

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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the Tribune, the Pioneer Press, Associated Press every time.

I'm going to---yes?

MALONE: Mr. Blixt, how often is that generated?

BLIXT: This board meeting is every two months. And that's a board meeting there. We also have a meeting of our advisory committee every two months and my analysts turn out this material on every stock we have which is similar to what the big bank trust departments have---we don't pretend to be in detail---like you have heard this afternoon, but I want my analyst to keep track of it. If you just want to send this around too, it shows some of that material.

I have some other information, but---oh, yes, and when my advisory committee meets, they want to know generally what's in the fund. We have a marvelous computer system so if the market is closed today, in another hour or two I can have a run of every asset I have in all the accounts. The computer is right in our office, including tonight's prices on the New York Stock Exchange, the dividends, the yields and everything brought up to date. And we give this to our advisory committee. Also, this is not real recent, it's November 4th, it's not real late either, but this is from our last committee. It's what we used there in managing funds and I think the main story we have there is we simply...

GRUENING: Is this the advisory committee?

BLIXT: The advisory committee is 10. Ten people chosen by the State Board of Investment, the leading institutional people.

GRUENING: And they're per diem---they're not full time?

BLIXT: No per diem, they get no expenses. It started a volunteer committee, one man comes from Duluth, one from Rochester, we try to give them the equivalent of a train fare. Except there is no longer a train there. They don't get much. They are on their own entirely and they've done a tremendous job. We feel it's in the interest of these financial institutions to try to keep the state in good financial order. We've never had any problems getting the best advisors in the state.

I appreciate so much the opportunity to appear here. As I say, I still don't know why I was asked. I have nothing to sell and I assure you Minnesota doesn't want to take over the Alaskan funds. I've had a lot of fun. We've had a lot of fun being here, I've talked to folks all over the nation on this. There is about 10 of us that manage state funds throughout the country that like to speak with others.

I guess you might say we're missionaries in a sense because I think we are able to accomplish quite a bit by just dealing with people. By being available to talk to legislative committees. By being available for the church groups and the Lions Clubs as I mentioned. Because whenever you have a program like this it's so important to have the citizens of the state realize that it's better to put the money away for the future generations than to spend it on them so they can buy booze tonight. And you know that's a very difficult thing to get across. Thank you very much.

GRUENING: Thank you very much. Mr. Speaker.

MALONE: Mr. Chairman, Mr. Blixt, I'd like to thank you for a very articulate presentation.

BLIXT: Thank you. It was a lot of fun being here.

GRUENING: Are you headed back to your home state or what? What are your plans?

BLIXT: I'll be honest. I'm a tourist. I get up to Alaska so seldom that when you folks were nice enough to pay a plane fare, I'm going to stay here a couple of days and see what Anchorage is like.

GRUENING: Well, welcome to Anchorage. Terry Magrath has been waiting patiently in the back and it's running a little late. Terry would you like to...?

I should say a little bit about the hospitality Terry gave me in Boston. I came up the day and he showed me around the place and he talked to me a little bit about their operation and he represents a management group that is not---it sounds pretty progressive and I would like to maybe just relax a second. Those that want to get coffee can go get it. And we'll start in just a second. Terry?

MAGRATH: Ready to begin? Well, as Clark mentioned, the reason I am here is that he came to visit Fidelity in Boston and mainly to ask us to describe to him more or less the state of the art of large institutional investing to give him a framework and his people a framework so that as you go down the line in setting up legislation for your opportunities here, you would at least see sort of what is happening.

Fidelity is a money management organization. Manufacturers Hanover---one of their functions is money management, but Fidelity's sole function is money management---that's all we do. One portion of Fidelity manages about a billion dollars in assets for a large corporate pension funds as such. The part I'm responsible for is---manages international assets for this same type of client.

Now, I'm not here really representing Fidelity. There is nothing really we can do for you at this point. If at some point down the line you are interested in seeking outside management for a particular function or something, we would be glad to participate or compete just like Manufacturers Hanover, or anything.

All I'm really here to do is to respond to Clark's and Beldon's request to more or less lay out the general framework of institutional investing more or less so you can see some of the problems, some of the structures you're going to have to face as you set this up. As I mentioned, Mr. Blixt has pretty much covered most of what I wanted to say and I'd like to cordially invite him to come talk to the Massachusetts Legislature and see if he can bring some of his efforts to bear at our zero credit rating state.

One other point, Clark did say that when he was down there that he would like me to come up and talk to you people and that if I came up here he would show me a polar bear. He promised to show me a polar bear. He then suggested that I stay at the Captain Cook Hotel and after I got to the lobby and saw that stuffed polar bear I realized why he had asked me to stay there. Actually I do want to say---this is an incredible state and I'm very personally pleased to have been asked to come up here. I think you people have a wonderful state and it looks like the way you are going you will be able to keep it that way.

About asset management, I was going to cover a little bit of the history which Manufacturers Havover has already covered. Some

of the current state of the art. And some of the trends in force in institutional investing. And I think this is an important point. You saw a lot of investment verbage today, some of the ins and outs, some of the particularly professional things that go on in institutional investment. Seventy percent of the market today is institutional investors. You people coming in with what---\$2 to \$8 billion---are going to be a very key factor in this market.

One major point I want to leave with you is that you---this is a profession. It is just as difficult a profession as the legal profession, dentistry, lawyering, medicine, etc. You're going to have to get professional management to run these funds. There are lots of ways to structure this. You can hire it out, you can contract with an organization or you can go in-house as Mr. Blixt has done.

The second point is the trends are such that it's not so much the individual day-to-day investing that's making the key difference. What's making the difference is the policy. Setting up the basic policy under which the funds will be managed. By policy, this could be a debt-equity structure, constraints on the funds. In setting policy you are really setting the primary deterrents of how these funds will be managed. These are big bucks. A little bit of difference can make an awful lot of investment difference down the road.

In setting policy, I understand you have a legislative problem that is facing you right now. Arbitrarily limiting the investments for political reasons may be a necessity, but the penalties can be enormous. If there is any plea I would like to leave with you, it is you set the policy structure or mechanism so that you can change it somehow as conditions change.

You heard a presentation from Manufacturers Hanover which, if there is any one theme that was constant in what they said, is that investments change. There is a time for growth stocks, there is a time for this, there is a time for that. Mr. Blixt showed how he had to change his portfolio to bring it up to date from when he had the 2½% bonds. I know it's a difficult task, but I do know that if you structure the investment policy by limiting your investments, there will be a point down the road that you will really wish you hadn't.

Alright, from this point, let me go on to just lay out a little bit of the function you're going to set up. Now I'm talking about an investment management function. You can think of a little company over here---Fidelity is a company that runs investments. We have a department for fixed income, a department for equities, my department is in international securities, one group runs nothing but pension funds, etc. The components of this organization or the organization you are going to have to set up as Mr. Blixt has, or the organization you may hire out, has to have administration. Now the administration means control, the review, the

handling of the funds, the accounting of the funds.

The second major component is a planning function. And here I alluded to it---it's one thing to execute the investments. It's another to be able to plan the policies or constraints under which the investments are going to be made. Now, there are tools that are available and that are becoming available that makes the planning function a lot easier. Makes it a lot more "scientific", if you will. Access to these tools I think would be critical so that you can more or less have some independent way to oversee the evolving and planning of the fund.

And the last function in asset management is the investment management function itself. This is the staff that Mr. Blixt has or, if you hired an outside manager, this would be the actual staff---the staff that he has.

Now in today's market---and I won't spend much time because it's quite late---in today's industry, investment industry, there are two polar types of investments. Two polar types of investment organizations or ways to invest money. There are shades of gray in between. You have a particular problem. You may want to take a shade of gray. The two poles are the following: One is totally in-house. Hire a staff, hire a set of professionals. Run them, control them entirely in-house so to speak. This is the way Minnesota does it; this is the way the U. S. Steel pension fund does it. I used to be an

investment manager with the U. S. Steel pension fund. There were nine of us. We managed \$4 billion, which is in your ballpark. We ran it--we were effectively a subsidiary of the steel corporation doing nothing but managing these pension assets for U. S. Steel.

GRUENING: Excuse me, Terry. Doesn't Mr. Blixt, if I understood it, contract some of the equity out? I may be wrong, I just had the impression that there were some people being contracted by your department.

BLIXT: No. In one case we buy... It's just for information. And from brokerage houses all over the country we get all the information.

MAGRATH: In generating the information for their internal investment decisions, they will use what is known as soft dollars, commission dollars to pay brokerage houses to get research to help them in their decisions. In that extent they are.

