

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

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

Page Three
Sub-Comm. on RRDF
2/9/78

16. Page 8, lines 5-7, delete all material and substitute:

(C) sufficient capital is not available from other sources on reasonable terms;

17. Page 8, lines 24 and 25 delete all material.

18. Page 8, line 28, following the word "utilized" delete "when other mechanisms are not feasible and when the benefits of the grant will accrue to the general public" and substitute "as authorized by Sec. 37.12.150 (13)."

19. Page 9, line 2, add:

(3) require investments made by the corporation to be secured by means determined to be appropriate by the board.

20. Page 9, line 5, following the word "invest" add "or otherwise provide financial assistance of".

21. Page 9, line 9, following the word "than" delete "25" and substitute "49".

22. Page 9, line 13, following the word "of" delete "10" and substitute "30".

23. Page 10, line 4, delete "grant" and substitute "provide".

24. Page 10, line 8, the Committee may want to consider adding a durational requirement (three years) because the state has an overriding interest in distributing the benefits of this program to Alaskans who have been here longer than 30 days.

25. Page 10, lines 9 and 10, delete "it is owned by a majority who are residents of the state" and substitute "the majority interest is beneficially owned by residents of the state and a majority of the owners are residents of the state."

26. Page 10, line 24, following the word "chapter" add "detailed infrastructure requirements required by or complementary with corporation investment activity."

27. Page 11, lines 5 and 6, delete "directly appropriated by the legislature only as authorized" and substitute "appropriated".

28. Page 11, line 10, delete "a certified public accountant" and substitute "an independent outside auditor".

29. Page 11, line 19, add:

Sec. 37.12.230. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state. (from HB 596)

Sec. 37.12.240. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of financial assistance under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the assistance was made, 95 per cent residents shall be employed where they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed where they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10. (from SB 429)

Sec. 37.12.250. TECHNICAL ASSISTANCE. Before a project is approved for financial assistance, the corporation shall perform a study to determine its economic and technical feasibility. If the project is subsequently approved for financial assistance, the corporation shall provide such technical assistance as is considered necessary and desirable by the board. The cost of the study and assistance provided under this section shall be borne by the corporation. (from SB 429)

OR

s Sec. 37.12.250. TECHNICAL ASSISTANCE. (a) The corporation may provide financing for pre-investment activities including feasibility studies, when, in its opinion, the proposed investment is of high priority and the financing is not available from other sources on reasonable terms and conditions. Amounts so advanced may form a part of a later investment, if the enterprise or project is financed by the corporation.

(b) The corporation may provide for technical and management advice and assistance to proposed and actual investments as it considers necessary in the circumstances. (from HB 298)

Sec. 27.13.260. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises. (from HB 596)

30. Page 11, lines 23 and 24, delete all material.
31. Page 12, line 15, following the word "fund" add "or the Alaska Renewable Resources Corporation".
32. Page 12, line 27, following the word "fund" add "or the Alaska Renewable Resources Corporation".
33. Page 13, line 5, following the word "shall" add "be allocated to the Alaska Renewable Resources Corporation".
34. Page 13, line 19, delete "1982" and substitute "1988".

1/30/78

To: File

The following letter was sent to those listed on the Press, Alaska Growth Policy Council, Pressure Groups, Alaska Investment Advisory Committee and the Native Group (Non-Profit) Mailing Lists.

January 27, 1978

Enclosed please find House Bill 682 concerning the Renewable Resources Development Fund as a follow up to my letter of January 16, 1978. If you have any comments or suggestions on this legislation, please send them to the Committee at the above address.

Cordially,

Representative Clark Gruening

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PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

SCOMM

#9:164

COMMITTEE REPORT

HOUSE

2/9/78

FURTHER: FINANCE

Date: _____

Mr. Speaker:

The Committee on SPECIAL COMMITTEE ON
THE PERMANENT FUND has had HR 19
Relating to use of permanent fund revenue for hydroelectric projects.

under consideration and (a majority of the committee) (the committee reports it back as follows)

☐ recommends it do pass ☐ recommends it do not pass

☐ recommends it do pass with attached amendment(s)

☐ recommends it be replaced with CS for _____

and _____ ☐ new title ☐ same title

☐ AND attaches a Letter of Intent ☐ New Fiscal Note

☐ reports it back without recommendation

☐ and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Introduced: 2/9/78

Referred: Special Committee on the
Alaska Permanent Fund and Finance

4825
Bernier

BY HAUGEN, RHODE, AKERS, ANDERSON,
BEIRNE, BENNETT, CARPENTER,
CHATTERTON, COWPER, DANKWORTH,
ELIASON, FREEMAN, GARDINER,
GRUENING, HAYES, KELLY, LETHIN,
LOVSETH, MALONE, MILES, OSE, PARR,
SNIDER, SWANSON AND URION

1 IN THE HOUSE

2 HOUSE RESOLUTION NO. 19

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Relating to use of permanent fund
6 revenue for hydroelectric projects.

7 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

8 WHEREAS financing of hydroelectric projects is a matter of major concern
9 to the state; and

10 WHEREAS obtaining long-term financing at rates and upon terms which will
11 allow project feasibility is difficult on the commercial market; and

12 WHEREAS, because the cost of petroleum and petroleum by-products has
13 risen dramatically, and in all probability will continue to rise, the con-
14 tinued availability of petroleum and its by-products as fuel for power gener-
15 ation is doubtful and continued reliance on them as fuel for generation of
16 major portions of the power needs of Alaska creates a serious danger of lack
17 of power as well as constituting a substantial economic hardship; and

18 WHEREAS development of hydroelectric power is a matter of prime concern
19 to the state; and

20 WHEREAS the state has under its constitution set aside money in the per-
21 manent fund; and

22 WHEREAS the use of the permanent fund income and the investment of the
23 permanent income is to be determined by law; and

24 WHEREAS a basic use of this money is to invest in such a manner that the
25 principal is protected but that the needs of Alaska are served; and

26 WHEREAS assistance in financing feasible hydroelectric projects meets
27 these criteria;

28 BE IT RESOLVED that the Alaska State House of Representatives directs
29 that the Special Committee on the Alaska Permanent Fund consider and report

COMMITTEE COPY

1 back to the House methods by which money derived from the permanent fund
2 could be used to assist in development of hydroelectric projects in the
3 state.

ALASKA STATE LEGISLATURE	
TENTH Legislature	SECOND Session
HOUSE RESOLUTION NO. 19	
By HAUGEN, RHODE, AKERS, ANDERSON, BIRNE, BENNETT, CARPENTER, CHATTERTON, COWPER, DANKWORTH, ELIASON, FREEMAN, GARDINER, GRUENING, HAYES, KELLY, LETHIN, LOVSETH, MALONE, MILES, OSE, PARR, SNIDER, SWANSON AND URION	
Relating to use of permanent fund revenue for hydroelectric projects.	
perm. fund used for hydro.proj.	
Introduced in the House 2-9-19..78	

HISTORY IN THE HOUSE	
1978	Read first time and referred to Committee on Special Committee on Permanent Fund; and Finance
Feb. 9	Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reported correctly engrossed
	Signed by Speaker
	Sent to Senate
CHIEF CLERK OF THE HOUSE	

HISTORY IN THE SENATE	
19	Read first time and referred to Committee on
	Reported back with recommendation that
	Read second time and
	Read third time and
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reconsideration
	PASS Effective Date
	Yeas Yeas
	Nays Nays
	Absent Absent
	Excused Excused
	Reported correctly engrossed
	Signed by President
	Returned to House
SECRETARY OF THE SENATE	

HISTORY IN THE HOUSE	
19	Received from Senate
	Concurred in Senate amendment thus adopting:
	Failed to concur in Senate amend- ment; asked Sen. to recede
	Senate receded from amendment
	Senate failed to recede from amendment
	FCC appointed by House
	FCC appointed by Senate
	FCC adopted
	To enrolling
	Reported correctly enrolled
	Sent to Governor
	 by Governor
	Filed with Lt. Governor
	Chapter No.

SCOMM

#9:165

3-14-77

COMMITTEE REPORT

JUDICIARY

HOUSE

3-8-78

Date

Mr. Speaker:

The Committee on SPECIAL COMMITTEE ON THE ALASKA PERMANENT FUND has had HJR 31

under consideration. A majority of the members of the Committee

- ☒ recommends it do pass
- ☐ recommends it do not pass
- ☐ recommends it do pass with attached amendment(s)
- ☒ recommends it be replaced with CS for HJR 31 and that CS for HJR 31 do pass

☐ (and) recommends it be referred to the _____ committee

☐ reports it back without recommendation

☐ AND attaches a report of its intent

☐ (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

_____ recommends: _____

_____ recommends: _____

_____ recommends: _____

Clark Luning
 Chairman

THIS [] BILL [☒] RESOLUTION

has been prepared by the staff of the Legislative Affairs Agency in response to the request and at the direction of the sponsoring member or committee. The staff has attempted to place the document in proper legal and clerical form, subject to any special limitations or instructions of the requestor.

Any staff questions or comments as to legality, constitutionality, and form have been included in the memorandum addressed to the requestor and kept in the work file. If we may be of further assistance in this matter, please contact the Director of Legal Services or the Director of Research Services, as appropriate.

Delivered to requestor 3-7-28

LA-L 40

SCOMM

#9:166

ISSUE: What bidding option should be utilized by the State of Alaska in conducting the Beaufort Island Lease Sale?

I. What procedures will the State of Alaska employ to insure that appropriate value is received for assets transferred from public to private ownership:

A. Reliance on internal DNR-DR risk/cost/benefit analysis?

1. Tactical pre-sale analysis
2. Strategic post-sale analysis

B. Reliance on external supply/demand forces?

1. U.S., DOI, BLM accelerated leasing schedule will not flood the market?
2. Petroleum corporations will bid in a fair, free, and competitive auction market?

a. Past behavior in Alaska

- (1) Sale #13 (North Slope, 12-9-64) \$7.66/acre.
- (2) Sale #14 (North Slope, 7-15-65) \$15.25/acre.
- (3) Sale #18 (North Slope, 1-24-67) \$34.87/acre.
- (4) Sale #23 (North Slope, 9-10-69) \$2,181.66/acre!!

b. Present situation

- (1) What geologic structures are to be leased in the Beaufort Island Lease Sale?
- (2) What size petroleum reservoir is hypothesized to be in each geologic structure (number of barrels)?
- (3) What game strategy will the State of Alaska employ in its lease tract siting and how will it determine which lease tracts to offer? (How will geologic structures be truncated by lease tracts?)
- (4) What percentage of the available geologic structures will be placed up for sale in the first Beaufort Island Sale?
- (5) On the basis of risk/cost/benefit analysis, which bidding procedure or combination of bidding procedures will be used: Bonus bidding, royalty bidding, or combination royalty-bonus bidding?

(6) What is the cost of information necessary to answer the questions proposed above?

