INTEREST PLEADING OR RELATIVELY REPETITIVE TESTIMONY FROM

INDIVIDUAL MEMBERS OF THE PUBLIC. IN FACT, THE WHOLE ENDEAVOR TO ESTABLISH GOALS FOR THE PERMANENT FUND COULD BE MADE THE SUBJECT OF A BROAD BASED EDUCATIONAL EFFORT THROUGH THE SCHOOL AND UNIVERSITY SYSTEMS. IT PRESENTS A FINITE PROBLEM IN ECONOMICS AND FINANCE WHICH COULD STIMULATE THE DEVELOPMENT OF SPECIFIC COURSES IN SECONDARY, UNIVERSITY AND ADULT EDUCATION. THE COURSES WOULD BE TOPICAL AND INTERESTING BECAUSE THEY INVOLVE PROBLEM SOLVING IN THE IMMEDIATE CONTEXT OF THE ALASKA ECONOMY AND ITS PROSPECTS FOR THE FUTURE. SURELY, SUCH A COURSE OF STUDY WOULD BE OF INTEREST TO ALASKANS SINCE IT INVOLVES THEIR MONEY AND FUTURE.

PERHAPS FORMULATION OF SUCH A PROGRAM IS UNREALISTIC GIVEN THE EXISTING FORMAT OF PUBLIC HEARINGS ALREADY ESTABLISHED AND THE APPARENT INTENTION TO DEVELOP LEGISLATION FOR THE PERMANENT FUND DURING THE NEXT LEGISLATIVE SESSION. IF THIS IS FELT TO BE SO, I WOULD SAY THAT MINIMALLY THE COMMITTEES SHOULD COMPILE A DIGEST OF THE EXPERT TESTIMONY ALREADY RECEIVED AND THAT OTHERWISE AVAILABLE TO IT AS TO WHAT HAS HAPPENED ELSEWHERE WITH PERMANENT FUNDS CREATED WITH NON-RENEWABLE RESOURCE REVENUES AND WITH PUBLIC DEVELOPMENT BANKING. I FURTHER SUGGEST THAT SUCH A DIGEST BE MADE

BROADLY AVAILABLE IN ALASKA TO CONSTITUTE A KNOWLEDGE BASE FOR PUBLIC HEARINGS. IN ADDITION, I THINK IMMEDIATE WORK SHOULD GO FORWARD ON AN ECONOMIC ANALYSIS OF THE EFFECT OF STATE LOAN PROGRAMS TO DATE. WE DO HAVE A KNOWLEDGE BASE IN ALASKA, BOTH WITH THE STATE LOAN PROGRAMS WHICH HAVE EXPANDED IN SIZE SINCE 1970, AS WELL AS IN THE HISTORY OF NATIVE CORPORATION INVESTMENTS IN THE STATE. TO THE EXTENT CASE HISTORIES OF SUCCESSES AND FAILURES IN NATIVE CORPORATION INVESTMENTS ARE AVAILABLE, THERE SHOULD BE AN ANALYSIS OF THIS ACTIVITY AND DISSEMINATION OF THE RESULTS.

AS TO SUBSTANTIVE MATTERS AS OPPOSED TO PROCEDURE, I HAVE SEVERAL OBSERVATIONS. FIRST, AN EARLIER STUDY OF DEVELOPMENT LOAN BANKING OPPORTUNITY CARRIED OUT BY THE STATE IN THE EARLY 1970'S, ELICITED THE FIRM RECOMMENDATION OF A REPRESENTATIVE OF THE WORLD BANK THAT STRUCTURING OF ANY DEVELOPMENT LOAN PROGRAM BE PRECEDED FIRST BY AN INTENSIVE INVESTIGATION OF DEVELOPMENT LOAN OPPORTUNITIES IN THE AREA TO BE SERVED. DEVELOPMENT LOAN BANKS ELSEWHERE IN THE WORLD HAVE BEEN STRUCTURED FOLLOWING AN INITIAL EFFORT TO ASCERTAIN THE SCOPE AND MAGNITUDE OF INVESTMENT OPPORTUNITIES. IN OTHER SITUATIONS, A COMMISSION OR COMMITTEE OF BUSINESSMEN,

ENTREPRENEURS AND INVESTORS IN VARIOUS SEGMENTS OF THE ECONOMY HAVE BEEN FORMED TO MAKE THE STUDY AND HAVE PRESENTED INSIGHTS WHICH HAVE SHAPED THE STRUCTURE AND GOALS OF THE DEVELOPMENT FINANCING INSTITUTIONS BEFORE THEY ARE CREATED. THIS IS A NEEDS ASSESSMENT PROCEDURE WHICH I THINK IT IS VITAL TO BE UNDERTAKEN IN ALASKA BEFORE A DEVELOPMENT FINANCING STRUCTURE IS LEGISLATED INTO LAW. AGAIN, I THINK THE NEEDS ASSESSMENT CANNOT BE ADEQUATELY ACCOMPLISHED THROUGH THE HEARING PROCESS, BUT MUST INVOLVE A BROAD SECTION OF THE BUSINESS, ENTREPRENEURIAL AND INVESTMENT COMMUNITY IN MAKING AVAILABLE KNOWLEDGE OF THE CONFIGURATION OF VARIOUS FINANCING OPPORTUNITIES IN THIS STATE. THIS EFFORT IS PARTICULARLY IMPORTANT IN VIEW OF THE FACT THAT THE DEVELOPMENT LOAN ASPECT OF THE PERMANENT FUND IS NOT STATED IN THE CONSTITUTIONAL AMENDMENT BUT IS ONLY ASSUMED TO BE A COMPONENT.