GRUENING: It's still considered...

MAGRATH: It is still considered in-house. We at Fidelity do the same thing. We have a large in-house staff of investment analysts, but we also will use brokers to buy investment research in

certain areas that we want to have special advice on.

The other pole is the multi-manager approach. Now, this is the, by far and away, the mainstream or the current way that very large pools of money are being handled. The multi-manager approach means that you hire outside managers, usually quite a number of them, depending on the size of the fund and the purpose of the fund. You hire the outside managers to run particular portions of the fund in accordance with how you want it done. This is American Telephone, for instance. Out of the top 200 corporations, I believe there is only 10 to 12 that run it inside. All the rest use the outside management approach.

I'll go over just briefly the pros and cons of both and how they might apply to Alaska because, while Mr. Blixt's solution seems good at first blush, you may have some particular problems up here being where you are and also with the growth of the assets you may not be able to gear yourself up quite readily. As Mr. Blixt may confirm, to build an organization requires a good long period of time. You have to get the right people, pay them the right amount and give them the incentive to do this.

Alright, first off, the multi-manager approach. As I say, this is by far and away the way that is done more so than any other way. What you require here to do this would be a central administrative staff. And these must be high quality

people, people like Mr. Blixt, and a good core than understand Alaska's problems, work for Alaska, that's controlled by the limitations, etc., imposed on them---on him by you. The central administrative staff hires managers, sets policy according to the guidelines that you set, measures performance and effectively manages the managers. The managers report to them.

Say Fidelity or Keystone or Manufacturers Hanover, whoever it may be, would report to this central administrative staff, the ongoing progress of the funds. The advantages of this approach is low overhead---low direct overhead. You have a lot of flexibility. Hiring somebody is a commitment to somebody's career. If you've hired the wrong person, you have hurt yourself and the person. So it's a way to more or less rent somebody until you may get yourself better situated into knowing how you want to go. You provide competition between managers and also you can select specialized managers. Manufacturers Hanover showed you some of the areas where they are special in. There are other organizations that provide, say, real estate investment advice may be one thing. If ever you want to go international, I can show you some of the things that we do. Different managers can specialize and, as I said earlier, this is a profession you are dealing with and just as doctors can specialize in certain areas, so you will find investment managers that can specialize and do a lot better job than a generalist.

The disadvantages of this type of approach---there is a very high service cost. Investment management, just like lawyering and

doctoring, does not come cheap. You're more or less duplicating your cost in the sense that if you want to run \$4 million, they can do it with a staff, but if you're going to run 10 pieces of \$400 million, you are more or less funding each of the ten managers. Their fees are on an asset basis or a funding basis.

Administration is complex. Ford Motor Company has 25 managers. They have a staff of three people. And when we go to talk to Ford Motor Company, they give us a presentation. They tell us where we are, where their objectives are, what we have to do to hit certain objectives. It's gotten to be a very sophisticated business, the idea of matching the investment manager to the ongoing needs of the fund in itself.

And the other disadvantage is the central staff is fairly critical. If you can hire Mr. Blixt to do it, as a matter of fact, that really may solve your problem for you.

The other side is internal management. Which has already been well covered by Mr. Blixt. You are really here setting up a separate company, just like an entire investment company, except you don't have a marketing department. This company is working for you, for the state of Alaska, just like the central staff of the multi-manager approach. Here you have a staff that is doing nothing but worrying about the investments of Alaska. You have relatively low cost. Some of the advantages of this---relatively low cost. But now you've got to weigh

the cost of investment management with the difference in return. Think of a 1%---if you could increase the investment return by 1% on your \$8 billion by spending more money on investment management, I think you will find that you can pay your investment managers an awful lot of money. So cost, when you are talking in investment management, really has to be subjugated to the benefit that you are getting. You really have to look at the benefits or the incremental return that you can get from buying very good management.

GRUENING: Yield or net return, is that what you are talking about?

MAGRATH: Total return. We deal in total return. You can look at it in yield for capital appreciation, but just think of a 1% increase in return on your portfolio of \$8 billion is one year's worth: \$800 million? \$80 million? This---when you look at some of the return figures and differences of yield, you apply that to \$8 billion and you are talking about a lot of money. So it may behoove---forgetting the governor's salary, forgetting a lot of things, it may behoove you to spend well to set up good investment advice. Because it will pay for itself if it is done correctly.

GRUENING: How do you go about analyzing the state of the art as you say in terms of comparing Mr. Blixt's performance to your

performance in some areas. It becomes all very subjective to me.

MAGRATH: There are very objective ways to measure investment performance. We didn't touch---Mr. Blixt didn't touch on it, but---the performance of the funds. There is all sorts of ways. You can look at this---there are services that do this. And it would behoove you, in any case by the way, whether you set it up entirely or whether you buy multi-managers, it would behoove you to have independent investment management service to look at how well they are doing. Almost an ombudsman for the state.

GRUENING: It's complicated because your time frame is important. As Mr. Blixt pointed out that things are very faddish. Somebody will say why aren't you in the stock market, look I could get this and that. And I can realize that. So are the analyses, are they sophisticated enough to give...?

MAGRATH: It's tied into policy, Clark. You have the luxury---with the amount of assets you have and the long time frame which you have---you have the luxury of being able to look longer to set up your structure or your investment policy so that you can have a better chance of maximizing your longer-term returns.

GRUENING: One of the problems we have in terms of analyzing that is that we haven't determined yet what we are going to do with the income. The constitution provides that it is reinjected in the general fund, so technically right now, all it's doing is used for operating expenses. The committee will consider tomorrow, I think, just some general thoughts on what to do with it. One suggestion might be reinject it into the fund. Use some of it maybe to meet current needs, whether that's to leverage additional funds I don't know yet. It's very complicated. The governor had Alaska, Inc. So we don't have that as a criteria to measure investment policy. It's the one odd thing about this. Maybe you have a comment on that.

BLIXT: I have a comment. We have three outside firms measuring our performance. We do just as you do many different ways. One way is simply to compare us with the IDS fund and with the banks in the Twin Cities. If they fire me and went locally or went to places that they've got to hire, would they do better or worse? Then we take these overall services in which they compare us to others. Merrill, Lynch has it, Hamilton has it, Becker has it, we deal with local organizations besides.

GRUENING: Is that mandated in your statutes?

BLIXT: No. But we feel it is mandated individually because

somebody that's against our department is going to come in all the time and ask what it is. We want three different records on hand all the time.

GRUENING: Thank you. Go ahead, Terry.

MAGRATH: It is important to have an investment performance management and it can be done. And it can be done in the context of the risk levels that you have set or the ---once again the policy level which you have set.

GRUENING: Sterling, do you have a comment?

GALLAGHER: We use Becker's Services.

MAGRATH: The other particular problem you may have---and this has already been touched on---in setting up an internally managed fund that you could solve easily and it would behoove you to do so. One is that your location, while it is absolutely one of the most beautiful locations I have ever seen, is a desert as far as an investment professional is concerned. It would be difficult to have a team of good investment professionals up here. Your time frame---you have to be up and going when the markets are up and going, which is five hours different from the central market here in the United States.

You have to be in day-to-day contact with other investment professionals and have a good communication network. So, if you do go internally, you may even want to consider not having it located here. For instance, with U. S. Steel, when I was investment manager with the U. S. Steel pension fund, the corporate headquarters was in Pittsburgh, but the pension fund was on Wall Street. And it was quite important to be able to do that.

The second we have already touched on is the fees---the salaries you'll have to be paying for a good qualified staff. I was quite---I congratulate you, sir, I was quite surprised at the fees Minnesota pays. I don't know what the turnover is, they must be quite high quality people looking at the result. To get that quality of person, I think you are going to have to pay at least a few of them more than the governor. Just like you have to pay a doctor more than the governor if you had a full-time doctor on your staff.

So these two factors may prove a problem for you. I'm not sure. The other disadvantages is you have little flexibility. If you get the wrong person or the wrong team, you've made a career commitment to these people and you cannot turn them over at the drop of a hat. You build a staff---you build a business like this slowly, carefully, and make sure you have the right people and you must make sure they can work together.

The second is, I understand your asset basis will then be growing quite rapidly. That means you're going to have to be

gearing up and doing something quite rapidly. I don't know how fast you can set up an internal staff.