(A) Staff time (X hours)

(B) Seismic analysis \$100,000

(C) Economic analysis \$20,000

(7) What is the benefit of the above proposed analysis?

Example: For example tract C29-11, one company would be indifferent to the State of Alaska acceptance of any of the following bids:

(a) 16.67% royalty plus a bonus bid of \$6,314,000 (\$2,466/acre)

NPV_g to State of Alaska = \$26.8 million.

(b) 20.0% royalty plus a bonus bid of \$5,064,000 (\$1,978/acre)

NPV_g to State of Alaska = \$29.6 million.

(c) 40.0% royalty plus a negative bonus bid of \$526,000 (-\$987/acre)

NPV_g to State of Alaska = \$46.6 million.

MEMORANDUM

State of Alaska

TO: Sterling Gallagher
Commissioner
Department of Revenue

DATE: September 12, 1975

FILE NO:

TELEPHONE NO:

FROM: John R. Werner
Chairman
Alaska Pipeline Commission

SUBJECT: Budget FY-76 & FY-77

The following budget for FY-76 and FY-77 is proposed per your request:

	<u>FY-76</u>	<u>FY-77</u>
Personal Services	135,315	186,917
Travel	9,500	12,000
Contractual Services	142,500	132,500
Commodities	3,000	3,000
Equipment	1,200	1,345
Total	291,515	335,762

The category of Personal Services includes salaries for three full-time commissioners--assuming one member employed for the entire FY-76, one beginning September 1, and another beginning on January 1, 1976.

Three full-time commission members are needed to effectively regulate pipelines in this state. The complexity and uniqueness of this type of regulation necessitates a lengthy period of learning to truly achieve an understanding of how pipelines should be regulated to the best benefit of Alaska. The kinds of judgements and decisions which must be made require informed and experienced people. This can only be accomplished through continuous and extensive study and exposure to actual regulatory situations.

Could be accomplished by having intelligent and knowledgeable people at the outset.

Our ultimate regulatory challenge lies a scant two years in the future. If we are to effectively protect the state's interest as envisioned by lawmakers, this commission must be provided with the necessary resources to do the job.

Of greatest importance is the budget category of Contractual Services. The following tasks, as viewed at this point in time, have been identified as areas in which we will be involved during the time frame indicated.

	<u>FY-76</u>	<u>FY-77</u>
Valuation & rate research & development	50,000	30,000
Ex Parte No. 308	25,000	15,000
Rate proceedings, protest & complaint actions	20,000	10,000
Regulations	7,500	7,500
Jurisdiction	10,000	10,000
TAPS cost surveillance & investigation	20,000	30,000
Depreciation study	5,000	20,000
Education	5,000	10,000
Total	142,500	132,500

Valuation and Rate Research and Development

In order to ascertain fair and reasonable rates, the commission must adopt and incorporate into its regulations a method of valuation and criteria and guidelines for rates applicable to pipelines under its jurisdiction. This requires research into a number of regulated businesses, especially those in the field of transportation, to examine the valuation process and to evaluate various rates of return as applied to regulated industry. With this information, we can develop our own scheme of valuation and rate making as is necessary, balancing Alaska's well-being with that of industry's.

Ex Parte No. 308

This is a proceeding now before the Interstate Commerce Commission dealing with valuation methodologies of common carrier crude oil pipelines. This is an historic event in that it is the first time in almost three decades that the ICC has chosen to review and examine valuation methodologies. This is vitally important because conditions existing today in regard to petroleum transportation have changed considerably from that of the 1940's. Federal policy and attitude toward future development of petroleum pipelines will substantially affect ICC valuation methodologies to reflect either an emphasis or de-emphasis on further development of pipelines in this country. Specifically, I am speaking of a liberal or conservative valuation practice, meaning more or less profit to those engaged in pipeline ownership. Our minimum objective in intervening in this proceeding

Sterling Gallagher
Commissioner
Page 3
September 12, 1975

is to clarify or eliminate arbitrary valuation methodologies and practices detrimental to the determination of fair and reasonable rates as viewed by the Pipeline Commission. Special counsel has been retained to assist us in these proceedings.

Rate Proceedings, Protests and Complaint Actions

The Pipeline Commission is charged with representing the State before federal agencies in the matter of pipelines. In order to do so, we retained Washington counsel specializing in pipeline regulation who is intimately familiar with ICC practices and procedures and who has had considerable experience before the ICC.

These particular kinds of activities and experiences give the Pipeline Commission members excellent insight into the workings of the ICC and allow us to gain good knowledge and data regarding existing pipelines in the State. This experience will also serve as a solid foundation for interventions or protests relative to TAPS and other future pipeline systems.

Regulations

While the Alaska Pipeline Commission Act provides that the Pipeline Commission is to do numerous specific activities in order to regulate pipeline facilities and pipeline carriers in this state, the task of actually implementing the specific legislative mandates is left to the Commission to accomplish by promulgating regulations.

Before the Pipeline Commission can attempt to carry out any of the legislative policies enumerated in the Act, it is first necessary that it establish a set of regulations governing practice and procedure before the Commission. These regulations describe the methods by which the Commission will carry out its appointed functions--regulations which make provision for the filing of applications, the institution of complaints, the serving of papers, the conduct of hearings, and the like. This endeavor was started by the Commission in June of 1975 and a final draft of the practice and procedure regulations was completed on August 4, 1975, and submitted to the Department of Law for its review on that date. The Department of Law has since reviewed these regulations and advised the Commission they were approved

Sterling Gallagher
Commissioner
Page 4
September 12, 1975

from a substantive standpoint. Taking into consideration the making of some technical changes suggested by the Department of Law, the Commission's regulations could be ready for public notice and inspection by Monday, September 15, 1975.

Before the regulations of a state agency such as the Pipeline Commission become final and have the force and effect of law, the Administrative Procedure Act requires that they be subject to (1) public notice and inspection 30 days before a hearing on them is held, (2) a public hearing, and (3) a 30-day filing period with the Office of the Lieutenant Governor. Therefore, if the Commission's regulations are noticed to the public on September 15, 1975, they could have the force of law by November 15, 1975. It would be at this time that the Commission would have the power to require pipeline carriers to file all pertinent records, documents, and other information with it and take legal action to force compliance as necessary. It will also be at this time that the Commission, for the first time since its inception, will have at its disposal the necessary legal mechanism to hold formal hearings, subpoena witnesses and papers, and issue binding orders relating to tariffs, rates, conditions and limitations on certificates of public convenience and necessity and the like. The Commission also envisions the need for further legal assistance from the Department of Law in promulgating interpretive and legislative regulations. This will necessitate further input from oil and gas experts and consultants.

Jurisdiction

The Alaska Pipeline Commission Act provides that the Commission is to have authority over pipelines in the state in all cases where that authority is not preempted by the federal government. The Pipeline Commission is also given certain concurrent jurisdiction with the Alaska Public Utilities Commission, and certain prevailing jurisdiction over municipalities. In regard to these various references to jurisdiction and especially with regard to preemption by the federal government, the Commission foresees the possible necessity for extensive legal research, preparation and litigation.

The Commission seriously believes that unless it is legally prepared to defend to the hilt its power and authority to

Sterling Gallagher
Commissioner
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September 12, 1975

regulate pipeline carriers in the state, there is a grave risk that the state will jeopardize its position in this regard. The Commission believes it is imperative that immediate attention be given to this matter in order to avoid being put in a defensive or compromising position once orders are issued under its regulations. This preparedness can only come with the cooperation of the Department of Law and the assistance of legal and technical expertise in the area of constitutional law and oil and gas regulation.

TAPS Cost Surveillance and Investigation

The TAPS pipeline rates will, without doubt, be heavily investment driven. The ultimate cost of the system will determine not only the magnitude of profit, but depreciation charges recoverable through the rate structure and the financing necessary to build and operate the line.

It is entirely plausible for unwarranted and unnecessary capital expenditures to be excluded for common carrier purposes from the TAPS rate base. Under the federal scheme of regulation, however, this may be exceptionally difficult due to the uniqueness and importance of this line. Nevertheless, there is merit in investigating cost abuses, especially poor management--such as, for example, failure to initiate cost reduction incentive programs--which have a controlling and direct effect on final system cost.

Depreciation Study

Perhaps the most important factor influencing pipeline transportation charges, and the one applied with considerable discretion, is component service life--or depreciation.

It is imperative that we thoroughly comprehend the elements influencing the service life of carrier facilities, especially the physical and functional deterioration processes. We must also be knowledgeable as to how oil field reserve life, including that of potential reserves, affects depreciation and how other conditions tend to shorten or lengthen the service life of various carrier properties.

Sterling Gallagher
Commissioner
Page 6
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Education

Aside from our travel budget, which includes several trips to Washington, D.C., to familiarize the Commission with federal regulatory procedures and methods, it is important for commission members to attend the annual regulatory school sponsored by the National Association of Regulatory Utility Commissioners. Further, documents and books in the field of pipeline regulation will be purchased and consolidated into a Commission library.

With the exception of regulations, it may be assumed that completion of each task will be proportionate to the level of funds expended for each of the two fiscal years.

The Commission solicits your support for the proposed budget, which we believe to be a responsible and reasonable request.

PLEASE NOTE; THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

MEMORANDUM

State of Alaska

TO: Administrative Officer
Department of Revenue

DATE: January 12, 1976

FILE NO:

TELEPHONE NO:

FROM: Fran Ulmer
Legislative Assistant
Office of the Governor

SUBJECT: Fiscal Note Request

The Attorney General's office has drafted legislation concerning:

"Proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources",

for introduction in the Second Session of the Ninth Legislature.

Please review this proposal for possible fiscal impact upon your agency and complete the attached Fiscal Note. Return the original to me and two copies to the Division of Budget and Management within one week, if it is at all possible.

For assistance in preparing the Fiscal Note, refer to the preparation instructions issued by the Division of Legislative Finance, or consult your budget analyst in the Division of Budget and Management. Where no fiscal impact implications are involved, enter "none" in section II and return promptly.

Enclosure
cc: Kent Dawson
w/Enclosures



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a sponsor substitute for House Joint Resolution 39, proposing an amendment to the Constitution of the State of Alaska establishing a permanent fund for mineral leasing revenues.

The resolution proposes a constitutional amendment establishing a constitutional permanent fund into which 10 percent of all mineral lease rentals, royalties, royalty sale proceeds, revenue sharing payments, bonuses, and mineral production taxes would automatically be dedicated. The resolution also provides that the legislature may appropriate additional amounts to the permanent fund.

With respect to mineral leasing, the dedication of revenues would be 10 percent of the amount of money initially received by the State. For example, 10 percent of the amount equivalent to the rentals, royalties, and bonuses which must be paid into the Alaska Native Fund would be dedicated to the permanent fund even though it must be paid into the Alaska Native Fund. Also an amount equivalent to the value of royalties taken in kind would not be dedicated, but 10 percent of the proceeds from the sale of royalty taken in kind would be dedicated to the fund. Also, revenue sharing payments which the State receives from federal mineral leasing would be dedicated.