SECONDLY, I FEEL THAT PERMANENT FUND MONIES DEVOTED TO PUBLIC SECTOR FINANCING SHOULD BE USED ON A "LEVERAGED" BASIS. PUBLIC SECTOR LOAN USE OF THE FUND INVOLVES SOME ESTABLISHED ALASKA PRECEDENT. ESTABLISHMENT OF RESERVE FUNDS WHICH WOULD CONSTITUTE SUBORDINATED LOANS FROM THE

FUND IN SUPPORT OF LOCAL GOVERNMENT BORROWING OR STATE AGENCY BORROWING FOR CAPITAL IMPROVEMENT PURPOSES IS PREFERABLE IN ALL CASES TO DIRECT LOANS TO MUNICIPALITIES. A REASON FOR THIS VIEW IS THE FACT THAT LOCAL GOVERNMENT BONDS ARE TAX EXEMPT. IN ADDITION, THE TEST OF THE MARKET IS A VALUABLE BRAKE ON VARIOUS TYPES OF PUBLIC IMPROVEMENTS WHICH WOULD NOT EXIST IF LOAN FUNDS WERE DIRECTLY AVAILABLE THROUGH AN AGENCY CREATED TO MANAGE THE PERMANENT FUND. RESERVE FUND SUPPORT OF LOCAL GOVERNMENT BORROWING FOR PURPOSES WHICH CAN BE FINANCED IN THE PUBLIC MARKET SHOULD LOWER INTEREST RATES FOR THIS FINANCING AND IS IN ANY EVENT ECONOMICALLY EFFICIENT IF THE DEBTOR ENTITY CAN BORROW PUBLICLY AT TAX EXEMPT RATES. SATISFACTORY PRECEDENT FOR THIS PROCEDURE NOW EXISTS WITH VARIOUS STATE BORROWING ENTITIES AND I COMMEND IT TO THE LEGISLATIVE COMMITTEES IN FORMULATING THE STRUCTURE OF THE PERMANENT FUND MANAGEMENT VEHICLE.

THE EXAMPLE OF WHAT HAPPENED WITH FORMULATION OF PLANS FOR THE \$900 MILLION BONUS SALE PROCEEDS OF SEPTEMBER, 1969, SHOULD BE STUDIED. IMMEDIATELY AFTER THE BONUS LEASE SALE, BROOKINGS INSTITUTE SEMINARS WERE HELD THROUGHOUT THE STATE

TO RECEIVE PUBLIC INPUT AS TO USE OF MONEYS IN DEVELOPMENT OF THE STATE OVER THE NEXT TEN-YEAR PERIOD. SOMEHOW, THE RESULTS OF THE BROOKINGS INSTITUTE MEETINGS WERE NOT PROPERLY TRANSLATED INTO THE LEGISLATIVE PROCESS. INSTEAD, WITH THE CONVENING OF THE 1970 SESSION OF THE LEGISLATURE, HEARINGS ON THE CONFIGURATION OF THE STATE'S INVESTMENT OF THE LEASE SALE PROCEEDS BROUGHT FORTH AN ARMY OF INVESTMENT BANKERS AND FUND MANAGERS TO CONVINCING THE STATE THAT INVESTMENT IN THE STOCK MARKET WAS THE ONLY SURE PROTECTION AGAINST EROSION OF THE FUND THROUGH INFLATION. THE FORD FOUNDATION'S REPORT PREPARED BY MCGEORGE BUNDY IN 1970 HEAVILY INFLUENCED THE DISCUSSIONS AND PERCEPTIONS OF STATE OFFICIALS. THIS WAS AN ACADEMIC FORMALIZATION OF THE TOTAL RETURN THEORY OF INVESTMENT IN COMMON STOCKS. THE BEST THING ABOUT THE REPORT WAS ONE OF THE DISSENTS IN WHICH IT WAS STATED THAT IT IS POSSIBLE THAT THE EXPERIENCE OF THE PAST SEVERAL DECADES WAS A SPECIAL SITUATION IN THAT THE VAST UPWARD MOVEMENT OF EQUITY MARKETS MAY BE NEARING ITS CULMINATION. THE LEGISLATURE AFTER MANY MONTHS OF INPUT BY INVESTMENT BANKERS AND OTHERS FINALLY IN JUNE, 1970, ENACTED AN INVESTMENT STATUTE WHICH PERMITTED THE STATE TO INVEST UP TO 1/3 OF THE GENERAL FUND IN THE

STOCK MARKET AND CONTAINED EVERY OTHER CONCEIVABLE INVESTMENT PERMISSION. THE ACT WAS A MIXTURE OF GOALS, MANY OF WHICH WERE CONTRADICTORY.

THIS IS NOT TO BE CRITICAL OF THE LEGISLATURE, BUT TO SUGGEST THAT AT LEAST PART OF THE PROBLEM AND THE CONFUSED INVESTMENT ACT WHICH RESULTED, MAY HAVE BEEN BASED ON FAILURE OF COMMUNICATION BETWEEN THE PUBLIC SECTOR THROUGH THE HEARING PROCESS WHICH PROCEEDED THE SESSION AND THE LEGISLATIVE HEARING PROCESS WHICH WAS SO HEAVILY DOMINATED BY INVESTMENT BANKER ADVOCATES. THE EXAMPLE IS GIVEN TO SHOW HOW ACUTELY IMPORTANT THE PROCESS OF PUBLIC EDUCATION, PUBLIC HEARING AND COMMUNICATION CAN BE IN THE FORMULATION OF A PUBLIC POLICY RESPECTING STATE INVESTMENT.

FINALLY, I FEEL IT IS NOT UNDEMOCRATIC TO DOUBT THAT A MAGIC FORMULA FOR PERMANENT FUND MANAGEMENT CAN EMERGE FROM PUBLIC HEARINGS. THE CONCEPT IS UNIQUE AND FURNISHES LITTLE, IF ANY, ANALOGY IN AMERICAN LOCAL GOVERNMENTAL EXPERIENCE. THE ONLY HOPE WE HAVE FOR NOT REPEATING SOME OF THE MISTAKES OR HALF SUCCESSES OF THE PAST IS INTENSIVE STUDY AND PUBLIC EDUCATION WITH EFFICIENT DISSEMINATION OF THE RESULTS TO THE PUBLIC. TO THE EXTENT THIS PHILOSOPHY IS NOT REFLECTED IN