There is some middle ground. One way---Yale University did some years back---and that is to contract their large funds. They went to an organization and contracted out setting up their fund to be managed. In other words, the other---it wasn't Yale, it was another organization, I'm sorry. Yale did something else. But this organization went to a money management organization and effectively---the money management organization set up a separate company if you will, affiliate, that could draw on the money management organization's capability and feed this capability in as the assets grew. In other words, you really set up a joint venture. And here you have a lot of the advantages. You have a group that would be doing nothing but managing Alaska's money. You could be drawing on the substantial capability. You heard from Manufacturers Hanover just some of the capability you need to run a big amount of money. Well, this organization had that capability, so this one management organization had that capability, so that the endowment fund came---set up a joint venture and, as the assets grew and were funnelled in, the money management organization could draw from its capability to apply it to the running of these funds. It's flexible. You can terminate the deal whenever you start to build your own organization. You are not committed to people. It is relatively low cost

compared to your multi-manager approach.

That's essentially the three options I thought you had. At least the two polar options and the various shades of gray in-between. If there are any other questions. I just want to summarize by saying a couple of things.

No matter how you do it, you've got to get good professionals working only for the state of Alaska.

Number two, they have to be independent. You don't---they shouldn't be turned over, they shouldn't be under political pressure ---at least minimized as much as possible. As Clark knows when he first came to us, we won't even talk to states. With one exception, the State of Oregon, which is a very well run organization. But normally, if a public fund came to us and wanted us to talk about managing, we wouldn't talk to them. Mainly because of the turnover of the personnel of a political nature. What you people are doing ---I commend what Minnesota is doing, I commend you in Oregon. Maybe it has something to do with cold air, I don't know, but you seem to be doing it quite well.

GRUENING: A mixture of hot air and cold air.

MAGRATH: The third thing I want to leave you with is that planning is getting to be a very important function. And that you ought to have some of these tools at your access to help you meld your end use of the funds, the cash outflows if you will with

the investments you have so that the two can be put on---
am I making myself clear on that? OK.

It's a bit of a digression, but there are computer models available which you can more or less model the future. Set up a lot of circumstances. What if you wanted the fund to amortize over "x" number of years? What if you wanted it to stay at a certain level or to grow? What are the cash flow buildups going to be in this fund? That's more or less your asset side. Your liabilities. What are you going to be paying out? How do you want these things to be done? Well, given these two, you can then see what the implication of various debt-equity ratios would be. What if you went all equities? What are the probabilities of getting this return "x" number of years out? What if you went all debt? What are you giving up by doing all debt or all short term cash? You'll find it will be substantial.

But no single---no two funds are the same. And what I'm suggesting to you is that there are vehicles available. Fidelity does not have one of these, by the way. There are independent consultants that have them. But there are vehicles available that would enable you to better plan the constraints that you are going to be putting on these funds.

The last point I want to make is that if at all possible, try not to put fixed constraints. If you go back in any point in history the constraints that you would have put on at

some point would have been wrong at a later point.

GRUENING: Thank you, Terry. Aren't there some constraints--- I mean, literally, you could open it up to any kind of investment. I mean, obviously, there are some constraints. Are you meaning like percentages on equity investments or what do you mean by constraints?

MAGRATH: Alright. Let's say you put in a constraint of 15% ---no more than 15% equities. Alright. Right now that might be a very politically advantageous thing to do. If you put it into a statute like that, there may be some point down the road that you may find that this has seriously curbed or impaired your investment performance substantially.

Let me give you one example that happens to be the area that I'm involved in. Most U. S. corporate pension funds have a constraint of no foreign securities. It was an arbitrary constraint put in way back when they thought it was a bad thing to do, to go into international markets. There has been a vast amount of work done that shows that a small amount of international diversification of your portfolio has a lot of bang for the buck. It reduces the risk substantially. It spreads the risk on markets outside the country. So now instead of having a highly volatile returns, you have some of it balanced in the Japanese market, the German market, and it smooths them. It smooths the return substantially. And this adds substan-

tially to the potential for your return. These are fairly technical things which I don't want to spend---I don't want into too much here, but it has now become clear that a small amount of foreign assets makes a lot of sense. As a result a number of corporations are going back and having to go through the agony of amending their trust agreements, which is a difficult thing, to allow this type of investment.

So, all I'm trying to say is if you minimize the arbitrary constraints and more or less focus on the mechanism to set policy and let that be your controlling guide, I think you'd be a lot better off.

GALLAGHER: You talked about foreign investments. Do you think it's appropriate for public funds to have this option?

MAGRATH: Would there be an emotional bias against it? You mean to buy options or underwrite options? A lot of U. S. corporate pension funds are indeed underwriting options. Yes. Now five years ago that would have been an anathema. There may be a place for options. There may be a place for private placements. I don't know. But at certain times this may make sense. Markets change. The options market was not available to pensions five years ago because there was no options market. Now there is a viable options market and some of them are good.

I'm not saying it's appropriate. We don't do it. But some are seeing it as an appropriate investment.

GRUENING: Doesn't the rule of diversification---it's a principal that comes up---require limitations in these areas anyway? As long as you are stating---maybe restating the rule of diversification---it may have some political value. And it may not hurt. There must be some point where you are violating the investment policy to put a lot of money in the stock market. I mean a high percentage. Especially if it's money that has to turn over. Now, there probably is a bias in this state even though pension funds are invested in the stock market. But I'm wondering---isn't there the rule of diversification requires some limitation anyway? Even though it isn't stated statutorily?

MAGRATH: No. The rule of diversification almost implies the opposite. If you really truly wanted to diversify, say in equities, you would have 60% in the United States market and 40% outside the United States.

GRUENING: OK. Does diversification cut across investment categories?

MAGRATH: In other words, here you are looking at two different things. If you want to buy, let's say 20% you want to be in bonds,

80% in equities. OK. That's a policy decision. And inside these two classes of securities, you want to diversify. For instance, you wouldn't want to buy one bond.

GRUENING: No. I understand that. But does good investment policy---doesn't it demand in terms of classes or types or kinds of investments that only a certain percentage go into it? I mean, I can see you can diversify your equity holdings, but if they are all in equities, they are not very diverse within categories.

MAGRATH: One way to handle this is to put outer limits and allow a shift. You saw Mr. Blixt's presentation. You saw a big change in the various mixes as he went through time.

GRUENING: That's what I was talking about. No more than a certain percentage now. What is the outer limit?

MAGRATH: Here is briefly just a Xerox just in case. This is how we have allocated assets around the world over the last two years.

HARGEN: Let me ask a question right now. Are you saying that you don't---I may not understand you---are you saying that the legislature shouldn't put a straight jacket on the way the

fund managers operate? There ought to be some---I can agree with that. But sometimes I think I'm by myself. Everyone's got different ideas. You get the emotional problems and everything built in to---that's talking---just like here you would say why don't you invest in capital markets. I'll just use myself as an example. I spent four years and eight months fighting the Japanese. I'm not that inflexible but now I did feel that way.

MAGRATH: This chart shows how we have invested assets around the world over the last two years. The basis chart is in color. I'm sorry I couldn't get it reproduced that way. On the left and right columns you'll see a neutral position. Instead of a constraint, we have a neutral position here. In other words, that's a preferred position. We can deviate from that position. As you travel through here you will see the international situation very clearly. You can see the Japanese---we've moved above a neutral position in Japan and then in the late---late '76 there was a major run up in the Japanese market which we participated in. You can---backing up you can see France. You can see the political problems that developed in France and we pulled out of France. Certainly you wouldn't want to have any constraints that says you couldn't be in France. Because if ---you'd be sitting there with the potential of having all the money absconded by the Communists so to speak. Then the political situation changed and over here on the

right we start to build a French position. What I'm trying to say is, instead of setting constraints on our international policy, the same things goes for our domestic policy, we set a neutral or preferred position and then can deviate within bounds. We'll go maybe twice a weighting in any one particular country. But by setting bounds you are allowing a manager flexibility to work within a framework.

GALLAGHER: Do you usually go in U. S. dollar denominations securities or...?

MAGRATH: Oh no, these are yen and duetchmarks or whatever. These are the investment capsules. We have a staff in Japan, a staff in London, etc. But this is just---I'm not suggesting international securities for you at all. This is just an example of...

GALLAGHER: If we allow under our statutes what maybe U. S. dollar demoninations...

MAGRATH: Well that's not really---Canada follows very closely to the U. S. and we are really not diversifying very well. The Canadian market and the U. S. market are very highly correlated. We are much better off to go in Japan than in Canada. That's another issue. Once again, I'm just doing the

international thing just as an example of something way out in left field to show that if you set constraints you may wish you hadn't at some point down the road. That's all I have unless there are some more questions.