With respect to taxes, 10 percent of all mineral production taxes would be dedicated to the permanent fund. This would include the State's oil and gas properties production tax under AS 43.55 (severance tax), the State's mining license tax under AS 43.65, and the State's oil and gas regulation and conservation tax under AS 43.57 (conservation tax). These taxes would be dedicated to the fund regardless of how they are amended or changed in the future. The fund would not include the oil and gas exploration, production and pipeline transportation property tax under AS 43.56 (20 mil property tax) or the oil and gas reserves ad valorem tax under AS 43.58 (reserve tax).

The amount to be dedicated would be based upon the gross amount of tax to be received by the State. For example, 10 percent of an amount equivalent to the tax revenue required to be paid into the Alaska Native Fund would be dedicated even though it must be paid into the fund. Also 10 percent of the amount of production taxes not received in cash by the State because of the application of reserve tax credit would be dedicated to the fund.

The principal of the fund would be used only for investment in income-producing investments which the legislature would establish and change to meet current investment needs of the State. The fund could not be used to fund the general operating expenditures or capital improvements of the State. The principal of the fund could not finance capital expenditures either directly or be purchasing State obligations. The income of the fund would be deposited into the general fund without any permanent fund restrictions.

I have introduced this resolution proposing a constitutional amendment because I believe strongly that the revenues from our non-renewable resources belong to future generations of Alaskans as well as ourselves. A permanent fund as I have proposed will set aside a modest portion of the proceeds from the exploitation of our non-renewable resources for investment in our future while leaving sufficient revenues for our present needs. I urge your immediate and favorable consideration of this proposed constitutional amendment so that it may be placed before the voters at the next general election.

Sincerely,

Jay S. Hammond
Governor

*but the fund could purchase
obligations of separate state authorities*

Audit Committee, may temporarily transfer money from the general fund to the bond construction fund or account.

(b) Transfers under (a) of this section may be made only when the commissioner of revenue determines and certifies to the state bond committee that there is in the general fund an amount sufficient to meet current cash expenditure needs of the state.

(c) The amount transferred to a construction fund or account under (a) of this section may not exceed anticipated receipts from the unsold general obligation bonds to be issued and the federal programs receipts estimated to be received for the general obligation bond construction program financed from the construction fund or account.

(d) Money transferred from the general fund under (a) of this section shall be immediately returned to the general fund as soon as sufficient money has been received in the bond construction fund or account to which the transfer was made. (§ 1 ch 126 SLA 1972)

Chapter 11. Renewable Resources Funds.

Section	Section
10. Alaska renewable resources development fund	50. Alaska renewable resources permanent fund
20. Fund authorization level	60. Fund principal
30. Fund utilization	70. Utilization of fund income
40. Fund balances	80. Protection of principal

Effective date.—Section 3, ch. 130, SLA 1974, provides: "This Act takes effect July 1, 1978 with respect to

rentals and royalties, and July 1, 1975 with respect to lease bonuses."

Sec. 37.11.010. Alaska renewable resources development fund. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by § 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources. (§ 1 ch 130 SLA 1974)

Editor's note.—Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010—37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.020. Fund authorization level. Not less than five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the Alaska renewable resources development fund. These deposits shall be invested in ac-

cordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund. (§ 1 ch 130 SLA 1974)

Editor's note.—Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010

—37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.030. Fund utilization. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Editor's note.—Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010

—37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.040. Fund balances. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be transferred to the Alaska renewable resources permanent fund. (§ 1 ch 130 SLA 1974)

Editor's note.—Section 2, ch. 130, SLA 1974, provides: "On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010

—37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund."

Sec. 37.11.050. Alaska renewable resources permanent fund. There is established as a separate fund the Alaska renewable resources permanent fund. Funds apportioned by § 60 of this chapter for deposit in the permanent fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans. (§ 1 ch 130 SLA 1974)

Sec. 37.11.060. Fund principal. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the permanent fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with AS 37.10.070 (investment of surplus state funds). (§ 1 ch 130 SLA 1974)

Sec. 37.11.070. Utilization of fund income. Income received from investment of permanent fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from fund income shall be prepared in detail by the appropriate state department or agency and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature. (§ 1 ch 130 SLA 1974)

Sec. 37.11.080. Protection of principal. A transaction involving permanent fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended. (§ 1 ch 130 SLA 1974)

Chapter 15. State Bonding Act.

Article

3. International Airports Revenue Bonds (§§ 37.15.410—37.15.550)

Article 1. General Obligation Bonds.

Section

- 80. Signatures and seal
- 155. Prohibited bidding on bonds and anticipation notes
- 220. Short title

Sec. 37.15.010. Full faith and credit for general obligation bonds.

Revisor's note.

Ch. 97, SLA 1972, provides for the issuance of bonds in the amount of \$3,500,000 for the purpose of matching federal funds under the Hill-Burton hospital construction program.

Ch. 99, SLA 1972, provides for the issuance of bonds in the amount of \$10,000,000 for paying the cost of capital improvements for highway construction.

Ch. 150, SLA 1972, provides for the issuance of bonds in the amount of \$11,500,000 for paying the cost of capital improvements for civic, convention and community recreation centers and all-weather sports facilities. This bond issue was not approved by the voters.

Ch. 177, SLA 1972, provides for the issuance of bonds in the amount of \$18,000,000 for paying the cost of capital improvements for the University of Alaska.

Ch. 194, SLA 1972, provides for the

issuance of bonds in the amount of \$24,000,000 for paying the cost of capital improvements for airports.

Ch. 195, SLA 1972, provides for the issuance of bonds in the amount of \$16,000,000 for paying the cost of acquiring, constructing and equipping state-operated schools.

Ch. 201, SLA 1972, provides for the issuance of bonds in the amount of \$20,000,000 for paying the cost of capital improvements for flood control and small boat harbor projects.

Ch. 202, SLA 1972, provides for the issuance of bonds in the amount of \$33,000,000 for paying the cost of capital improvements for water supply and sewerage systems.

Ch. 2, SLA 1973, provides for the issuance of bonds in the amount of \$11,500,000 for paying the cost of capital improvements for civic, convention and community recreation centers. This bond issue was rejected

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

*Need fiscal
& Dr. Letter*

DRAFT

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a *joint* *substitute for H.R. 39* resolution proposing an amendment to the Constitution of the State of Alaska establishing a permanent fund for mineral leasing revenues. *I am introducing this sponsor substitute because I believe that it represents a better approach in establishing a permanent fund.*

revenue *sharing payments,* The resolution proposes a constitutional amendment establishing a constitutional permanent fund into which 10 percent of all mineral lease rentals, royalties, royalty sale proceeds, bonuses, and mineral production taxes would automatically be dedicated. The resolution also provides that the legislature may appropriate additional amounts to the permanent fund.

With respect to mineral leasing, the dedication of revenues would be ~~limited to~~ 10 percent of the ~~net~~ *initially* ~~actually~~ amount of money received by the state. For example, 10 percent of the amount equivalent to the rentals, royalties, and bonuses which must be paid into the Alaska Native Fund would ~~not~~ be dedicated to the permanent fund. *even though it must be paid into the Alaska Native Fund.* Also an amount equivalent to the value of royalties taken in kind would not be dedicated, but 10 percent of the proceeds from the sale of royalty taken in kind would be dedicated to the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would ~~not~~ be dedicated.

With respect to taxes, 10 percent of all mineral production taxes would be dedicated to the permanent fund. This would include the state's oil and gas properties production tax under AS 43.55 (severance tax), the state's mining license tax under AS 43.65, and the state's oil and gas regulation and conservation tax under AS 43.57 (conservation tax).

These taxes would be dedicated to the fund regardless of how they are amended or changed in the future. The fund would not include the oil and gas exploration, production and pipeline transportation property tax under AS 43.56 (20 mil property tax) or the oil and gas reserves ad valorem tax under AS 43.58 (reserve tax).

~~Again~~ ^T The amount to be dedicated would be based upon the ^{gross} ~~not~~ amount of ^{tax to be} ~~money~~ received by the state. ^{For example} Ten percent of an amount equivalent to the tax revenue required to be paid into the Alaska Native Fund would ~~not~~ be dedicated. ^{even though it must be paid into the fund.} Also 10 percent of the amount of production taxes not received ^{in cash} by the state because of the application of reserve tax credit would ~~not~~ be dedicated to the fund.

The principal of the fund would be used only for investment in income-producing investments which the legislature would establish and change to meet current investment needs of the state. The fund could not be used to fund the general

operating expenditures or capital improvements of the state. The principal of the fund could not finance capital expenditures either directly or by purchasing state obligations. The income of the fund would be deposited into the general fund without any permanent fund restrictions.

I have introduced this resolution proposing a constitutional amendment because I believe strongly that the revenues from our non-renewable resources belong to future generations of Alaskans as well as ourselves. A permanent fund as I have proposed will set aside a modest portion of the proceeds from the exploitation of our non-renewable resources for investment in our future while leaving sufficient revenue for our present needs. I urge your immediate and favorable consideration of this proposed constitutional amendment so that it may be placed before the voters at the next general election.

Sincerely,

Jay S. Hammond
Governor

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the
6 Alaska Constitution, establishing
7 a permanent fund for certain pro-
8 ceeds derived from non-renewable
9 resources.

10 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. Article IX, Section 7, Constitution of the State of Alaska,
12 is amended to read:

13 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
14 license shall not be dedicated to any special purpose, except as pro-
15 vided in section 15 and except when required by the federal government
16 for state participation in federal programs. This provision shall not
17 prohibit the continuance of any dedication for special purposes exist-
18 ing upon the date of ratification of this constitution by the people
19 of Alaska.

20 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
21 by adding a new section to read:

22 SECTION 15. PERMANENT FUND. Ten per cent of all mineral lease
23 rentals, royalties, royalty sale proceeds, revenue sharing payments,
24 bonuses, and mineral production taxes received by the state shall be
25 placed in a permanent fund, the principal of which shall be used only
26 for income investments. The legislature may appropriate additional
27 amounts to the permanent fund which shall become a part of the principal
28 of the fund. All income from the permanent fund shall be deposited in
29 the general fund.

1 * Sec. 3. The amendments proposed by this resolution shall be placed
2 before the voters at the next general election in conformity with art.
3 XIII, sec. 1, Constitution of the State of Alaska, and the election laws of
4 the state.

IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or ~~license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal~~ government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. Fifty per cent of all the proceeds from mineral lease rentals, royalties, royalty sales, revenue sharing payments and bonuses received by the state and ten per cent of the income from the permanent fund shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. The legislature may dedicate additional proceeds both as to source and percentage which shall become a part of the principal of the fund. Any additional dedication may be revoked by the legisla-

ture, but revocation may not make the principal amount in the permanent fund subject to appropriation. ~~Other income from the permanent fund shall be deposited in the general fund (unless otherwise provided by law.)~~

2
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4 * Sec. 3. The amendments proposed by this resolution shall be placed
5 before the voters at the next general election in conformity with art. XIII,
6 sec. 1, Constitution of the State of Alaska, and the election laws of the
7 state.