CURRENT EFFORTS, I ADVISE THE LEGISLATORS INVOLVED TO BACK UP AND EXAMINE THE PRODUCTIVITY OF THEIR EFFORTS TO DATE. IF WE LOSE SIX MONTHS ON A STUDY FORMULATION PROCESS, IT IS A SIX MONTHS EASILY LOST IN VIEW OF THE FACT THAT THE PERMANENT FUND WILL NOT ACHIEVE ANY SIZABLE VOLUME UNTIL TWO OR MORE YEARS FROM DATE. IF WE FAIL TO STUDY OUR EXISTING LOAN PROGRAMS, THE FOUR YEARS OF NATIVE CORPORATION INVESTMENT EXPERIENCE, AS WELL AS WHAT HAS HAPPENED ELSEWHERE THROUGHOUT THE WORLD, WE ARE CONDEMNING OURSELVES TO REPEATING PAST MISTAKES AND MISSING THE OPPORTUNITY OF ENHANCING THE ECONOMY OF THE STATE OF ALASKA TO THE BETTERMENT OF ALL THE CITIZENS.

* * * * *

George L. Benesch
Attorney at Law

213 West Sixth Avenue, Suite 1
Anchorage, Alaska 99501
October 13, 1977

The Honorable Clark Gruening
Alaska House of Representatives
360 "K"
Anchorage, Alaska 99501

Dear Clark:

I had planned to attend the hearing on disposition of the State Permanent Fund but didn't make it. Therefore, I am enclosing a copy of my letter of February 23, 1977 to Governor Hammond concerning use of the fund for renewable resource development. I received an acknowledgement of the letter from Phillip Hubbard March 14, 1977 (also enclosed), but have heard nothing further.

Another possible use that might be worth looking into a little further would be the development of port facilities and terminals by the State under a Port Authority. Much would depend upon whether such facilities could be developed on a self sustaining basis. Several years ago I did examine this idea in a study and report about 1967 on a port authority for Southeastern Alaska. There have been so many changes in port developments in Southeastern since that time however that it may not be feasible.

Development of high voltage electric transmission grids for interconnecting major load centers and power generating stations can also be a self sustaining investment in some instances. I believe the Alaska Power Administration of the Department of Interior prepared a feasibility study of such a backbone grid interconnecting the Fairbanks-Anchorage areas.

These are just some ideas which obviously would need a very great deal of evaluation before it could be determined whether they are practical or not. But as I see it, the long term utilization and commitment of the fund is not a matter that can be rushed in any event.

Sincerely,



George L. Benesch

Enclosures

George L. Benesch
Attorney at Law

213 West Sixth Avenue, Suite 1
Anchorage, Alaska 99501

February 23, 1977

C
O
P
Y

The Honorable Jay Hammond
Governor of Alaska
Juneau, Alaska 99801

Subject: Use of the permanent fund for renewable
resource development

Dear Governor Jay:

Now that the idea of a permanent fund is an accomplished fact and the fund will soon be receiving substantial deposits, it essentially becomes a matter of prudent investment. As I understand it the idea of the permanent fund is to preserve for future generations some of the benefits of current development of non-renewable resources; and as a hedge against the time when such non-renewable resources are depleted. It seems to me that one excellent way of accomplishing these objectives would be to invest part of that money in the development of renewable resources such as construction of hydroelectric projects.

A case in point would be the construction of the Devil Canyon Project on the Susitna River. Assuming that it is still an economically viable project, I would suggest that the State fund and construct the entire project using the permanent fund as a source of revenue rather than funding the project with issuance of revenue bonds. This type of funding would provide the State immediate and direct and flexible control over the debt service and the repayment period.

I also believe that serious thought should be given to the State itself controlling and contracting for all project design and construction rather than leave these extremely important functions to the Corps of Engineers or some other federal agency. To begin with I think that significant cost savings could be effected. I believe that you will find that federally constructed projects like this generally cost significantly more than comparable projects constructed by private companies or local governments. Furthermore, I suspect we might find that with state funding of federal design and construction, we may be reimbursing the federal government for grossly excessive overhead and administrative costs which neither

the federal administration nor the Congress would be inclined to reduce.

I also believe that there would still be a need for a very substantial participation and review by the State of all phases of design and construction which would duplicate much of the same functions performed by the Corps.

Thirdly, if the State itself gets into the hydroelectric development effort, funded by the permanent fund, it can plan and schedule its own developmental programs rather than be subservient to the development programs proposed by the federal government to fit its convenience. For example, it may be possible to program such const action to boost the economy of the State in periods of economic slump.

As you are well aware, the cost and availability of electric power is very often a major consideration to industrial development. As a corollary, there is a tremendous lobby effort in Congress by other states seeking to attract industry by means of federal development of low cost energy resources. If Alaska is dependent upon federal hydroelectric developmental programs, even though funded by the State, we are nevertheless competing with other states for resource development by the Corps. We may very well find that the Corps development programs and efforts do not necessarily reflect the best interest of Alaska.

I believe that Alaska hire programs would also be significantly affected. If projects such as Devil Canyon are constructed by the federal government, Alaska may have little to say about employment preferences and hiring practices which meet federal requirements and priorities but not necessarily those of the State.

Lastly, I believe this project development could be accomplished much sooner, if desired, if the State designs and constructs the Devil Canyon Project. This could be a very important factor in the ultimate cost of power. I am certain we can expect all costs of design, construction, etc. to continue to increase annually. The Devil Canyon Project, for example, could probably have been built when first recommended to Congress in 1961 for less than half the current construction cost. This would be an additional advantage to using the permanent fund revenue for project development.

With proper maintenance and replacements of equipment as needed, hydroelectric projects such as Devil Canyon have a useful life well beyond 100 years. However, if the State goes to the bond market for construction funds, it may be necessary to gear the repayment period of the project to the term of the bonds; and of course, the cost of power is inversely related to the payout period -- the shorter the period, the higher the unit cost of power until such time as the project is fully paid for.

In my February 7 letter to you concerning the Alaska Power Authority, I indicated that I was forwarding under separate cover, a number of documents relating primarily to the Devil Canyon and Snettisham hydroelectric projects.