GRUENING: OK. Are there any questions? Terry, thanks a lot. Thank you everybody for going through there and bearing out this room. It's rather stuffy and hot. We'll be in adjournment until 9:00 o'clock tomorrow sharp and we'll start on the---recess until 9:00 o'clock---and take up a piece of draft legislation.

SCOMM

9:188

#188

10/17/77

TO: Clark Gruening
Chairman

FROM: Mike Doogan *MD*
Administrative Assistant
House Special Committee on
The Alaska Permanent Fund

SUBJECT: Report on Permanent Fund Panel at Southeast Conference
Sitka
October 13, 1977

Members of the Southeast Conference, mainly municipal officials, were unanimous in their endorsement for using Permanent Fund money to finance hydroelectric projects. Although several financing methods were discussed--ranging from debt guarantees to direct appropriation of a percentage of the Fund to such projects--none was specified. Such specification may come from the Conference's policy statement on the Permanent Fund.

Several formal statements were presented, most like the one attached.

Present representing state government were Revenue Commissioner Sterling Gallagher, Deputy Commissioner Jim Edenso, Senator Pat Rodey, and Representatives Russ Meekins and Ernie Haugen.

The Southeastern Conference
21st Annual Convention October 13-14, 1977
Sitka, Alaska

ROLE OF THE ALASKA PERMANENT FUND
IN FUNDING
THE WATER RESOURCES REVOLVING LOAN FUND

Presented by James V. Williamson
R. W. Beck and Associates, Inc.

BACKGROUND TO WATER RESOURCES REVOLVING LOAN FUND

Implementing Legislature

In 1975 the Alaska Legislature enacted House Bill 171 creating a Water Resources Revolving Loan Fund. The Act specified that loans from this fund are to be used to develop and conserve in the public interest, the water resources of Alaska using State revenues from mineral development. The Act stated that loans from this fund shall be long-term and at low interest and shall be utilized for capital improvement projects for hydroelectric generation and water supply. The purpose of this loan fund then was to use revenues from mineral development (primarily oil and gas) which are depletable resources, to develop renewable water resources. The principle inherent in the Act then is to utilize oil and gas revenues to finance construction of water resources and hydroelectric projects in needy communities so that Alaska will have the benefits of these projects long after the oil and gas sources are exhausted.

In 1977 the legislature amended House Bill 171 by House Bill 356 which was enacted. The principal purpose of this amendment was to set more precisely the conditions for loans from the fund. As now enacted, loans from the fund shall be for a term not to exceed 50 years, and the rate of interest shall be not less than 3 nor more than 5% per year on the unpaid balance. Repayment of a loan shall commence on the date of commercial operation of the project, or 10 years from the date the loan is granted, whichever is sooner. We have combined the provisions of the 1975 Act as amended in 1977 as shown in Exhibit A.

Section 45.86.030 states that receipts from mineral rentals and royalties and from the Alaska mineral lease bonus permanent fund, shall be appropriated annually and deposited in the Water Resources Revolving Loan Fund. The mineral lease bonus permanent fund was ultimately enacted as the Alaska Permanent Fund, but the intent of the 1975 legislature was that monies from such a permanent fund would be appropriated annually and deposited in the Water Resources Revolving Loan Fund.

Appropriations to Water Resources Revolving Loan Fund

An appropriation bill to provide seed money to the Water Resources Revolving Loan Fund to various communities, in the amount of \$3,000,000, failed to pass in the 1975 legislature but was enacted in 1976. House Bill 700 listed the communities and their funding requirements as shown in Exhibit B, Sheet 1. The Governor reduced the \$3,000,000 amount to \$2,500,000. Sitka was the only community which took advantage of the amount provided for it of \$450,000, and commenced detailed investigation of its Green Lake Project in the summer of 1976. The other communities were reluctant to borrow money from the loan fund since the loan conditions stipulated by the administration were not especially attractive.

However, based on the proposed revisions to the implementing legislature in 1977, an appropriation bill (House Bill No. 357) was introduced in the amount of \$3,500,000 for various communities as listed in Sheet 2 of Exhibit B. The bill as actually passed is shown in Exhibit B, Sheet 3 and provides for a total of \$3,600,000 being appropriated from the general fund, but with only \$200,000 going to the Water Resources Revolving Loan Fund. The remainder of the funds were distributed as \$1,600,000 to the Department of Revenue for a loan to Sitka for its Green Lake Project, and \$1,800,000 to the power project revolving loan fund. The Governor reduced the amount in the power project revolving loan fund from \$1,800,000 to \$540,000, and deleted the \$200,000 amount in the Water Resources Revolving Loan Fund.

In September this year the Water Resources Revolving Loan Fund Committee approved loans to the communities shown in Exhibit B, Sheet 1, except Anchorage and Cordova, and in the amounts shown on that schedule except that Petersburg's loan is \$910,000 (\$100,000 additional). Hence, the entire \$2,500,000 in the original appropriation bill has now been committed. In addition, the Department of Revenue approved a \$1,600,000 loan to Sitka based on House Bill 357 for continuing work on the Green Lake Project in FY 78. These communities are now proceeding with detailed investigations including exploratory drilling and other field work as a basis for preparation of an application for an FPC License, and design of the project, as soon as possible.

IMPORTANCE OF LONG-TERM - LOW INTEREST FINANCING

Hydroelectric projects are capital intensive. Once the project is built the major part of the annual cost of the project is the debt service since operating costs are small. Hence although the overall cost of power from a hydroelectric project is often less than that from a diesel generating plant, the large amount of capital required by a small community is essentially impossible to obtain from conventional sources. Further, the impact of revenue bond financing with its related higher interest rate and shorter term results in a significant increase in cost of power from a hydroelectric project. This is demonstrated by a comparison made for the proposed Virginia Lake Project of the Thomas Bay Power Commission in the following table. This table shows the estimated cost of power from the Virginia Lake Project, based on conventional financing at 7%, 30-year term, as compared to 3%, 4%, and 5%, 50-year term financing from the Water Resources Revolving Loan Fund. The cost of power is also compared with that estimated for new diesel generation in the same time frame. This comparison has been made on the first year of operation, and also over the first 10 years of operation of the hydro project.

Financing Source	Interest Rate and Term	Estimated Cost of Power (Cents/kWh)			
		First Year (1984)		Average over First Ten Years (1984-1993)	
		Virginia Lk.	Diesel	Virginia Lk.	Diesel
Conventional	7%, 30-year	12.6	6.9		8.9
Water Resources Revolving Loan Fund	5%, 50-year	8.9		9.9	
	4%, 50-year	7.7		8.6	
	3%, 50-year	6.7		7.5	

As can be seen, the estimated cost of power with 7%, 30-year financing is almost twice the cost of power with 3%, 50-year term financing. Further, only with 3%, 50-year financing available from the Water Resources Revolving Loan Fund would the estimated cost of power from the Virginia Lake Project in the first year of operation be less than that of the alternative new diesel generation, assuming escalation of oil fuel at 7% annually. The average cost of power over the first 10 years of operation of the Virginia Lake Project is about equal to that for diesel generation if 4%, 50-year financing is available for the hydro. This demonstrates the importance of low interest, long-term financing to the small communities in Alaska.

FUTURE FUNDING REQUIREMENTS OF WATER RESOURCES REVOLVING LOAN FUND

A broad estimate has been made of the Revolving Loan Fund Requirements through 1985 for the communities which have already obtained loans as follows:

Sitka - Green Lake Project

Petersburg-Wrangell (Thomas Bay Power Commission) -
Virginia Lake Project or Thomas Bay Project -
Phase 1

Ketchikan - Swan Lake Project

Kodiak - Terror Lake Project

The purpose of this projection is to provide a basis for consideration by the Permanent Fund Committee in considering future requirements of the Water Resources Revolving Loan Fund. The list is not intended to be all inclusive; it simply enables a reasonable assumption of the order of magnitude of loans and their timing to be developed. We have prepared preliminary feasibility reports on the projects for Ketchikan, Petersburg-Wrangell and Sitka and hence there is a reasonable confidence factor in the estimated costs and schedules for these projects. The estimate for Kodiak has been based assuming the project developed for that City would have a similar cost and construction schedule as the Swan Lake Project at Ketchikan.