8 * Sec. 4. The amendments proposed by this resolution if adopted by the
9 voters at the next general election shall become effective 90 days after the
10 certification of the election returns by the lieutenant governor.
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1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

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17 prohibit the continuance of any dedication for special purposes exist-
18 ing upon the date of ratification of this constitution by the people
19 of Alaska.

20 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
21 by adding a new section to read:

22 SECTION 15. PERMANENT FUND. (Ten) percent of all mineral lease
23 rentals, royalties, royalty sale proceeds, revenue sharing payments,
24 bonuses, and mineral (production) taxes received by the state shall be
25 placed in a permanent fund, the principal of which shall be used only
26 for (income investments). ^{ASNA?} The legislature may appropriate additional
27 amounts to the permanent fund which shall become a part of the principal
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Tom Fink, C.F.N.

P. O. BOX 1088, ANCHORAGE, ALASKA 99510
PHONE 907 / 279-2522

September 3, 1976

Article Against Permanent Fund

The drafters of the Alaska Constitution wisely prohibited the dedication of state moneys based on the experience of other states of our nation.

This is being sold on the basis that it will cut back expenditures of state government. Such is a worthy goal, but a permanent fund will not obtain that result. Those who would spend large sums of money are well aware of methods of increasing taxes. In 1975 when the state apparently ran out of money, it imposed a new oil and gas reserve tax amounting to over \$200 million a year. If this amendment passes and large sums go into the fund, the legislature and administration will impose additional taxes. The only restraint that we'll ever have on the growth of the state budget will be to elect fiscally responsible people.

Various federal government revenue sharing programs must be considered. Since the federal government takes such a large share of the taxes, each state must by necessity look to revenue sharing to get part of that money back. If Alaska establishes a multi-billion dollar permanent fund, you can be assured that Congress will change revenue sharing formulas so that Alaska will be cut back. Congress will say other states and municipalities are having a very difficult time raising funds to meet the necessities of government, while Alaska has a large permanent fund.

It is axiomatic that government should never have more money than it needs to meet its immediate requirements. Alaska ought not to have funds excess to its needs for current operating budgets and an adequate reserve for income fluctuations.

The state of Alaska will not have a surplus until about 1979. At that time we should invest our large sums in the following manner:

1. Build all new capital improvements, i.e. roads, bridges schools, and harbors with cash rather than incurring additional bonded indebtedness.
2. Pay off our existing bonded indebtedness.
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The argument that we should set some money aside from non-renewable income for future generations sounds well and even has merit. I suggest that it would be more meritorious, however, to give future generations adequate school buildings, adequate roads, adequate docks, and not give them a huge pile of cash and an onerous bonded indebtedness.

The supporters of this amendment have also dangled in front of the public the idea that the money will be used to make credit available for such things as home mortgages. This is a worthy goal but does not follow from the creation of a permanent fund. The drafters of this amendment had the opportunity to include language that the fund be used for credit. They choose not to include such language. Further, the state can make money available,

for home mortgages without the need of any permanent fund. A good example is the current Veterans Loan Program.

The public rightly is concerned about very large government expenditures. A permanent fund will not reduce them. Only a fiscally responsible governor and legislature can do that.

ALASKA'S RESOURCE DEVELOPMENT FUND

This paper presents an analysis of the major features and impacts of setting aside a portion of Alaska's short term mineral wealth.

The major issues associated with a constitutionally established development or "permanent" fund are financial in nature and many of these will be discussed. This paper will not, however, consider the philosophical and ideological questions that surround this topic.

The expected financial impacts of a continuing resource fund are both complex and subjective since the ultimate costs and benefits all exist in a future period of time and must be either forecast or assumed. For this reason and because of the investment decisions associated with this issue the analysis will proceed along the general outline of a cost/benefit study.

THE PROPOSAL

The proposal is that the State of Alaska set aside in a permanent fund a percentage of her annual revenue derived from non-renewable resource extraction. The fund balances could be invested to stimulate recurring economic activity in the State. This would assist the State generate long term revenues to fund operations following depletion of her non-renewable resources.

COSTS

The major cost of such a fund is the opportunity value of the

short term revenue if it were to be expended and not set aside in a fund. Clearly such costs are directly related to the amount and timing of the expenditures.

To explore the cost impacts of establishing a permanent fund a baseline study was undertaken to forecast future expenses of State government.

1. A population forecast for Alaska was compiled from latest available information.

The Alaska Department of Labor has forecasted a combined civilian and military population of 406,000 in 1975, growing to more than 500,000 by 1979, and reaching 551,000 by 1983. These forecasts are based on the most likely levels of future economic activity in the State.

2. Present per capita spending levels were projected forward.

A per capita amount equal to the present burden of State operating services per capita (approximately \$1,000 in the 1975-76 year) was projected assuming an increase of 10% per year for both price level (inflation) effects and real growth. This estimate is a baseline expenditure operating program forecast for State services. It trends up to nearly \$2,000 per capita in 1980.

3. To these estimates were added estimates of all the non-operating State expenditures:

- A. Debt service payment sufficient to fund all present debt

plus additional indebtedness of \$125 million per year.

B. Shared taxes (ranging up from \$8 million in 1975 to \$30 million in 1983).

D. Contributions to the Native Trust Fund pursuant to the Land Claim Settlement Act (total amount \$500 million).

4. An additional amount of \$50 million per year we added for "supplemental" appropriations.

If these estimates were all combined the totals would be annual forecasts of unrestricted general fund expenditures that provide the present level of services to future populations of Alaskans.

Total Expenditures
(rounded Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>
1976	\$ 620	1980	\$1,135
1977	685	1981	1,250
1978	830	1982	1,300
1979	1,010	1983	1,400

The financial impact of a permanent fund could be described by comparing these expenditure estimates with the amount of net revenue available after setting fund contribution amounts aside.

The next step then is to develop comparable revenue estimates.

The revenue estimates for Alaska during the next ten year period

are highly dependent on the timing of North Slope petroleum development. The estimates in this analysis assume the following:

1. Pipeline completed on schedule by July 1977.
2. A Beaufort Lease Sale during the summer of 1976 with \$250 million in revenue received.
3. Property tax on reserves of 20 mills in FY 1976 and 1977.
4. All other tax and license revenues are forecast using latest available data.

These assumptions yield the following revenue estimates:

<u>Fiscal Year</u>	<u>Total Unrestricted General Fund Revenue (No Investment Income)*</u>
1976	\$ 540
1977	860
1978	1,000
1979	1,275
1980	1,400
1981	1,700
1982	2,100
1983	2,300

* Unrestricted income on general fund balances has not been included here because no balances have been calculated to this point.

These levels of total revenues will support an approximately 30% annual contribution of mineral income to a permanent fund and still provide sufficient revenues to meet baseline levels of service. However, because of the possibility of some pipeline delay and other factors affecting the State's ability to realize projected revenue a more conservative 20% contribution rate was selected for display here.

A permanent fund beginning January 1977 at a 20% contribution rate under the above revenue assumptions would have the following amounts flowing to it.

Contributions to an Alaska Development Fund
(Figures in Millions of Dollars)

<u>Fiscal Year</u>	<u>Oil and Gas 20% Level</u>			<u>Interest at 5%</u>	<u>Total End of Year (rounded)</u>
	<u>Tax</u>	<u>Royalty</u>	<u>Total</u>		
1977	3.0	5.5	8.5	.2	8
1978	37.5	62.1	99.6	2.9	110
1979	74.7	135.8	210.5	10.8	330
1980	86.7	160.6	247.3	22.8	600
1981	98.6	179.6	278.2	37.1	920
1982	109.3	199.1	308.4	53.6	1,280
1983	116.6	214.3	330.9	72.3	1,680
1984	120.8	223.4	344.2	92.8	2 100
Total Contributions			1,827.6		

Resource revenue from other than Oil and Gas has not been included in this calculation because they are not assumed to be significantly large during the forecast period.

Under this 20% contribution plan remaining general fund revenue, baseline expenditures, and general fund balances would appear as follows:

Figures in Millions (rounded)

<u>Fiscal Year</u>	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Surplus or Deficit</u>	<u>General Fund Balances</u>
1975	\$ 350	\$ 500	\$(150)	\$ 370
1976	570	620	(50)	320
1977	875	685	190	510
1978	940	830	110	620
1979	1,100	1,010	90	710
1980	1,200	1,135	65	775
1981	1,500	1,250	250	1,025

It is evident from this analysis that a 20% contribution level would still generate sufficient revenue to fund baseline service requirements. Indeed, at the 20% contribution level as much as four months delay in pipeline completion could be tolerated.

The key to this finding and the single factor that separates this

analysis from all others is the fact that "baseline" expenditures grow at a much slower rate than current trends in expenditure increases. For example, the \$685 million expenditure figure forecast as baseline in FY 1977 contrasts sharply with estimates ranging between \$730 and \$750 million under program budget forecasts. The difference amounts to new programs or higher levels of present services. These would be the items impacted by contributions into a permanent fund. Either priorities would have to be reordered and less desirable programs deleted or additional revenue measures passed.

Reducing the possible adverse financial impact of a permanent fund in the short run would be the opportunity to transfer to it various loan programs presently making large portions of the State's general fund illiquid. At the present time approximately \$151 million in general fund investments are illiquid. All but \$20 million of these could be sold to a permanent fund. The Alaska Housing Finance Corporate mortgages cannot be transferred as they are pledged to secure bonds issued by the Corporation.

(Analysis to be Continued)

Position of the Department of Revenue

At the present time the Department of Revenue supports the constitutional establishment of an Alaska Development Fund under the following conditions:

1. Fund to commence January 1, 1977.
2. Contribution level to be not less than 20% of annual royalty and severance tax payments. Rate should be set by statute with a constitutional floor at 20%.
3. Cash bonus payments received for lease sales also be shared into the fund at the 50% level. (At this amount the bidding procedures are not heavily biased for or against royalty versus cash bidding.)
4. Fund's constitutional status should be placed on the ballot once every ten years for voter approval.
5. Income from the fund should revert to the general fund with additional pledge of security for GO debt service.
6. Investment of permanent fund should be oriented toward renewable resource development including the provision to make deposits in Alaska Development Corporations. These Corporations could attract additional capital and make equity investments in Alaskan companies.

Tom Fink, C.S.M.

P. O. BOX 1066, ANCHORAGE, ALASKA 99510
PHONE 907 / 279-2522

September 3, 1976

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for home mortgages without the need of any permanent fund. A good example is the current Veterans Loan Program.