Since they are the only copies I have and would be impossible for me to replace, I must confess that I have not mailed them. I had thought I would be going to Juneau this month on other matters and would carry them with me. However, it now appears that I will not be taking the trip. Therefore, if practical, I would like to deliver the documents to your Anchorage office either for review there or to be hand carried to Juneau by someone from your office on their next trip to Juneau.

Sincerely yours,

George L. Benesch

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D - JUNEAU 99811

March 14, 1977

Mr. George L. Benesch
Attorney
213 West Sixth Avenue
Suite 1
Anchorage, Alaska 99501

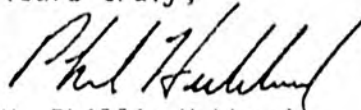
Dear Mr. Benesch:

Thank you for your recent letter to Governor Hammond concerning the use of the permanent fund for financing the construction of hydroelectric projects. You are quite correct in that the purpose of the permanent fund is to provide future benefits from present income. I can think of no better investment for our non-renewable income than to provide low cost efficient energy for future generations.

We also heartily concur on your observations concerning the costs of construction should the Corps of Engineers undertake a project of this magnitude. However, we are presently engaged with the Corps in determining the economic feasibility of the Susitna River project.

At the present, we anticipate having an organizational meeting of the Alaska Power Authority within the next few weeks. At that time, I shall notify you should you be interested in providing your personal documents relating to the Devil Canyon hydro project.

Yours truly,



H. Phillip Hubbard
Commissioner

HPH:lg 1/1

cc: Governor Jay S. Hammond

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 MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
REP. RICK URION

House of Representatives

December 23, 1977

George L. Benesch
213 West Sixth Avenue
Suite 1
Anchorage, AK 99501

Dear George:

Thank you for your letter of October 13 on possible uses of the Alaska Permanent Fund. I apologize for taking so long to answer.

The committee is in the process of preparing its Permanent Fund proposal and final report for the legislature. We also plan to circulate them for comment to those, such as yourself, who have shown an interest in the issue. We plan to hold public hearings on the committee's proposal after the session convenes, perhaps as early as late January.

With regard to your comments about power projects, the committee will be proposing the use of Permanent Fund earnings to provide guarantees for power project bonding by governmental agencies. Likewise, the committee is addressing a separate proposal on the Renewable Resources Development Fund, which should speak to your suggestions about financing for renewable resources.

Again, thank you for your interest and I hope that you will continue to be involved in the shaping of the Alaska Permanent Fund.

Cordially,

A handwritten signature in cursive script, appearing to read "Clark".
Clark Gruening
Chairman

CG:LAD

P.O. Box 381
Douglas, Alaska 99824
October 18, 1977

The Hon. Clark Gruening, Chairman
House Permanent Fund Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Gruening:

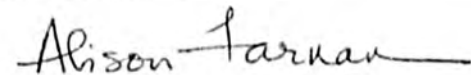
The Juneau-Douglas Branch of the American Association of University Women respectfully requests that the House Permanent Fund Committee consider allocating part of the permanent fund income for the support of cultural facilities throughout Alaska.

We must preserve Alaska's cultural heritage which is in danger of being lost due to the cultural and technological changes in the state; new arts resources must also be encouraged. Creative efforts of artists in Alaska should be promoted.

Cultural facilities will promote citizen awareness and participation in the arts and cultural enrichment on state and local levels.

Cultural enrichment should be a vital part of every Alaskan's education and way of life.

Sincerely,



Jan Hickey & Alison Farnan
Co-Presidents
American Association of
University Women
Juneau-Douglas Branch



PRINCE WILLIAM SOUND
AQUACULTURE CORPORATION

A regional non-profit organization for the enhancement of fisheries.

P.O. Box 1110
Cordova, Alaska 99574
(907) 424-3411

October 10, 1977

Representative Clark Gruening, Chairman
Special Committee On The Alaska Permanent Fund
528 W. 5th, Suite 270
Anchorage, AK 99501

Dear Representative Gruening:

Please send us copies of the two papers presented to
your committee by Arlon Tussing and Belden Daniels. *sent*
We would also appreciate receiving further information
on the progress of your committee.

In regard to your Permanent Fund Questionnaire, we have
not at this time developed a corporate position other
than our obvious desire to see Permanent Fund and Renew-
able Resource Fund dollars invested in aquaculture. We
are, of course, vitally interested in this subject, and
we do expect to provide you with additional input in the
near future.

We thank you for making this opportunity available to us.

Sincerely yours,

A. W. Hall

A. W. Hall
Business Manager

8601 Muir Court
Anchorage, AK 99504
October 12, 1977

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

sent

Gentlemen:

Please send me a copy of the two reports present before you on July 15 and 16, 1977. The titles of these reports are: "Economic Considerations in Establishment of Alaska's Permanent Fund" by Arlon Tussing; and "Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers" by Belden Daniels.

I would also appreciate receiving a copy of the appendix of the assumptions that is mentioned on page 6 of the booklet "The Role of the Permanent Fund in Alaska's Future" (assumptions pertaining to Figure 1, Revenue Projections through 1985).

Please send these items to me at the following address:

William M. Barstow
8601 Muir Court
Anchorage, AK 99504

Thank you.

Sincerely,

W M Barstow
W. M. Barstow

October 20, 1977

Legislative Office Agency
P.O. Box 3101
Juneau, Alaska 99801

Re: Permanent Fund Committee attention
Gentlemen:

The Alaska State Opera Presentation
respectfully requests your priority consideration
& affirmative action in funding cultural
activities for municipalities.

You can help us!

Thank you for your kind attention
to the request.

Sincerely,
James Hansen
President
Alaska State Opera
Presentation
301 Roberts Avenue
Juneau, Alaska 99801

P. O. Box 746
Juneau, Alaska 99802
November 17, 1977

Permanent Fund Committee
528 West 5th Avenue
Anchorage, Alaska 99501

Gentlemen:

Because I think it pertinent to your purpose, I should like to relate to you an incident which took place at the Constitutional Review held at the University of Alaska in Fairbanks in 1976, 20 years after the document was completed and ratified. Present on that occasion was John Bebout, who was a consultant at the Alaska Constitutional Convention.