Typically, the early costs for a project (seed money) are small and increase in magnitude over the first three or four years of investigation, design and FPC licensing prior, to the major expenditure incurred during construction of the project. The schedule for Sitka's Green Lake Project and the estimated cash flow requirements are shown in Exhibit C. The lead time for this project is estimated to be about 6 years from initial investigations. Ketchikan's Swan Lake Project has an estimated lead time of about 7 years which is more typical of hydroelectric projects in Southeast Alaska. The proposed schedule for Swan Lake is shown in Exhibit D. Hence, it can be seen that since most of the communities involved already have power shortages, it is extremely important that the projects are not delayed by non-availability of financing. One of the critical items on the schedule is the preparation of an FPC License application and its processing which is estimated to take from 2 to 2-1/2 years under the best of conditions.

The estimated requirement from the Water Resources Revolving Loan Fund, including investments, less debt service repayment through 1985, is shown in Exhibit E. It can be seen that once the project goes on-line the debt service payment reduces the amount of the outstanding loans. By 1985 the estimated net cumulative amounts loaned from the Fund for the subject projects would be about \$200 million.

FUNDING REQUIREMENTS FOR FY79

A broad estimate has been made of the funding requirements for the four projects listed above and other communities which have shown prior interest, for FY79. A broad estimate of the requirements is about \$15,000,000 of which approximately \$10,500,000 would be required for Sitka's Green Lake Project as it enters into its first year of major construction. At the same time Sitka should obtain a commitment from the Water Resources Revolving Loan Fund for the full amount of the loan to finish construction of the project in the amount of \$44,450,000, which is in addition to the \$2,050,000 borrowed to date. It is understood that there are now no monies remaining in the Water Resources Revolving Loan Fund. Hence, the Fund will require a sizable appropriation in FY79. We believe the most logical source for this funding, and the commitment to Sitka for construction of its Green Lake Project, is the Alaska Permanent Fund.

HOUSE BILL 171, 1975 AS AMENDED BY HB 356, 1977

(Combined Acts)

STATE OF ALASKA

AN ACT

Relating to creation of a water resources revolving loan fund.

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

Sec. 45.86.010. FUND ESTABLISHED. There is established as a separate fund the water resources revolving loan fund. Loans from this fund are to be used to develop and conserve in the public interest the water resources of Alaska.

Sec. 45.86.020. FUND UTILIZATION. (a) Loans from the fund shall be for a term not to exceed 50 years, and the rate of interest shall be not less than three nor more than five per cent per year on the unpaid balance. The repayment schedule shall be as determined by the department. Repayment of a loan shall commence at the date of commercial operation of the project or 10 years from the date the loan is granted, whichever is sooner.

(b) The loans may be used for capital construction projects, for hydroelectric generation and potable water supply including surface storage and groundwater sources and transmission of water from surface storage to the existing distribution system, and development of hydroelectric generating facilities including transmission of power to the load center. Loans may be made to applicants for new or existing projects including feasibility and preconstruction engineering studies,

1 expenses incurred in securing necessary permits and licenses, design of
2 the project and construction of capital improvements. Existing hydro-
3 electric and water supply projects may be expanded or rehabilitated with
4 loan funds under this chapter if the rehabilitation and expansion is a
5 capital improvement project.
6

7 (c) Loans shall be repaid to the fund by the borrower from reve-
8 nue derived from the sale of electric power or water.
9

10 Sec. 45.86.030. LOAN FUND SOURCE. Receipts from mineral rentals
11 and royalties and from the Alaska mineral lease bonus permanent fund,
12 shall be appropriated annually and deposited in the water resources re-
13 volving loan fund.
14

15 Sec. 45.86.040. ADMINISTRATION OF LOANS. (a) Administration of the
16 water resources revolving loan fund shall be performed by the Department
17 of Commerce which is empowered to adopt procuedres and promulgate the regu-
18 lations necessary to carry out the provisions of this chapter.
19

20 (b) There is created within the department the Water Resources
21 Revolving Loan Fund Committee chaired by the commissioner or his deputy,
22 and including as members the director of the division of energy and
23 power development and the director of the division of business loans.
24 The committee shall review all applications referred to it for approval
25 by the department.
26
27
28
29

1 (c) The department shall establish a priority list for the approval
2 of project applications based upon a determination of which projects
3 will better serve the interests of the state. An applicant may appeal
4 the level of priority assigned to his application by requesting a re-
5 view of the list of priorities by the committee. The committee, upon
6 sufficient notice and a public hearing, may change an assigned priority.
7 Applications not approved due to a lack of funds will retain the
8 priority assigned and may be held for reconsideration.
9

10 Sec. 45.86.050. ELIGIBILITY FOR PROJECT LOANS. A public utility
11 is an eligible borrower for a project loan under this chapter if
12

13 (1) it is a public utility as defined in AS 42.05.701.(2)(A),
14 and (C);

15 (2) the utility can demonstrate in its loan application that
16 the project is economically and technically feasible and, taking into
17 account the low interest on loans under this chapter, is the most eco-
18 nomical means of furnishing the proposed service.

19 Sec. 45.86.060. DEFINITIONS. In this chapter,

20 (1) "commissioner" means the commissioner of the Department
21 of Commerce and Economic Development;

22 (2) "department" means the Department of Commerce and Econo-
23 mic Development.
24
25
26
27
28
29

ALASKA WATER RESOURCES PROJECTS

REV. 1/30/76

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS
FY 1976 and FY 1977

<u>CITY</u>	<u>PROJECT NAME</u>	<u>SCHEDULED IN-SERVICE DATE</u>	<u>FUNDING REQUIREMENTS (\$)</u>	
			<u>FY 1976</u>	<u>FY 1977</u>
PETERSBURG	BLIND SLOUGH EXPANSION	JAN. 1979	130,000	680,000
PETERSBURG - WRANGELL	THOMAS BAY	JAN. 1983	20,000	280,000
SITKA	GREEN LAKE	JULY 1981	50,000	400,000
KETCHIKAN	SWAN LAKE OR LAKE GRACE	JULY 1982	30,000	390,000
KODIAK	TERROR LAKE	JULY 1982	30,000	390,000
ANCHORAGE	MUNICIPAL WATER	.	--	230,000
CORDOVA	POWER CREEK	JULY 1982	10,000	270,000
TOTAL			\$ 270,000	\$ 2,640,000
USE			<u>\$ 300,000</u>	<u>\$ 2,700,000</u>

DRAFT

Rev. 3/3/77

APPROPRIATION TO WATER RESOURCES REVOLVING LOAN FUND
FISCAL YEAR 1978

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS

<u>COMMUNITY - OWNER</u>	<u>PROJECT NAME</u>	<u>SCHEDULED IN-SERVICE DATE</u>	<u>FUNDING REQUIREMENTS (\$)</u>
PETERSBURG - WRANGELL THOMAS BAY POWER COMMISSION	VIRGINIA LAKE HYDRO	NOVEMBER 1983	300,000
SITKA - CITY AND BOROUGH	GREEN LAKE HYDRO	OCTOBER 1981	1,600,000
KETCHIKAN - CITY	SWAN LAKE HYDRO OR LAKE GRACE HYDRO	JULY 1983	400,000
KODIAK - KODIAK ELECTRIC ASSOCIATION	TERROR LAKE HYDRO	JULY 1983	190,000
ANCHORAGE - MUNICIPALITY	MUNICIPAL WATER SUPPLY		200,000
CORDOVA - CITY	POWER CREEK HYDRO	JULY 1983	380,000
KENAI - BOROUGH	MUNICIPAL WATER SUPPLY		150,000
JUNEAU - ALASKA ELECTRIC LIGHT AND POWER COMPANY	AUTOMATING ANNEX CREEK HYDRO		480,000
CRAIG - KLAWOCK - HYDABURG MUNICIPALITIES	BLACK BEAR LAKE HYDRO		30,000
	SUBTOTAL		3,730,000
	LESS LEFTOVER FY 1977		230,000
	TOTAL		<u>3,500,000</u>

EXHIBIT 6
2 of 3

Original sponsors: Gardiner, Duncan,
Eliason, et al

Offered: 4/27/77
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 357 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation for power and
7 water projects; and providing for an effective date."

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

9 * Section 1. The sum of \$3,600,000 is appropriated from the general fund
10 in the following manner:

11 (1) \$1,600,000 to the Department of Revenue for a loan to the
12 municipality of Sitka for design, site preparation and preconstruction
13 activity for the Green Lake hydroelectric project; the terms and con-
14 ditions of the loan are to be determined by the commissioner of revenue
15 in consultation with the commissioner of public works;

16 (2) \$1,800,000 to the power project revolving loan fund
17 established by AS 44.56.170 to carry out the purposes of that loan
18 program;

19 (3) \$200,000 to the water resources revolving loan fund with-
20 in the Department of Commerce and Economic Development to carry out the
21 purposes of the water resources loan program.