The public rightly is concerned about very large government expenditures. A permanent fund will not reduce them. Only a fiscally responsible governor and legislature can do that.

Original sponsor: Malone, Beirne
Bowman, et al

Offered: 3/28/75
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 324 am S

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska mineral lease bonus
7 permanent fund; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.11 is amended by adding new sections to read:

10 CHAPTER 11. PERMANENT [RENEWABLE RESOURCES] FUNDS.

11 ARTICLE 2. ALASKA MINERAL LEASE BONUS PERMANENT FUND.

12 Sec. 37.11.100. PURPOSE. The legislature finds and declares that
13 it is essential to preserve a portion of the revenue derived from
14 mineral lease bonus sales, a non-renewable resource, for future genera-
15 tions of Alaskans, and further, that this purpose best can be served by
16 preserving this income in a permanent fund to be used for investment
17 capital by Alaska residents.

18 Sec. 37.11.110. ALASKA MINERAL LEASE BONUS PERMANENT FUND. There
19 is established as a separate fund the Alaska mineral lease bonus perman-
20 ent fund. Receipts designated under sec. 120 of this chapter for deposit
21 in the permanent fund are to be held perpetually in trust for the bene-
22 fit of both present and future generations of Alaskans.

23 Sec. 37.11.120. FUND PRINCIPAL. Fifty per cent of the receipts
24 paid the state from mineral lease bonuses shall be deposited in the
25 permanent fund. These deposits shall be considered fund principal and
26 shall be invested in perpetuity in accordance with AS 37.10.070 (invest-
27 ment of surplus state funds) or in state loan programs that are
28 designated by law as eligible for permanent fund investment; however, no
29 funds may be invested in common or preferred stocks.

1 Sec. 37.11.130. USE OF FUND INCOME. (a) Income received from
2 investment fund principal may be:

3 (1) reinvested in investments authorized under sec. 120 of
4 this chapter;

5 (2) appropriated for the administration of the fund; or

6 (3) appropriated to provide funding for operating or capital
7 expenditures for programs that are expressly established by law.

8 (b) Plans for expenditures of fund income under (a) of this section
9 shall be prepared in detail by the appropriate state department or agency
10 and shall be submitted by the governor in accordance with the Executive
11 Budget Act (AS 37.07) as part of his annual budget presentation to the
12 legislature.

13 Sec. 37.11.140. PROTECTION OF PRINCIPAL. An investment transaction
14 involving fund principal which results in an actual dollar loss of prin-
15 cipal shall be reimbursed in full from fund income before additional
16 income is expended.

17 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
18 070(c).

Tom Fink, C.F.M.

P. O. BOX 1088, ANCHORAGE, ALASKA 99510
PHONE 907 / 279-2522

September 3, 1976

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The state of Alaska will not have a surplus until about 1979. At that time we should invest our large sums in the following manner:

1. Build all new capital improvements, i.e. roads, bridges schools, and harbors with cash rather than incurring additional bonded indebtedness.
2. Pay off our existing bonded indebtedness.
3. Increase revenue sharing to local government.
4. Reduce state taxes.

The argument that we should set some money aside from non-renewable income for future generations sounds well and even has merit. I suggest that it would be more meritorious, however, to give future generations adequate school buildings, adequate roads, adequate docks, and not give them a huge pile of cash and an onerous bonded indebtedness.

The supporters of this amendment have also dangled in front of the public the idea that the money will be used to make credit available for such things as home mortgages. This is a worthy goal but does not follow from the creation of a permanent fund. The drafters of this amendment had the opportunity to include language that the fund be used for credit. They choose not to include such language. Further, the state can make money available

for home mortgages without the need of any permanent fund. A good example is the current Veterans Loan Program.

The public rightly is concerned about very large government expenditures. A permanent fund will not reduce them. Only a fiscally responsible governor and legislature can do that.

40
Tom Fink, C.L.U.

P.O. BOX 1066, ANCHORAGE, ALASKA 99510
PHONE 907 / 270-2622

January 21, 1976

Article

There seems to be public clamor today to establish a constitutional permanent fund of revenue derived from oil and gas. At best this proposal is unwise and ^{at} the worst the proposal is pure hypocrisy.

Based upon the governor's budget for this coming fiscal year and the legislature's inclination to spend at least that much, there will not be a surplus for a good number of years. As a matter of fact part of the governor's program for the next fiscal year is to borrow about 150 million dollars in tax anticipation notes in the spring of 1977.

We could have a substantial surplus if we had a reasonable oil and gas sale of the Beaufort Sea. The administration has already delayed that sale for one year and indications are now that probably it will not have the sale any time within the near future. If it did have a sale with the type of environmental restrictions it is talking about, the sale would not bring in huge amounts of money. Further the Federal Energy Act for the next two years would reduce the bonuses by several hundred million dollars.

If the North Slope oil money began to pour into the treasury in the latter half of 1977 and with our having 150 million dollars in tax anticipation notes outstanding at that time, it will be 1979 before any surplus would begin to show in our treasury.

If we dedicate part of that oil money which we will begin receiving in late 1977 to a permanent fund, many taxes would have to be raised or the budget lowered. Since this legislature does not intend to cut back on the budget and the governor himself introduced the budget with a 13% increase over the previous year, it would be foolhardy to expect that this legislature will cut the budget rather than raise taxes to solve the shortage of money caused by the permanent fund.

The hypocrisy of the permanent fund concept is that the strongest supporters in the legislature and in the administration are the same people who will not vote against any appropriation and the same people who refuse to red line the budget to the levels where it ought to be. So on the one hand these promoters spend money like it's going out of style, and on the other hand they say they are fiscally responsible because they are going to create a permanent fund.

Many states in the nation have permanent funds. When our constitution was drafted it prohibited dedication of license fees and taxes so that we would never have problems like the other states that had permanent funds. Our constitutional framers gained from the experience of other states and prohibited the formation of any permanent funds. It was a wise move.

GOVERNMENT OUGHT NOT EVER HAVE MORE MONEY THAN IT NEEDS TO BE FINANCIALLY SOUND. It should have enough money to meet the requirements of its budget and an adequate reserve for annual fluctuation of income. It has been and is a maxim of our form of government that we must always closely scrutinize our government and we must not give it any more money than it absolutely needs to carry on the required governmental services. We ought to adhere to that axiom. A permanent fund will simply dangle a large slush fund for misuse.

I would suggest to those who want to save some of our oil revenues for future generations that a better way to save money is to pay off the existing bonded indebtedness that we now have and to use any surplus funds for capital improvements rather than issuing more bonds.

In 1977 we should spend about 10 million dollar's on preliminary design for the new capital city. From 1978 through 1982 we should be appropriating annually about 50 million in cash to build that capital and not through the issuance of bonds.

Now or in the future surplus monies should be used in the following order:

1. We ought to pay for capital improvements on a cash basis rather than going to the bond market
2. We ought to pay off our existing debt
3. We ought to reduce state taxes
4. We ought to reduce local government taxes through revenue sharing
5. If per chance we still have money left, we ought to give it back to the people.

Somewhere after 1979 we will have some surpluses. Somewhere after January 1, 1979 we will have an administration that will allow the development of some of our resources and large surpluses will accrue. But in the meantime don't be beguiled into believing that a creation of a permanent fund will make our legislature and governor any more fiscally responsible than they are presently.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNE-U 99801

MEMORANDUM

revised Nov 21, 1975 MB

TO: Hon. Hugh Malone
Chairman
House Finance Committee

DATE: February 19, 1975

FROM: Milt Barker *MB*
Fiscal Analyst
Legislative Finance

SUBJ: Budgets & Inflation

The following are the General Fund operating and capital budgets in millions of dollars that the State has experienced since the North Slope lease sale:

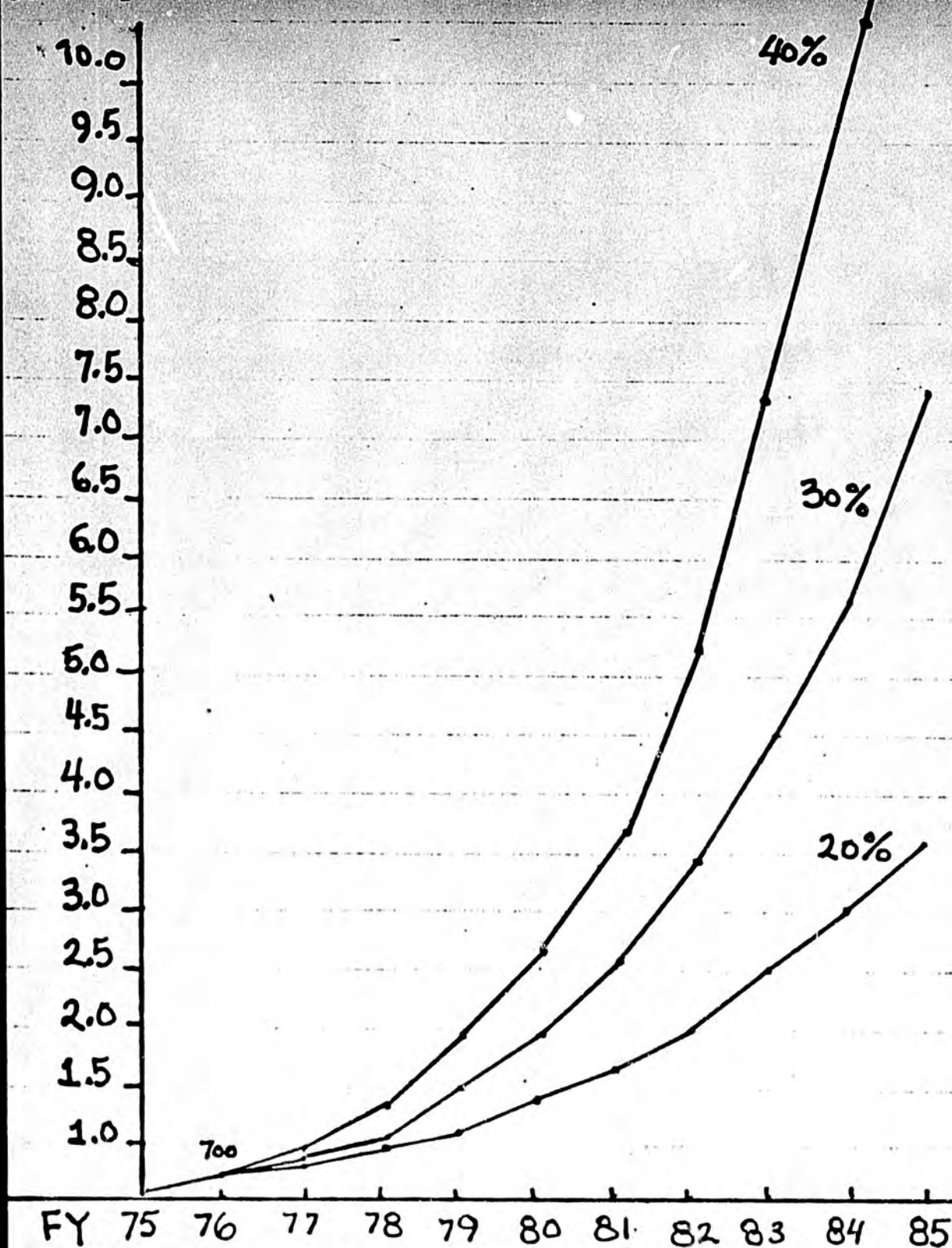
	Authorized	Authorized + Supplementals	Total	Actual Operating	Capital
FY 71	314.2	335.5	304.7	260.0	44.7
FY 72	292.1	310.5	292.7	284.3	8.4
FY 73	333.5	342.1	327.0	308.3	18.7
FY 74	355.6	370.4	370.6	363.1	7.5
FY 75	451.3	~~509.0~~ 475.8	500.0 est.		
FY 76	~~536.9~~ 570.3		600.0 est.		