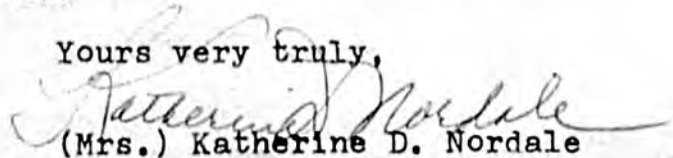
John Bebout is now retired, but he has long been regarded as an eminent authority on state government, including constitutional structure. He had assisted New Jersey, which was one of the first states to revise its constitution. After having served at the Alaska convention, he was called upon by several states to guide them in revision of their state constitutions. And by the way, the Alaska Constitution was used extensively as a model for reform. A provision in many state constitutions permitting the dedication of funds, or not specifically prohibiting it, had proved disastrous. Hence, the Alaska delegates became convinced that our new state should not fall into that error. However, it has done so through amendment.

I seized the opportunity in 1976 to ask John Bebout what he thought of the proposed constitutional amendment establishing the Permanent Fund. He replied immediately, "You are establishing a Fourth branch of government." It was a shock. The more one ponders his comment, the more one realizes that he voiced a very serious problem facing Alaska. Great power attaches to the control of so large a sum of money. Unless it is managed very carefully and vigilant scrutiny is exercised every step of the way, the people of Alaska may reap little benefit, but millionaires may be created to the detriment of the general welfare of Alaska.

I have no solution to suggest. I am only voicing my own fears and trusting that better heads than mine may be able to devise a way to safeguard the potential benefits, which should inure to the good of the state and its people.

It is obvious that amendments to the constitution are proposed without the exhaustive research which should precede their submission to the voters. The constitution is not a perfect document, but amendments should improve it, not erode its recognized excellence. You have my best wishes.

Yours very truly,


(Mrs.) Katherine D. Nordale

November 28, 1977

Katherine D. Nordale
P.O. Box 746
Juneau, AK 99802

Dear Katherine:

I very much appreciated receiving your comments on the Permanent Fund. A number of legislators, including myself, share your concern on the possibility that the Permanent Fund could become a "fourth branch of government."

There are a number of possible safeguards against this eventuality. Some of these safeguards already exist in the way the Permanent Fund constitutional amendment is structured.

The Permanent Fund is not based on any tax revenues but receives money only from the one-time sale of non-renewable resources. The constitutional dedication of 25 percent of only royalties and bonuses from the lease or sale of minerals will not place any tax revenues in the Permanent Fund. In terms of total revenues (taxes and proceeds from the sale of mineral resources), the Permanent Fund, unless the legislature decides to deposit a greater percentage of royalties, will contain less than 25 percent of the actual total revenues accruing to the State of Alaska.

Moreover, the Permanent Fund is not a fund dedicated for a specific purpose such as those found in New Jersey and many other states. The legislature will, under the Constitution, retain the power to specify those Permanent Fund investments eligible for Permanent Fund money. The Permanent Fund should be, therefore, more responsive to policy directives from elected officials than some of the dedicated funds in other states.

Nevertheless, the potential size of the Permanent Fund, although smaller than the General Fund, requires serious legislative examination of how the Fund will be managed and who will

CORRECTION

CORRECTION

November 28, 1977

Katherine D. Nordale
P.O. Box 746
Juneau, AK 99802

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Nevertheless, the potential size of the Permanent Fund, although smaller than the General Fund, requires serious legislative examination of how the Fund will be managed and who will

Katherine D. Nordale

-2-

November 28, 1977

manage it. In this regard, the House Permanent Fund Committee is considering draft legislation to recommend to the whole legislature which would establish a board of trustees for the Permanent Fund to be appointed by the Governor and confirmed by the legislature.

The trustees and their operations as managers of the Permanent Fund would be subject to conflict of interest law, regular audit and performance reporting and the Executive Budget Act. Bringing the board of trustees under the Executive Budget Act does require that the legislature approve the operating budget of the board.

Finally, the principal management goal, under the latest proposed draft, is that the trustees are to invest the Fund monies in such a way to bring the highest net return to the Fund consistent with the safety of the principal of the Fund. Any investments over a certain size will require legislative approval.

As the legislature provides a more detailed statutory framework for the Fund, I hope you will continue to raise pertinent questions and comment on the various proposals. When our proposed draft is completed (about December 15, 1977), I will send you a copy. Thank you for writing.

Cordially,



Rep. Clark Gruening
Chairman

SCOMM

#9:135

Alaska State Legislature

PF
corves.

House Permanent Fund
Committee
528 W. 5th Ave.
Anchorage, Alaska 99501



(907) 276-3433

House of Representatives

June 10, 1977

Mr. James Edenso
Deputy Commissioner of Treasury
Department of Revenue
Pouch SB
Juneau, Alaska 99811

Dear Jim:

After considerable discussion of the Arthur D. Little proposal for a sectoral analysis of Alaska's economy, I do not believe the analysis would be valuable at this time. The proposal assumes a development bank approach to the permanent fund, which may or may not be the approach finally selected by the Legislature. If that approach is not chosen, the analysis will have been superfluous. If the Legislature does choose the development bank approach, it would be more appropriate for the permanent fund policy board itself to decide what analyses should be undertaken.

In the meantime, I believe there is a substantial amount of work which needs to be done prior to the next legislative session. It would be valuable to assess the impact on Alaska's economy of various permanent fund proposals. In particular, I would like to see an analysis of the effects on Alaska's economy of 1) a development bank approach as suggested by the State Investment Advisory Committee, 2) an individual loan approach similar to that proposed by Dr. Milton Friedman, and 3) out-of-state investment for the highest return to capital, with the income distributed to Alaskan residents. If Arthur D. Little or anyone else would be able to do such an analysis, I think it would be a much better use of the money. Please let me know if such a revised proposal is agreeable.

The House Permanent Fund Committee will be meeting in Anchorage July 15 and 16. I hope you will be able to attend. We would appreciate receiving a detailed list of the investments in the Permanent Fund up to the last day of fiscal year 1977.