22 * Sec. 2. This Act takes effect immediately in accordance with
23 AS 01.10.070(c).
24
25
26
27
28
29

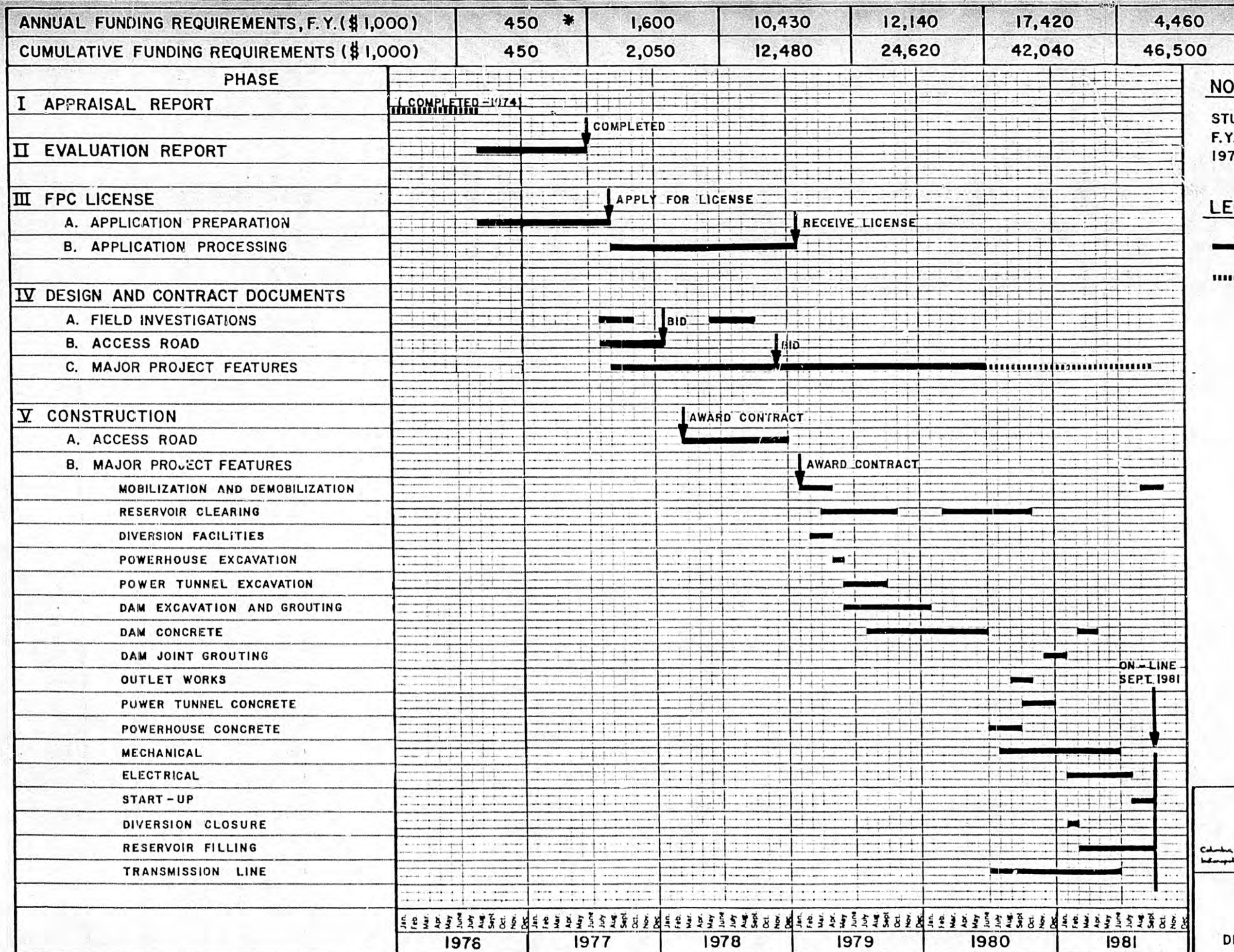


EXHIBIT C

NOTE

STUDIES FUNDED IN 1976-77
F.Y. * INITIATED IN SEPTEMBER 1976.

LEGEND

MAJOR EFFORT
CONTINUING EFFORT

R. W. BECK and ASSOCIATES

ENGINEERS AND CONSULTANTS

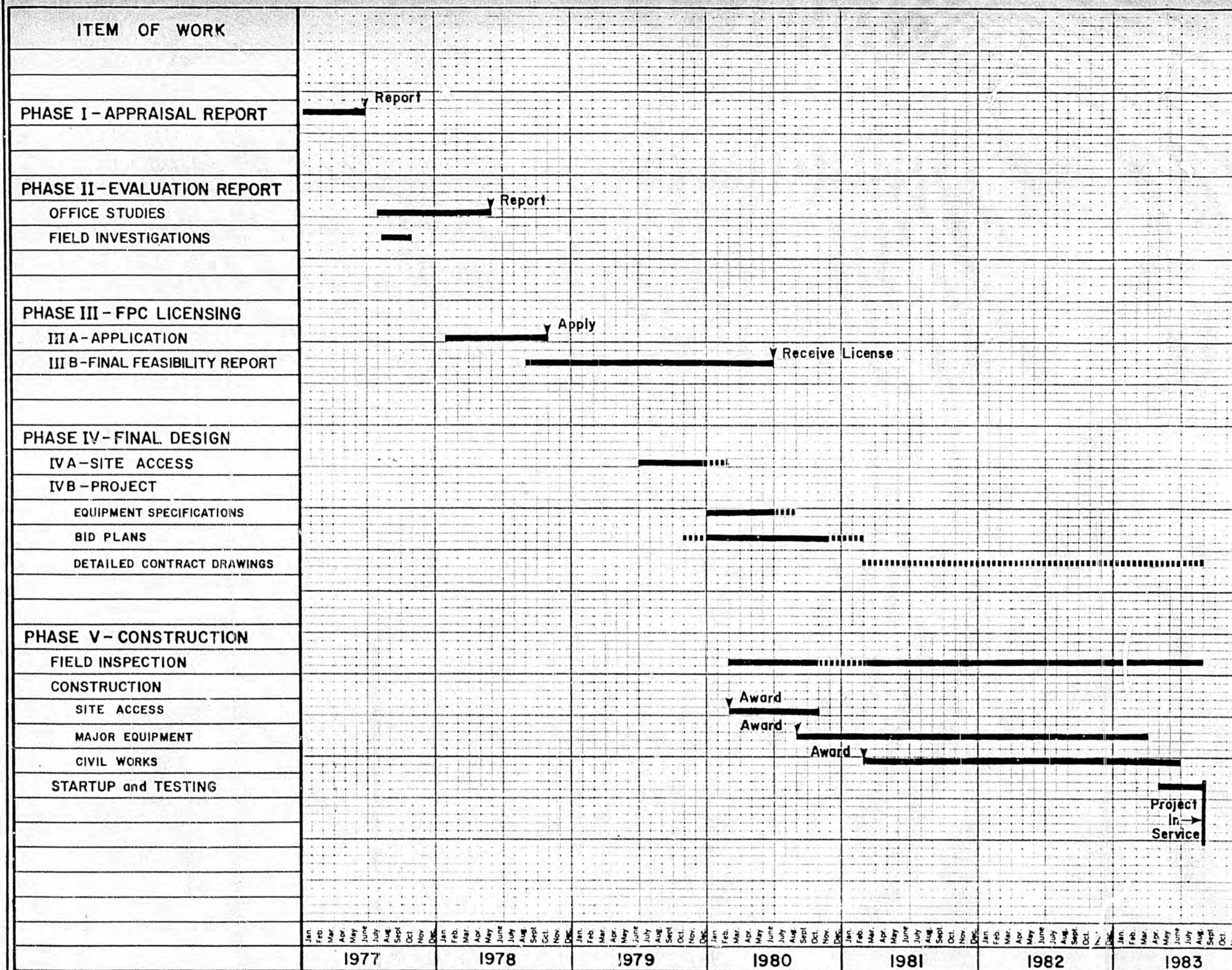
Seattle, Washington
Denver, Colorado
Phoenix, Arizona
Columbus, Nebraska
Indianapolis, Indiana
Orlando, Florida
Woburn, Massachusetts