Sources Authorized: FCC report & Governor's Budget Document; Supplementals: Session Laws; Actual Operating; Governor's Budget Document; Actual Capital is assumed to be the appropriated amount plus any supplementals. FY 75 Authorized + supplementals includes 1974 Special Session appropriations, 28.7 estimated supplementals, and \$15 million estimated pay raises. ~~FY 76 Authorized is the 1976 proposed Governor's budget which does not include anticipated pay raises.~~

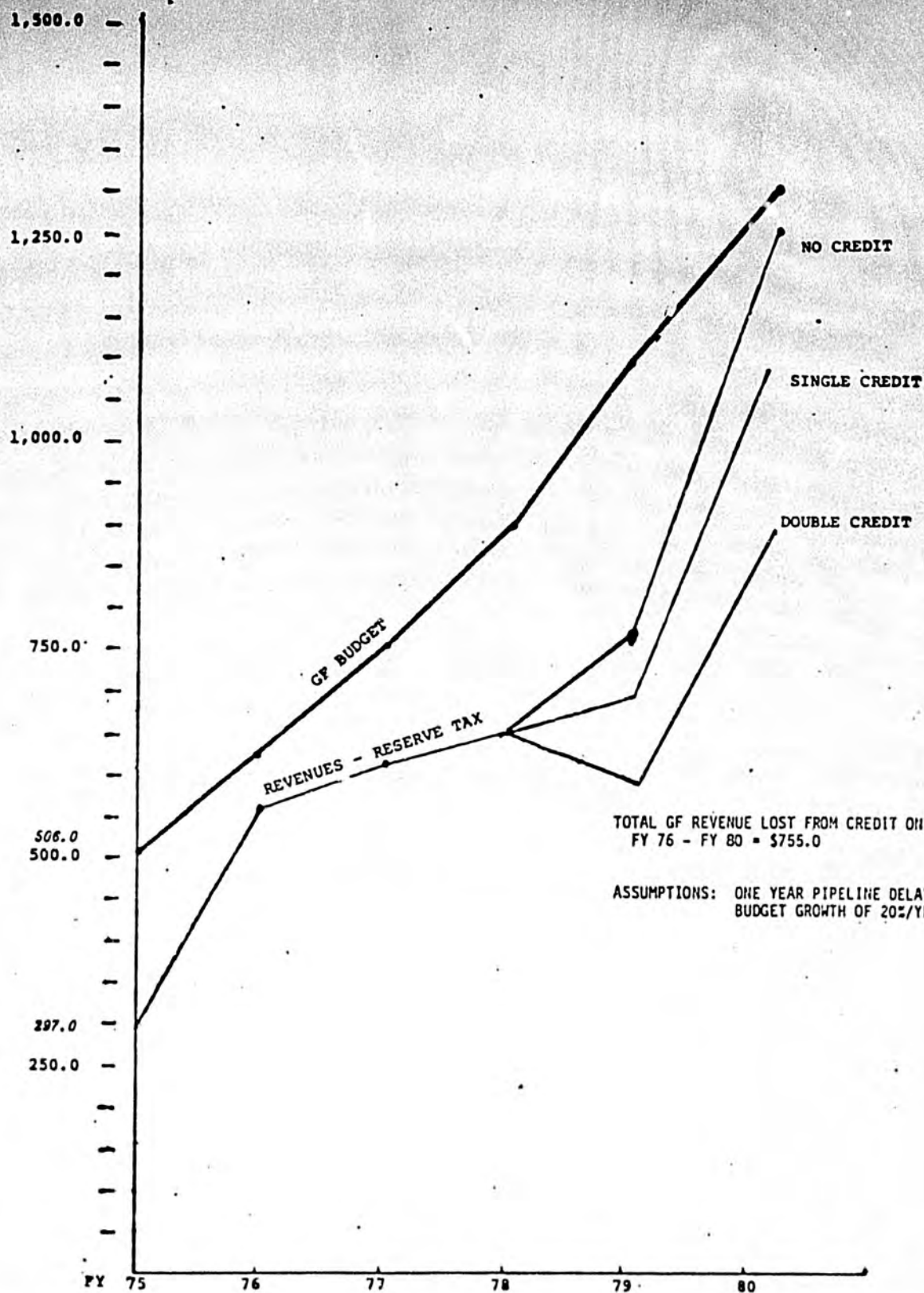
The following is the Anchorage Consumer Price Index prepared by the U.S. Department of Labor, Bureau of Labor Statistics (October 1967 = 100):

	CPI	% Change from Year Prior
Jan 71	111.6	
Jul 71	113.0	
Jan 72	114.2	2.3%
Jul 72	115.9	2.6%
Jan 73	116.4	1.9%
Jul 73	120.4	3.9%
Jan 74	125.6	7.9%
Jul 74	134.2	11.5%
Oct 74	140.1	13.2%

Billions



NOTE: ASSUMING FY75 BASE AT 503 MILLION AND FY76 TOTAL
AT 700 MILLION = 39% ANNUAL GROWTH FACTOR 75-76



GF BUDGET	506.0	625.0	700.0	900.0	1,080.0	1,296.0
REVENUES, NO RESERVE TAX	297.0	308.0	355.0	401.0	760.0	1,251.0
REVENUES, WITH TAX AND NO CREDIT	297.0	558.0	605.0	651.0	760.0	1,251.0
REVENUES, WITH TAX AND WITH CREDIT AGAINST SEVERANCE	297.0	558.0	605.0	651.0	684.0	1,071.0
REVENUES, WITH TAX AND CREDIT AGAINST SEVERANCE AND ROYALTY					610.0	890.0

Nest Egg Restoration

AN OLD IDEA has been rejuvenated by the Alaska Growth Policy Council.

It is a recommendation that some of the state's revenue from oil and gas leases should be locked up in a permanent fund, like an endowment.

It is an old idea because it comes five years after similar proposals were made by newspapers, people, legislators and even one governor of Alaska. That was in 1970 after the state had collected \$900 million cash from the sale of oil and gas leases at Prudhoe Bay.

THE GROWTH Policy Council has recommended that 20 per cent of the revenue from rents paid on oil leases, and half the revenue from bonuses paid by the lease, should go into the fund.

That portion of the oil revenues is small compared to the proposals in 1970. Some newspapers thought that most if not all of those revenues plus most if not all of the royalty payments should go into a permanent fund.

People throughout the state indicated in public polls that they favored placing most if not all of the oil revenues in a fund instead of living it up.

Some legislators thought the same and Gov. Keith Miller urged that \$500 million of the nest egg from Prudhoe Bay leases should be kept as an endowment.

Nevertheless, the legislators who wanted to be big spenders won and the permanent fund never came into being.

THE FATE of the new council's effort for a permanent fund is not uncertain, if the events of 1970 indicate what a legislature will do in 1976.

In 1970 the legislators remained in session 147 days, the longest in history, in order to spend money. They even fired the chairman of

the Senate finance committee because he refused to approve a big spending budget.

The big spenders, many of whom are still in the legislature, came out of that session with fat pay raises for themselves, plus liberal pensions and other perquisites and they came up with a budget that more than doubled spending from the general fund. They ignored the fact that income would be inadequate to cover the expenditures, and made it inevitable that the \$900 million nestegg would be dissipated by state programs that could be called "high living."

ONE NEW FACTOR has come into the picture since 1970. It was predicted and it could influence the thinking of legislators in 1976 — even those who participated in the 1970 fiasco.

When the 1970 legislature passed that huge budget and opened the flood gates for dissipating the \$900 nest egg, there were forecasts that the state would be bankrupt in five years.

The state has now reached that five-year mark. Gov. Jay Hammond has noted a shortage of money and has ordered cutbacks on spending. The money to cover the big spending for the next two years is still not in sight. The state is, for all intents and purposes, bankrupt as it had been predicted.

Despite all that the council's recommendation has little chance for serious attention in the 1976 legislature. It will be trampled to death under the stampeding feet of elected politicians running around looking for more money to spend on their high living programs. What care they for the people of Alaska when their political future is at stake?

A permanent fund may be good for people, but unfortunately it doesn't do any good for today's politicians.

Southeastern Smoke Screens

ALASKANS should not become too confused over attorney general's opinions, reports of federal restrictions and other sand-in-the-gears tactics when the subject of reapportionment of the legislature comes up for discussion. These are side issues and smoke screens.

The heart of the opposition is political. And the strongest objections

because of the surging population growth in the Railbelt and pipeline areas of the state.

House and Senate seats now held by Southeastern legislators, under reapportionment, would be shifted to Anchorage, Fairbanks and Valdez.

The political concern in the Panhandle is understandable.

Chester Creek

AN EDITOR'S OUTLOOK

The God-Players Thru The Future Of Humankind

By Jenkin Lloyd Jones

THE SHARP crack and girder-shaking reverberations that jolted me awake in my London hotel room meant bomb. I turned on the "telly." In a few minutes the announcement came through. A passer-by had been blown to bits as he strolled the Piccadilly sidewalk outside the Green Park underground station and five others were carried away moaning.

So one more man, somewhere in the great city, had played God.

Playing God is not quite the same as a personal vendetta where, according to the 4,000-year-old code of Hammurabi, an eye may be justly extracted for an eye and a tooth for a tooth. Hammurabi meant that the man who perpetrates a wrong must be made to suffer.

What is happening in the world?

Let us not be naive. Of course it doesn't have to be a little lady in tennis shoes seeking Communists under the bed. Understand that, there is indeed, conspiracy on this earth. The recruitment of the disaffected, the orchestration of violence, the court-disrupting tactics of anticlawyers for the defense are often coolly planned. While Communist lands give counterrevolutionaries a short shrift, much of the terrorism in non-Communist countries is by no means spontaneous.