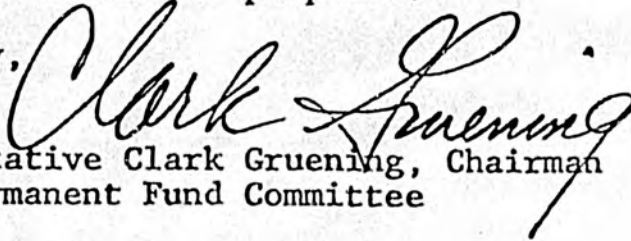
I will be out of town next week, but will return to Anchor-

Mr. James Edenso
June 10, 1977

-2-

age June 20. I will call you then to discuss the progress of the Arthur D. Little proposal.

Sincerely,

A handwritten signature in cursive script, reading "Clark Gruening". The signature is written in dark ink and is positioned above the typed name and title.

Representative Clark Gruening, Chairman
House Permanent Fund Committee

CG:kb

cc: Senator George Hohman
Commissioner Sterling Gallagher

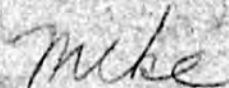
October 3, 1977

Sterling Gallagher
Commissioner
Department of Revenue
Pouch S
Juneau, AK 99811

Dear Sterling:

Pursuant to the contracts between Legislative Finance
and Price Waterhouse and White Weld, I am notifying
you that the enclosed assignments have been made.

Sincerely,



Mike Doogan
Administrative Assistant

MD:LAD

Enclosures

September 19, 1977

Jim Edenso
Deputy Commissioner
Department of Revenue
Pouch S
Juneau, AK 99811

Dear Jim:

Here's a copy of Belden Daniel's report to the Committee, delivered in Kotzebue Saturday. If you want more copies, we are sending the original to the printer and hope to have some by next week. We also will have transcripts of the meeting held last week as soon as they can be prepared, before Christmas, I hope.

Sincerely,

Mike

Mike Doogan
Administrative Assistant

MD:LAD

Enclosure

MEMORANDUM

TO: [Jim Edenso
Deputy Commissioner
Department of Revenue

DATE : July 14, 1977

FROM: William L. Means
State Investment Officer
Department of Revenue

SUBJECT: Alaska Permanent Fund

Savings Account
Interest

\$ 928,259.21
1,828.60

*57% compounded
annuity*

Investments at cost and accrued
interest at time of purchase

\$3,051,440.22 —

*US Treasury
note
6 3/4%*

Earned interest on investments
but not paid

16,548.91

Total value of Alaska Permanent
Fund as of close of business
July 14, 1977

\$3,998,076.94

Interest transferred on June 30, 1977 from the
Alaska Permanent Fund to the Investment Account

\$27,019.00

WLM:ge

Feb 22, 1977

*Month
Invest
Report*

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
Pouch SB
Juneau, Alaska 99811
(907) 465-2350

PUBLIC EMPLOYEES' RETIREMENT FUND

MONTHLY INVESTMENT REPORT
February 28, 1977

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STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT FUND

FLOW OF FUNDS SUMMARY
February 28, 1977

At the end of February 1977, cash and investments of the Public Employees' Retirement Fund totaled \$171,851,130.87. This total represents a net increase of \$3,981,817.00 from the previous month. During February \$803,357.68 income from interest and dividends was earned on investments. There was a loss on the sale of securities in the amount of \$504,725.78 and a net contribution to the Fund of \$3,683,185.10.

Beginning Month Cash and Invested Funds	<u>\$167,869,313.87</u>
Income from Interest and Dividends	803,357.68
Gain/Loss on Sale of Securities	
Fixed Income (\$354,000.81)	
Common Stock <u>(150,724.97)</u>	<u>\$ (504,725.78)</u>
Net Investment Return	<u>\$ 298,631.90</u>
Net Contribution to the Fund	<u>\$ 3,683,185.10</u>
End of Month Cash and Invested Funds	<u><u>\$171,851,130.87</u></u>

STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT FUND

INVESTMENT ACTIVITY

February 28, 1977

The Public Employees' Retirement Fund holdings of short term debt issues including cash and savings increased by \$2,034,161.12 in February and its holdings of Long Term Debt Issues increased by \$769,363.27. The portfolio increased its position in mortgages by \$2,979,256.89.

The capital markets in the beginning of calendar year 1977 experienced a significant adjustment in value. Increased fears of a higher inflation rate due to excessive fiscal stimulation caused long term interest rates to increase by over 1/2 per cent. The Treasury Division responded to this decline in the market by extending a portion of the portfolio from intermediate term securities into long term Treasuries and corporate securities.

Book losses were recorded on the sale of the intermediate securities. It is the policy of the Treasury Division when selling within a maturity range, to sell those securities with the highest booked cost and reflect the greatest booked loss. This is done in an effort to reflect the most conservative portfolio management and accounting practices.

The Fund will continue to commit new cash flow to the Loan and Mortgage program in an effort to increase its percentage of the portfolio.

MAJOR INVESTMENT CLASSIFICATION

	<u>Current Month</u>		<u>Prior Month</u>	
	<u>Dollar Value</u>	<u>Percent</u>	<u>Dollar Value</u>	<u>Percent</u>
Cash/Savings	\$ 13,481,526.03	8	\$ 11,102,064.91	7
Short Term Debt Issues	1,760,383.33	1	2,105,683.33	1
Long Term Debt Issues	86,574,068.03	50	85,804,704.76	51
Loans and Mortgages	51,972,257.78	30	48,993,000.89	29
Common Stock	<u>18,062,895.70</u>	<u>11</u>	<u>19,863,859.98</u>	<u>12</u>
Total	<u>\$171,851,130.87</u>	<u>100</u>	<u>\$167,869,313.87</u>	<u>100</u>