CITY AND BOROUGH OF SITKA
ALASKA

GREEN LAKE PROJECT
DESIGN AND CONSTRUCTION
SCHEDULE

DATE: JUNE 1977
DRAWN: BBS
APPROVED: RBS
PG. 10

EXHIBIT D



LEGEND

Major Effort

Continuing Effort

R. W. BECK and ASSOCIATES

ENGINEERS AND CONSULTANTS

Columbus, Nebraska
Indianapolis, Indiana
Seattle, Washington
Denver, Colorado
Phoenix, Arizona
Orlando, Florida
Woburn, Massachusetts

KETCHIKAN PUBLIC UTILITIES

KETCHIKAN, ALASKA

DESIGN AND CONSTRUCTION
SCHEDULE

DATE:
JUNE 1977

DRAWN:
BBB

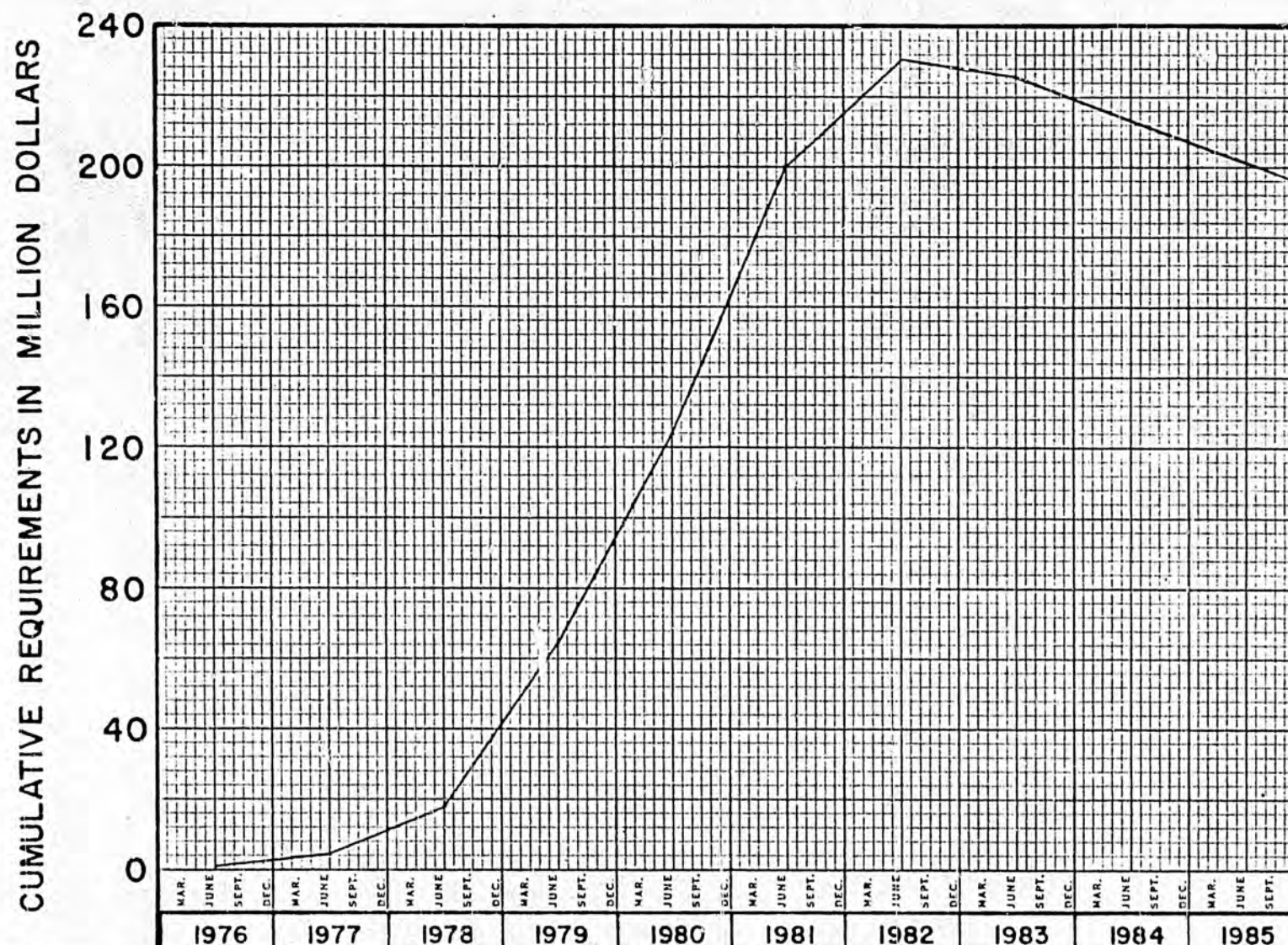
APPROVED:
[Signature]

PAGE:
6

WATER RESOURCES REVOLVING LOAN FUND

BROAD ESTIMATE OF FUND REQUIREMENTS⁽¹⁾

EXHIBIT E



	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
ANNUAL REQUIREMENTS (\$1000)	450	3,650	14,130	46,530	58,970	77,660	31,560	5,800		
NET CUMULATIVE REQUIREMENTS	450	4,100	18,180	64,960	123,880	201,490	230,410	226,010	213,580	201,140

(1.) For hydroelectric projects for which some loans have already been made including: Sitka - Green Lake, Ketchikan - Swan Lake, Petersburg + Wrangell - Virginia Lake, and Kodiak - Terror Lake.

RWB
10/13/77

THE SOUTHEASTERN CONFERENCE

21ST ANNUAL CONVENTION

OCTOBER 13 - 14, 1977

CENTENNIAL BUILDING SITKA, ALASKA

THURSDAY, OCTOBER 13

8:30 am Registration (Fee \$25.00)

9:30 am Opening Session
Mayor of Sitka, Welcome to Sitka
James Eide, President, Welcome to Conference

Appointments
Policy Statement Committee (Chairman, Director Harry Aase)
Nomination Committee (Chairman, 1st Vice Pres. John Halliwell)

10:30 am Southeast Transportation Study
Don Harris, Commissioner, Dept of Transportation
John Umlaref, Director, Division Transportation Planning
Morton Cook, Southeast Regional Planning Engineer
Andrew Hughes, Project Manager, S.E. Transportation Study

12:00 noon Lunch Break

1:30 pm Role of the Alaska Permanent Fund
Discussion Chairman, John Halliwell
Jim Edenso, Deputy Commissioner, Dept of Revenue, State
Investment Advisory Committee
~~Representative Clark Gruening, Chairman~~ Russ
House Special Committee Permanent Fund
~~Senator George Hohman, Chairman~~ Pat Rodey
Senate Special Committee Permanent Fund
Don Bowey, Assistant Manager
Ketchikan Public Utilities — Panel
Rocky Gutierrez, City Administrator
City & Borough of Sitka —
Richard Ballard, Chairman
Thomas Bay Power Authority — Dan
James V. Williamson
R. W. Beck & Associates

5:30 pm Adjournment Evening Open

FRIDAY, OCTOBER 14

9:00 am State Land Selection
Chip Dennerlien, Selection Team
Department of Natural Resources

10:15 am Coffee Break

10:30 am Southeast Coastal Management Program
Mark Stevens, Division of Planning
Department of Community & Regional Affairs
Dean Lemon
U.S. Borax Corporation
Don Fenney
Ketchikan Pulp Company

12:00 noon Lunch Break

1:30 pm Business Meeting
Report by Policy Statement Committee
Harry Aase, Chairman

Action on Policy Statement

Report by Nomination Committee
John Halliwell, Chairman

Election of Board of Directors

Site Selection for 1978 Conference

Other Business

4:00 pm Board of Directors Meeting

6:30 pm Bourbon Renewal Seminar
Courtesy of R.W. Beck & Associates.

7:30 pm Banquet, Centennial Building
Entertainment will be provided

Alaska State Legislature

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

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

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



MEMBERS

REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
REP. RICK URION

House of Representatives

September 22, 1977

The Honorable Bill Miles
528 West Fifth
Anchorage, AK 99501

Dear Bill:

The Committee has been invited to make a presentation and answer questions during the Southeast Hydropower Conference in Sitka. These activities have been scheduled for October 13, at 1:30 p.m. in the Centennial Building.

If you plan to attend, please notify this office so that we can make the appropriate arrangements.