BUT TERRORISM is old in history. Our word "thug," from the Sanskrit "to conceal," commemorates those worshipers of Kali, Hindu god

Managing Alberta's oil money

Oil and gas revenues help the province build a surplus of more than \$1.3-billion

Alberta's Premier Peter Lougheed is using his oil-rich province's burgeoning revenues in a striking fashion: He has bought an innovative and aggressive Canadian steel company, a regional airline, and an interest in a giant tar sands project. His aim is to diversify the economy of Alberta, which produces 86% of Canada's oil and 82% of its natural gas.

Lougheed has also set up a five-person trading group within the provincial government's treasury department to play the money markets with Albertan petrodollars, adding \$260,000 a day to the provincial coffers. Local wags call the group the "Gnomes of Edmonton."

In the process, Lougheed—a stocky, 5'8" onetime halfback for the Edmonton Eskimo football team—has emerged as a formidable figure in Canada's Progressive Conservative Party, which until recently was virtually moribund in Alberta. He cut personal income taxes by 28% this year, and his party is now expected to sweep the upcoming Mar. 26 provincial elections.

Though Lougheed is a relative newcomer to politics, the decisiveness with which he has moved does not surprise long-time acquaintances. "He was always very aggressive and competitive," recalls a college classmate.

Lougheed (pronounced LAW-heed), 46, was born into a prosperous Alberta family, the grandson of Sir James Lougheed, a onetime national Progressive Conservative Party chairman. He did his undergraduate work and earned a law degree at the University of Alberta, while playing professional football for two years. He obtained an MBA from Harvard B-School in 1954, then spent six years in Calgary with Mannix, Ltd., a construction company, where he became general counsel, vice-president, and a director. From 1962 to 1967 he practiced law in Calgary, with corporate clients that included a number of oil companies. Lougheed's older brother, Donald, is vice-president for production of Imperial Oil Ltd., the Canadian subsidiary of Exxon Corp.

Events since Lougheed took over as premier 3½ years ago have played right into his hands. "The significance of energy and the push for Canada's northern development have enlarged Alberta's role," he notes. "Now we

must strengthen Alberta's economy by making it more diversified." He has targeted petrochemicals, food processing, and transportation as key areas.

At \$1.4-billion for the fiscal year ending this month, Alberta's petroleum revenues were more than triple the year before and accounted for 40% of total provincial income. They have helped build up a cumulative budget surplus of more than \$1.3-billion. With only \$900-million in energy revenues needed to finance Alberta's conservative 1975-76 spending plans, additional



Premier Lougheed: Like the oil-rich Arab states, Alberta is using petrodollars to diversify the province's economy.

surpluses are accumulating in a provincial piggy bank dubbed the Alberta Heritage Trust Fund.

"It's a unique position for a government in North America," crows Gordon Miniely, the province's treasurer. "But these are not general revenue funds," he explains. "This tremendous revenue results from a depleting resource that belongs to all Albertans. It must be used to ensure the prosperity of future generations of Albertans."

Investment mix. For investment purposes, the Heritage Trust's funds have been combined with about \$250-million in loose cash the province had in various accounts into a money management vehicle known as the Consolidated Cash Investment Trust Fund. Last year these funds, invested in a mix of short- and medium-term money market instruments, yielded at least 11%. With the recent slip in short-term rates, the investment trust—now at \$1.2-billion—is currently yielding 10.5%, and Miniely's 1975-76 budget is prob-

ably low in estimating interest income at \$127-million.

While Lougheed has spent some of Alberta's petrodollars, he insists that the expenditures are "investments in the future" rather than "costs." The first diversification came last spring, when the province acquired a 20-1% interest in Interprovincial Steel & Pipe Corp. of Regina, Saskatchewan, for \$107-million. The object: to ensure steel for its own industrial projects and gain a voice in the development of a large-scale local steel industry.

LAST AUGUST, Alberta mounted a \$16-million takeover of Pacific Western Airlines. Though based in Vancouver, half of PWA's revenues originate in Alberta and the airline's ballooning traffic north to the Arctic was felt to be a key to attaining Lougheed's goal of



making Alberta a transportation hub.

In the energy field, Alberta is spending \$100-million to step up research in methods to produce the estimated 270-billion bbl. of crude oil locked in tar sands too deep for present strip-mining methods. All told, Alberta has the equivalent of 300-billion bbl. of recoverable oil in its tar sands, dwarfing its proved reserves of 7.8-billion bbl. of conventional crude.

Lougheed has also established a crown corporation called Alberta Energy Co., capitalized at \$150-million, 50% of which will be sold to the public when market conditions improve. The AEC portfolio includes 2-trillion cu. ft. of natural gas reserves, 50% of the province's interest in the steel company, and an option for a 20% equity interest in Syncrude Canada, Ltd.

Syncrude, a joint project of Alberta, Ontario, Ottawa, and private oil companies, is the controversial \$2-billion, 125,000-bbl.-per-day tar sands project that Lougheed sees as the first step in developing the vast tar sands reserves to replace the province's dwindling conventional crude reserves. Alberta has invested \$1-billion in Syncrude, and \$200-million of it has gone for a 10% equity interest.

Morning pushups. Politics began to pull Lougheed while he was practicing law in Calgary. His chosen vehicle: the Progressive Conservative Party, which had been without representation in the provincial legislature since 1959. The party elected Lougheed leader in 1965, won six seats in 1967, and four years later ran off with 49 of the 75 legislature seats. The 36-year reign of the Social Credit Party came to an end.

Unfailingly at his office by 8 a.m., Lougheed is a seemingly tireless worker who relaxes with the same intensity that he works. He does pushups beside his desk, and he keeps a track suit in his office for jogging. He cherishes his skiing weekends at the family cabin in Banff—not far from Mt. Lougheed, named after his grandfather—with his wife and their four children.

Extremely demanding of his staff, Lougheed is referred to by them as above all "challenging." Although Albertans often call him "the King," his cabinet ministers insist that Lougheed's is not a one-man rule.

Price boost. Oilmen complain of the size of Alberta's royalty take—an average 36% on 1.4-million bbl. per day—and Lougheed also concedes that "there is some concern in the business community that we're getting too involved in the private sector." Some oilmen refer to him as Pinko Pete, and when Alberta took over PWA, socialist Premier David Barrett of neighboring British Columbia promptly dubbed him Peter the Red. Chuckles Lougheed: "That's a pretty good balance."

Meanwhile, Lougheed faces the prospect of even more petrodollars flowing into the Albertan treasury. The price of Canadian domestic crude, pegged at \$6.50 a bbl. for the past year, will probably be boosted by 30% in late spring. Lougheed says his basic investment guideline will be that a "significant portion" must be invested for the benefit of young and unborn Albertans. It must be invested with a minimum of interference in the private sector, must not disrupt national financial institutions, and the bulk of investments must be made in Alberta, he says.

"We are looking for ideas on how to invest this money, not how to spend it," says Lougheed. "It's something we are determined to think our way through."

Original sponsor: Rules Committee by
request of the Governor

Offered: 5/21/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 (Res)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Alaska Con-
6 stitution, establishing an Alaska Permanent
7 Fund for certain proceeds derived from non-
8 renewable resources.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Section 7, Constitution of the State of Alaska,
11 is amended to read:

12 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
13 license shall not be dedicated to any special purpose, except as pro-
14 vided in section 15 of this article or when required by the federal
15 government for state participation in federal programs. This provision
16 shall not prohibit the continuance of any dedication for special pur-
17 poses existing upon the date of ratification of this ^{SECTION} [constitution] by the
18 people of Alaska.

19 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended by
20 adding a new section to read:

21 SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent
22 of all mineral lease rentals, royalties, royalty sale proceeds, federal
23 mineral revenue sharing payments and bonuses received by the state shall
24 be placed in a permanent fund, the principal of which shall be used only
25 for those income producing investments specifically designated by law as
26 eligible for permanent fund investments. [The legislature may appropriate
27 additional amounts to the permanent fund which shall become a part of
28 the principal of the fund.] All income from the permanent fund shall be
29 deposited in the general fund unless otherwise provided by law.

1 * Sec. 3. The amendments proposed by this resolution shall be placed
2 before the voters at the next general election in conformity with art. XIII,
3 sec. 1, Constitution of the State of Alaska, and the election laws of the
4 state.

5 * Sec. 4. The amendments proposed by this resolution if adopted by the
6 voters at the next general election shall become effective 90 days after the
7 certification of the election returns by the lieutenant governor.
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#166

MEMORANDUM

State of Alaska

TO:

gile

FROM:

D. O. O'Keefe

DATE:

9 Dec 75

SUBJECT:

Outline of Admin.
Concern on a permanent
fund

1) Want to a confidential amendment

2) fund consists of 10%, of oil mineral

revenue, including future oil, register, revenue.
3) the main line of policy changes on any
of these revenues, e.g. omitted from future to royalty.

4) the main line of future AP's drawing
distinctions between "revenue, taxes, royalties."

200
200

200
200

2) Make explicit that all mineral revenues are ^{not} recurring.

3) Earnings of the fund revert to General Fund
~~fund spending is limited to~~

4) Eppenhack's concern for small tight fund rather than large, over fund.

5) No pledging of assets for 3rd hand security.

6) Can appropriate to fund.

Q. How much of revenues can be set aside & permit 10%, 15%, budget growth. Caution: what about planning for bonus bid

Original sponsor: Malone, Beirne
Bowman, et al

Offered: 3/28/75
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 324 am S

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska mineral lease bonus
7 permanent fund; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.11 is amended by adding new sections to read:

10 CHAPTER 11. PERMANENT [RENEWABLE RESOURCES] FUNDS.

11 ARTICLE 2. ALASKA MINERAL LEASE BONUS PERMANENT FUND.

12 Sec. 37.11.100. PURPOSE. The legislature finds and declares that
13 it is essential to preserve a portion of the revenue derived from
14 mineral lease bonus sales, a non-renewable resource, for future genera-
15 tions of Alaskans, and further, that this purpose best can be served by
16 preserving this income in a permanent fund to be used for investment
17 capital by Alaska residents.

18 Sec. 37.11.110. ALASKA MINERAL LEASE BONUS PERMANENT FUND. There
19 is established as a separate fund the Alaska mineral lease bonus perman-
20 ent fund. Receipts designated under sec. 120 of this chapter for deposit
21 in the permanent fund are to be held perpetually in trust for the bene-
22 fit of both present and future generations of Alaskans.

23 Sec. 37.11.120. FUND PRINCIPAL. Fifty per cent of the receipts
24 paid the state from mineral lease bonuses shall be deposited in the
25 permanent fund. These deposits shall be considered fund principal and
26 shall be invested in perpetuity in accordance with AS 37.10.070 (invest-
27 ment of surplus state funds) or in state loan programs that are
28 designated by law as eligible for permanent fund investment; however, no
29 funds may be invested in common or preferred stocks.

1 Sec. 37.11.130. USE OF FUND INCOME. (a) Income received from
2 investment fund principal may be:

3 (1) reinvested in investments authorized under sec. 120 of
4 this chapter;

5 (2) appropriated for the administration of the fund; or

6 (3) appropriated to provide funding for operating or capital
7 expenditures for programs that are expressly established by law.