STATE OF ALASKA
PUBLIC EMPLOYEES RETIREMENT FUND
COMPOSITION OF INVESTMENT HOLDINGS
February 28, 1977

Asset Type	CURRENT MONTH			PRIOR MONTH
	% of Total Cost Value	Cost	Yield	Cost
<u>CASH</u>				
Savings Deposits	4.62	\$ 7,938,499.68	5.00	\$ 6,562,534.59
<u>SHORT TERM DEBT ISSUES</u>				
Savings Certificates	.44	\$ 764,000.00	7.50	\$ 764,000.00
<u>LONG TERM DEBT ISSUES</u>				
U. S. Treasury Notes & Bonds:				
2 - 5 Years	3.25	\$ 5,590,859.38	6.86	\$ 3,078,750.00
5 - 10 Years	4.11	7,061,810.00	7.84	5,296,670.19
Over 10 Years	7.66	13,152,675.00	7.81	3,059,589.29
Sub-Total	15.02	\$ 25,805,344.38		\$ 11,435,009.48
Federal Agency Securities:				
2 - 5 Years	1.47	\$ 2,527,343.75	8.66	\$ 2,527,343.75
5 - 10 Years	6.32	10,861,796.88	8.51	11,324,921.88
Over 10 Years	.87	1,492,995.00	8.41	4,478,985.00
Sub-Total	8.66	\$ 14,882,135.63		\$ 18,331,250.63
Government National Mtg. Assn.	13.89	\$ 23,878,581.08	8.11	\$ 37,112,123.96
Corporate Notes & Bonds:				
5 - 10 Years	.72	\$ 1,243,750.00	9.55	\$ 1,243,750.00
Over 10 Years	10.27	17,649,870.00	8.63	15,564,963.75
Sub-Total	10.99	\$ 18,893,620.00		\$ 16,808,713.75
Private Placements	.99	\$ 1,700,000.00	8.88	\$ 1,700,000.00
Total	49.55	\$ 85,159,681.09		\$ 85,387,097.82
<u>LOANS AND MORTGAGES</u>				
FHA	6.64	\$ 11,401,347.52	7.32	\$ 11,630,181.86
Small Business	4.01	6,897,184.71	8.90	7,118,920.27
Conventional	19.60	33,673,725.55	10.00	30,243,898.76
Total	30.25	\$ 51,972,257.78		\$ 48,993,000.89
<u>COMMON STOCK ACCOUNT</u>				
Cash Deposits:				
Demand				\$ 1,334.00
Savings	3.23	\$ 5,543,026.35	5.00	\$ 4,538,196.32
Sub-Total	3.23	\$ 5,543,026.35		\$ 4,539,530.32
Short Term Debt Issues:				
Commercial Paper	.58	\$ 996,383.33	4.65	\$ 1,341,683.33
Long Term Debt Issues:				
U. S. Treasury Notes & Bonds	.58	\$ 996,780.00	6.52	
Corporate Notes	.24	417,606.94	4.60	\$ 417,606.94
Sub-Total	.82	\$ 1,414,386.94		\$ 417,606.94
Common Stock	10.51	\$ 18,062,895.70	3.15	\$ 19,863,859.98
Total	15.14	\$ 26,016,692.32		\$ 26,162,680.57
TOTAL INVESTMENT HOLDINGS	100.00	\$171,851,130.87		\$167,869,313.87

Month Inv. Report

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

Pouch SB

Juneau, Alaska 99811

(907) 465-2350

TEACHERS' RETIREMENT FUND

MONTHLY INVESTMENT REPORT

February 28, 1977

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STATE OF ALASKA

TEACHERS' RETIREMENT FUND

FLOW OF FUNDS SUMMARY
February 28, 1977

At the end of February 1977, cash and investments of the Teachers' Retirement Fund totaled \$155,672,006.04. This total represents a net increase of \$2,310,861.96 from the previous month. During February \$810,244.85 income from interest and dividends was earned on investments. There was a loss on the sale of securities in the amount of \$229,912.16 and a net contribution to the Fund of \$1,730,529.27.

Beginning Month Cash and Invested Funds	<u>\$153,361,144.08</u>
Income from Interest and Dividends	\$ 810,244.85
Gain/Loss on Sale of Securities	
Fixed Income	\$(160,277.61)
Common Stock	<u>(69,634.55)</u>
	<u>(229,912.16)</u>
Net Investment Return	<u>\$ 580,332.69</u>
Net Contribution to the Fund	<u>\$ 1,730,529.27</u>
End of Month Cash and Invested Funds	<u>\$155,672,006.04</u>

STATE OF ALASKA

TEACHERS' RETIREMENT FUND

INVESTMENT ACTIVITY February 28, 1977

The Teachers' Retirement Fund holdings of long term debt issues increased during February by \$1,934,199.06 and short term debt issues including cash and savings decreased by \$1,459,307.50. The portfolio increased its position in mortgages by \$2,217,267.29.

The capital markets in the beginning of calendar year 1977 experienced a significant adjustment in value. Increased fears of a higher inflation rate due to excessive fiscal stimulation caused long term interest rates to increase by over 1/2 per cent. The Treasury Division responded to this decline in the market by extending a portion of the portfolio from intermediate term securities into long term Treasuries and corporate securities.

Book losses were recorded on the sale of the intermediate securities. It is the policy of the Treasury Division when selling within a maturity range, to sell those securities with the highest booked cost and reflect the greatest booked loss. This is done in an effort to reflect the most conservative portfolio management and accounting practices.

The Fund will continue to commit new cash flow to the Loan and Mortgage program in an effort to increase its percentage of the portfolio.

MAJOR INVESTMENT CLASSIFICATION

	<u>Current Month</u>		<u>Prior Month</u>	
	<u>Dollar Value</u>	<u>Percent</u>	<u>Dollar Value</u>	<u>Percent</u>
Cash/Savings	\$ 5,364,205.73	3	\$ 6,523,513.23	4
Short Term Debt Issues	1,262,000.00	1	1,562,000.00	1
Long Term Debt Issues	81,831,240.07	53	79,897,041.01	52
Loans and Mortgages	47,525,942.51	30	45,308,675.22	30
Common Stock	<u>19,688,617.73</u>	<u>13</u>	<u>20,069,914.62</u>	<u>13</u>
Total	<u>\$155,672,006.04</u>	<u>100</u>	<u>\$153,361,144.08</u>	<u>100</u>

STATE OF ALASKA

TEACHERS' RETIREMENT FUND

COMPOSITION OF INVESTMENT HOLDINGS
February 28, 1977

Asset Type	CURRENT MONTH			Prior Month at Cost
	% of Total Cost Value	Cost	Yield	
<u>CASH</u>				
Savings Deposits	3.02	\$ 4,703,501.72	5.00	\$ 6,213,624.06
<u>SHORT TERM DEBT ISSUES</u>				
Savings Certificates	.81	\$ 1,262,000.00	7.44	\$ 1,562,000.00
<u>LONG TERM DEBT ISSUES</u>				
U. S. Treasury Notes & Bonds:				
2 - 5 Years	2.45	\$ 3,808,538.38	6.93	\$
5 - 10 Years	1.33	2,070,000.00	7.73	1,296,429.00
Over 10 Years	8.15	12,690,622.05	7.78	5,622,929.69
Sub-Total	11.93	\$ 18,569,160.43		\$ 6,926,358.69
Federal Agency Securities:				
2 - 5 Years	1.63	\$ 2,528,906.25	8.65	\$ 2,528,906.25
5 - 10 Years	5.67	8,827,734.38	8.72	8,827,734.38
Over 10 Years	1.28	1,990,660.00	8.41	4,976,650.00
Sub-Total	8.58	\$ 13,347,300.63		\$ 16,333,290.63
Government National Mtg. Assn.	17.33	\$ 26,981,417.01	8.05	\$ 35,231,935.94
Corporate Notes & Bonds:				
5 - 10 Years	.80	\$ 1,243,750.00	9.55	\$ 1,243,750.00
Over 10 Years	9.06	14,102,250.00	9.74	12,574,343.75
Sub-Total	9.86	\$ 15,346,000.00		\$ 13,818,093.75
Private Placements	.64	\$ 1,000,000.00	7.75	\$ 1,000,000.00
Total	48.34	\$ 75,243,878.07		\$ 73,309,679.01
<u>LOANS AND MORTGAGES</u>				
FHA	6.18	\$ 9,617,264.06	7.45	\$ 9,715,062.57
Small Business	4.29	6,680,802.27	8.52	6,730,765.71
Conventional	20.06	31,227,876.18	9.88	28,862,846.94
Total	30.53	\$ 47,525,942.51		\$ 45,308,675.22
<u>COMMON STOCK ACCOUNT</u>				
Savings Deposits	.42	\$ 660,704.01	5.00	\$ 309,889.17
Long Term Debt Issues:				
U. S. Treasury Notes & Bonds	3.86	\$ 6,010,049.50	6.70	\$ 6,010,049.50
Corporate Notes	.37	577,312.50	6.99	577,312.50
Sub-Total	4.23	\$ 6,587,362.00		\$ 6,587,362.00
Common Stock	12.65	\$ 19,688,617.73	3.73	\$ 20,069,914.62
Total	17.30	\$ 26,936,683.74		\$ 26,967,165.79
TOTAL INVESTMENT HOLDINGS	100.00	\$155,672,006.04		\$153,361,144.08

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
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PF new file
Monthly
Investment
Reports

GENERAL AND STATE PROGRAM FUNDS

MONTHLY INVESTMENT REPORT

February 28, 1977

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STATE OF ALASKA

GENERAL AND STATE PROGRAM FUNDS

FLOW OF FUNDS SUMMARY
February 28, 1977

At the end of February 1977, the General and Segregated State Program Funds totaled \$581,364,535.72 up from \$537,114,263.55 at the close of the previous month. Operating cash and the level of the General Investment Account totaled \$499,179,742.76 at the end of February. This total represents an increase of \$39,049,116.95 from the previous month. During the month, \$3,540,833.12 was received from the Federal Highway Administration, \$3,794,180.97 from royalty and oil production tax payments, and \$39,679,770.83 from the sale of State general obligation bonds.

Beginning of Month Cash and Invested Funds	<u>\$537,114,263.55</u>
Net Investment Revenue	<u>2,241,426.70</u>
Net Contribution of Funds	<u>42,008,845.47</u>
End of Month Cash and Invested Funds	<u>\$581,364,535.72</u>

INVESTED RETURN

The total realized cash investment return of \$2.2 million for February raises the amount collected over the first eight months of this fiscal year to \$22.0 million.

STATE OF ALASKA

GENERAL AND STATE PROGRAM FUNDS

TOTAL INVESTMENT PORTFOLIO AT COST February 28, 1977

<u>General and Segregated State Program Funds</u>	<u>Current Month</u>	<u>Prior Month</u>
Cash	\$ 14,284,639.95	\$ 14,307,344.49
Repurchase Agreements	38,900,000.00	38,300,000.00
U. S. Treasury Bills	20,515,824.17	784,672.33
Certificates of Deposit	179,385,854.96	185,048,976.57
U. S. Notes and Bonds	75,789,679.42	45,370,230.65
U. S. Agencies	64,056,312.18	68,076,675.68
Alaska Loans	<u>188,432,225.04</u>	<u>185,226.363.83</u>
Total	<u>\$581,364,535.72</u>	<u>\$537,114,263.55</u>

INVESTMENT ACTIVITY

During the month of February, the Treasury Division was a net buyer of short term investments (\$9.4 million). Total short term investments (less than one year) in the General Investment Account increased by \$9.4 million after netting out purchases, sales, and maturities. The Treasury Division purchased \$63.4 million, sold \$54.0 million, and experienced no maturities.

In February, we committed a total of \$315.0 million to 20 repurchase agreements in order to invest overnight cash balances. These one day investments were at interest rates ranging from 4.45% to 4.70%.

During the month of February, the Treasury Division was a net buyer of intermediate term securities in the Investment Account in the amount of \$25.9 million. This moderate increase in intermediate term securities was in response to several factors. Among these factors was the indication that after the precipitous market decline in January, the market was stabilizing. At this time, monetary authorities were obliquely hinting that this stability could continue for several months. This factor, combined with the substantial positive cash flow which the Investment Account was experiencing, suggested that the Treasury Division should take advantage of the attractive yields available in the three year maturity range.