8 (b) Plans for expenditures of fund income under (a) of this section
9 shall be prepared in detail by the appropriate state department or agency
10 and shall be submitted by the governor in accordance with the Executive
11 Budget Act (AS 37.07) as part of his annual budget presentation to the
12 legislature.

13 Sec. 37.11.140. PROTECTION OF PRINCIPAL. An investment transaction
14 involving fund principal which results in an actual dollar loss of prin-
15 cipal shall be reimbursed in full from fund income before additional
16 income is expended.

17 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
18 070(c).

SSHJR
39"JOINT CHAIRMANS' REPORT ON
CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

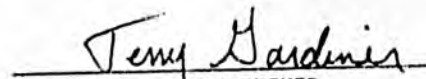
In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

The principal of the Fund would be used only for investment in income-producing investments which the legislative would establish and change from time to time to meet the needs of the state. The Fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund.

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings -- ranging from adding to Fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures for the Fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.


HUGH MALONE
Chairman House Finance Committee


TERRY GARDINER
Chairman House Judiciary Committee"

The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United States Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) under consideration and a majority of the members of the Committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United States Department of Transportation to revise the standard time zones in which Alaska is located) and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by Parker, Wallis, Fischer and Miller. Not concurring was McKinnon who has no recommendation.

Mr. Malone moved and asked unanimous consent that the Finance Committee referral on HOUSE JOINT RESOLUTION NO. 41 be waived. There being no objection, it was so ordered and the resolution was referred to the Rules Committee for placement on the calendar.



1976

Source:

SCS CSSS HJR 39 (Resources) am S

HOUSE JOINT RESOLUTION NO. 39

Proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 7, Constitution of the State of Alaska, is amended to read:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

* Sec. 2. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

* Sec. 3. The amendments proposed by this resolution shall be placed before the voters at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska,

and the election laws of the state.

• Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

31 August 1976

Mr. Bob Richards
Executive Vice President
Alaska Pacific Bank
Box 420
Anchorage, AK 99510

Dear Bob:

I agree with a theme of yours at the first meeting of the State Investment Advisory Committee, that most uses of the Permanent Fund are likely to involve some subsidy to various businesses and groups. Assuming the capital markets are functioning reasonably well in regard to Alaska (although investors may not always have good information about this State), we can define the subsidy in any case as the difference between the going rates of interest and terms and those offered by the Permanent Fund.

In measuring the tradeoff between the costs of any subsidy and its benefits, however, you speak only of the benefits of new tax revenues for the State government. But I think you would agree that we also need to add in other economic benefits such as new income from new jobs (insofar as that income remains in the State), the effects on living standards if a part of that income goes to lower income groups, the benefits of saving "rusting" job skills or upgrading or creating new ones, removing bottlenecks in the local economy, reducing congestion and other externalities by our timing and placing of investments, and perhaps others. I trust you will have a chance to elaborate on this at the Committee's next meeting.

With best wishes, I am,

Sincerely,

James B. Rhode
AA to the Chairman,
House Finance Committee

cc: Mr. Jim Edenso
Department of Revenue
Legislative Members
S.I.A.C.

JR/jb

MEMORANDUM

DEPARTMENT OF COMMERCE

TO: ☐ Jim Rhodes
Legislative Finance

DATE : April 7, 1975

FROM:  Lois J. Cook
Administrative Officer
Department of Commerce

SUBJECT: Loan Programs within
Department of Commerce

As requested by phone today, following is a brief description of the loan programs administered by the Department of Commerce:

1. Veterans' Loan Program (AS 26.15.010-170).
 - A. Personal Loans not to exceed \$10,000 for educational, domestic, remote area housing and other personal purposes.
 - B. Farm and Home Loans not to exceed \$55,000 to purchase, remodel, repair, build, furnish, refinance or equip homes or farms in the state.
 - C. Business Loans not to exceed \$100,000 may be made to acquire, finance or refinance business, including farming.
 - D. Multiple Dwelling Loans not to exceed \$80,000 may be made to purchase, remodel, repair, build, furnish, refinance or equip.
2. Tourism Loans (AS 45.90.010-040). Loans may be made to a business directly involved in the tourist industry. State participation may not be more than \$1,000,000 and interest rate may not exceed 8%. A loan of \$150,000 or more must be participated in by a financial institution in an amount not less than 20% of the amount of the loan, and the participating financial institution must service the loan.
3. Small Business Loans (AS 45.95.010-070). Business loans may be made, not to exceed \$100,000, to acquire, finance or refinance or equip businesses, including farming equipment, mining and fishing. Interest rate may not exceed 8%.
4. Commercial Fishing Loans (AS 16.10.300-370). A commercial fishing loan may not exceed \$100,000. A loan may not run longer than 15 years or bear interest exceeding 7%. Loans may be made to individual commercial fishermen who have been state residents for a continuous period of five years and have had a commercial fishing license for three years for the repair, restoration or upgrading of existing vessels and gear and for the purchase of entry permits and gear and the construction and purchase of vessels.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

INTRODUCTION

The last session of the Ninth State Legislature passed House Joint Resolution No. 39 proposing to Alaska voters an amendment to the Alaska Constitution creating an Alaska Permanent Fund into which a portion of the proceeds from development of Alaska's non-renewable resources would be deposited.

Aside from a constitutional convention the only way to amend our state constitution is for the legislature to pass by a two thirds vote of each house a resolution setting out the proposed amendment for approval by a majority of the Alaskans voting on the proposition. HJR 39 passed the House 36 to 1 (3 absent) and the Senate 18 to 1 (1 absent) thus placing this important issue before Alaskan voters on the general election ballot this November 2nd.

WHAT IS THE ALASKA PERMANENT FUND

The proposed amendment, ballot proposition , if approved, calls for the setting aside of 25 percent of all "mineral lease rentals, royalties, royalty sale proceeds, federal mineral sharing payments and bonuses received by the State" into a fund the principal of which shall be used only for income producing investments specifically designated by the legislature.

For example, if this proposed amendment had been in effect at the time of the 1969 Prudhoe Bay Bonus Lease Sale, 25 percent of the \$900 million or \$225 million would have been then placed in the Permanent Fund to earn income but not to be spent on the day to day operations of state government.

In addition to the bonus money the state may receive in future competitive bonus lease sales of its oil and gas, the major source of

potential money for the fund are royalties from oil and gas. When the pipeline is in operation the state is entitled to receive from the Prudhoe Bay leases a 12½ percent "royalty share" of all the oil flowing through the pipeline. Twenty-five percent of the proceeds from this royalty share would be deposited in the Permanent Fund.

The state presently receives money from oil and gas royalties but these amounts are small compared to the one billion plus dollars projected by the State Department of Revenue to accumulate in the Permanent Fund by 1982 from state royalties alone.

The plan for how and where the income producing investments will be made shall be established by the legislature after public hearings.

HOW WILL A PERMANENT FUND BENEFIT ALASKANS?

Wise individuals in their personal financial affairs usually set aside some of their income for future needs or to generate other income. If a business sells the equipment or assets by which its income is derived, common sense tells us that the owners of this business will no longer realize any income unless the proceeds from the sale of these assets are invested in another business or income-producing investment.

The same principles guiding wise individuals and business persons should be applicable to the state's management of its assets. The State of Alaska through its government is charged with the constitutional duty of providing for the utilization, development and conservation of all natural resources belonging to the State "for the maximum benefit of its people." The Permanent Fund will be a helpful tool in obtaining the maximum benefit for the people of this state. Like the sale of a business asset, the benefits from non-renewable resources will quickly evaporate once the money they generated is spent unless the money is re-invested.

When the state receives money from the sale or development of its non-renewable resources, such as oil and gas, it only makes good sense not to spend it all on running or expanding state government, but instead to place some of these one time only revenues in a fund for both short and long-term investments in Alaska's future.

State government should be minding the store - the great store of Alaska's resources instead of selling off the store to expand government.

← The Permanent Fund means less money from the sale of the people's assets will be available for imprudent spending by or for expansion of state government.

The Permanent Fund in making money available on a reasonable loan basis to the private sector will promote and diversify Alaska's economy even when private or outside (non-Alaskan) sources of financing dwindle. This will help to smooth out the boom and bust cycles.

The Permanent Fund by providing a sizable Alaskan source of investment capital will give the state a certain measure of financial independence. Business enterprise - even those in renewable resources such as fishing - could, for example, do business with the Japanese without being owned by Japan.

The fund will also multiply the benefits of resource development not only in re-circulating in Alaska money that might otherwise flow outside Alaska but by making capital available to enhance Alaska's renewable resources.

The size and existence of the Permanent Fund will allow for a more flexible state resource and economic policy.

Revenue from future bonus leases, royalties and fir taxation of multi-state and national corporations should exceed in the next decade

any reasonable level of state spending needs. By saving a portion of the proceeds from our non-renewable resources in the Permanent Fund, this money is reserved to assist the state in making a shift from its heavy economic dependence on oil and gas.

The investment approach of the Permanent Fund can be changed from time to time by the legislature but the oil and gas money once spent unwisely cannot be retrieved. Money spent unwisely in excess of today's needs is likely to make tomorrow's "wants" excessive.

Finally, the overriding question of finding environmentally sound energy alternatives must be addressed. The Permanent Fund may be critical in helping ^{to} finance development of needed energy alternatives. The federal government must take a more meaningful role in developing an energy conservation policy and safe energy alternatives before the last drop of oil goes up in smoke. Unless all beneficiaries of oil and gas development take the final depletion of fossil fuels seriously, there won't be much of an economy in which the Alaska Permanent Fund could operate.

by Rep. Clark Gruening

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Tom Fink, C.L.U.

P. O. BOX 1086, ANCHORAGE, ALASKA 99510
PHONE 007 / 270-2522

January 21, 1976

Article

There seems to be public clamor today to establish a constitutional permanent fund of revenue derived from oil and gas. At best this proposal is unwise and ^{at} the worst the proposal is pure hypocrisy.

Based upon the governor's budget for this coming fiscal year and the legislature's inclination to spend at least that much, there will not be a surplus for a good number of years. As a matter of fact part of the governor's program for the next fiscal year is to borrow about 150 million dollars in tax anticipation notes in the spring of 1977.

We could have a substantial surplus if we had a reasonable oil and gas sale of the Beaufort Sea. The administration has already delayed that sale for one year and indications are now that probably it will not have the sale any time within the near future. If it did have a sale with the type of environmental restrictions it is talking about, the sale would not bring in huge amounts of money. Further the Federal Energy Act for the next two years would reduce the bonuses by several hundred million dollars.

If the North Slope oil money began to pour into the treasury in the latter half of 1977 and with our having 150 million dollars in tax anticipation notes outstanding at that time, it will be 1979 before any surplus would begin to show in our treasury.