Sincerely,

Mike

Mike Doogan
Administrative Assistant

MD:LAD

*Mike -
Don't count
on me.
Bill*

October 21, 1977

To All Legislators of
The State of Alaska

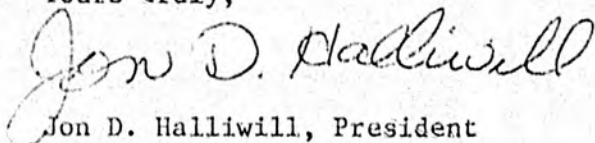
Gentlemen:

At our annual meeting held in Sitka on October 13 and 14, the Southeastern Conference drafted the enclosed Policy Statement. We would like to urge you to familiarize yourself with each of the areas involved. The statements made, we feel, are brief and quite self-explanatory.

At the present time we are seeking a lobbyist to represent our Conference during the upcoming legislative session. We will be putting great emphasis on the permanent fund and hydro-electric development as well as an equal emphasis on the release of trust land for development in Southeast Alaska. Mental Health and trust land now held by the State of Alaska are strangling the growth of many Southeast Alaska communities and it is the feeling of the Southeastern Conference that more must be done to release these lands for private ownership.

I urge your consideration of the Policy Statement, and look forward to your support in the next legislative session.

Yours truly,

A handwritten signature in cursive script that reads "Jon D. Halliwill". The signature is written in dark ink and is positioned above the typed name and title.

Jon D. Halliwill, President
Southeastern Conference
P. O. Box 547
Haines, AK

THE SOUTHEASTERN CONFERENCE

21st ANNUAL CONVENTION

OCTOBER 13 - 14, 1977

CENTENNIAL BUILDING, SITKA, ALASKA

The 21st Annual Convention of The Southeastern Conference was opened at 9:45 a.m., October 13, 1977, by its President, James Eide.

Mr. Larry Armstrong, President of the Sitka Chamber of Commerce gave a short welcome address.

James Eide reviewed the role of the Southeastern Conference and its accomplishments. He mentioned that the Southeastern Conference had been instrumental in the development of the Alaska Marine Highway System, establishment of airports in many communities, development of ports and harbors in Southeast, and in hydroelectric power development. He outlined areas of concern of the Conference as coastal management, transportation, and the permanent fund.

Committee appointments were made as follows:

Policy Statement Committee:

Harry Aase, Chairman
Pat Teaugeu
Sam Privett
Dave Fremming
Carl Heinmiller
Rocky Gutierrez

Nominations Committee

John Halliwill, Chairman
Bill Overstreet
Monte Guyman

Jim Davis, Manager of the Sitka Chamber of Commerce welcomed everyone to Sitka. Jim Eide then introduced the Board of Directors.

Southeast Transportation Study. A panel consisting of Don Harris, Commissioner, Department of Transportation; Don Stater, Division of Harbor Design and Construction; Doug Burton, Manager, Marine Highway System; John Umlauf, Director, Division of Transportation Planning; Morton Cook, Southeast

Regional Transportation Manager; and Andrew Hughes, Project Manager, Southeast Transportation Study reviewed the transportation system in Southeast Alaska. It was announced that Cecil McClain is a member of the Governor's Transportation and Planning Council.

Don Harris, first speaker outlined the organization of the Department of Transportation. Most of the Department is located in Juneau, however there are a few divisions in Anchorage.

Don Stater indicated that a great amount of money has been spent in this State for ports and harbors. There is additional demand for harbor space in all communities in Southeast and in all Alaskan coastal cities. Construction of new facilities cannot hope to keep pace with the constant increase in demand. He indicated that Southeast has been able to provide better harbors than most of the rest of the State. He mentioned that a number of the harbors are beginning to generate income and can improve facilities such as parking with this revenue.

Doug Burton, Traffic Manager of the Marine Highway System, reviewed the operation of the System. He explained the relationship between traffic, fares, and expenses of the System. He indicated that an effort needs to be made to increase traffic from outside during the winter months in order to increase revenues. He explained possible additional commuter routes for future years and how they effect expenses and revenues. Plans as explained were tentative.

John Umlauf, Director, Division of Transportation Planning posed the question, "How much transportation is too much?" He pointed out that every road that is built needs to be maintained. Many roads in Alaska are deficient and need substantial repairs. The cost to build highways is steadily increasing, and so is the cost to maintain those highways after they are built. Many roads are built for convenience, and that convenience costs a lot of money.

Morton Cook and Andrew Hughes refered to a multi-modal system, integrating air, land, and water transportation. They reviewed the transportation study being done by Wilbur Smith and Associates, its objectives and its progress to date. Three items under study at the moment are: 1. The three possible southern terminus for the Marine Highway System, 2. Additional roads connecting Southeast with the Canadian highway system, and 3. Centralized or decentralized barge service in Southeast.

Role of the Alaska Permanent Fund was the discussion topic for the afternoon session on October 13. Panel members were: John Halliwill, Discussion Chairman; Jim Edenso, Deputy Commissioner, Department of Revenue, State Investment Advisory Committee; Representative Ross Meekins, Jr., House Special Committee Permanent Fund; Senator Pat Roddy, Senate Special Committee Permanent Fund; Don Bowey, Assistant Manager, Ketchikan Public Utilities; Rocky Gutierrez, City Administrator, City & Borough of Sitka; Richard Ballard, Chairman, Thomas Bay Power Authority; Sterling Gallegher, Commissioner, Department of Revenue; and James V. Williamson, R. W. Beck & Associates.

Jim Edenso, State Investment Advisory Committee, reviewed the legislation leading up to establishment of the Permanent Fund. He reviewed the structure being set up to administer the Permanent Fund, indicating that there was a 9-member Policy Board, and a 5-member Investment Committee to review and approve all investments. He charted the balances in the General Fund through the next several years based on 25, 50, and 75% contribution to the Permanent Fund.

Sterling Gallegher, Commissioner, Department of Revenue, reviewed the development bank concept being considered and the reasons for it. Senator Pat Roddy reviewed the administration of the Fund, the rate of contribution to the Fund, and possible uses for the Fund. Representative Russ Meekins, Jr., discussed the issue of accountability vs. efficiency of the Fund, the type of investments the Fund should make, and who should decide where the Fund invests. Don Bowey, urged that the Fund be used for hydro power development. He reviewed the advantages of hydro power and emphasised the fact that hydroelectric power is a renewable resource. Dick Ballard of the Thomas Bay Power Authority reviewed the Renewable Resources Revolving Fund. Rocky Gutierrez read a letter emphasizing the need for more hydro power development and money from the Permanent Fund for its development.

There was a great deal of discussion about ways the Permanent Fund could be used to finance hydroelectric power projects. This was a primary concern of the people present and generated a lot of discussion and questions both from the floor and from the panel. There was also a good deal of discussion about whether to invest the Permanent Fund in the State or outside of the State.

The Convention was opened at 9:00 a.m. on Friday October 14, 1977.

State Land Selection. Chip Dennerlien, Selection Team, Department of Natural Resources gave a lengthy talk about the first phase of the State Land Selection which is almost complete. He emphasized that public cooperation has been stressed during the selection process and response has been excellent. One of the main problems of the land selection process is the mental health lands which ring most Southeastern cities. This land is needed for community development but is not available for selection. Sterling Gallegher, Commissioner of Revenue, also spoke and outlined the State's intention with respect to the Mental Health Lands. There was some discussion on ways cities could work with the State to release Mental Health lands for community development.

Southeast Coastal Management Program. Mark Stevens, Division of Planning, Department of Community & Regional Affairs, and Don Finney, Louisiana Pacific, Ketchikan Division comprised the panel for this discussion. Dean Lemon, U. S. Borax Corporation sent his regrets. Mark Stevens reviewed the legislation effecting coastal management in Southeast Alaska. He indicated that the program is new and many of the details have not yet been worked out. Each organized city and borough, called a district in the legislation, is charged with the responsibility of developing its own Coastal Management Program. Guidelines set up for each district program include: 1. How far inland does the coastal zone extend; 2. What are the uses that need to be managed; 3. What are the policies to be applied to those uses in the area; 4. What means will be applied to enforce the policies; 5. What are the policies for special areas; and 7. What means are to be used to measure the progress of the program.

Don Finney, presented private industries view of coastal management. He indicated that coastal management is viewed as a necessary program. He indicated that industry is concerned with the number of permits required for any development at the present time. He felt that a coastal management program should not just require additional permits. He felt that planning and control of coastal areas could be done and growth still be allowed in the area.

There was some discussion and concern about coastal areas in unorganized cities and boroughs and how a program would be drawn up for those areas. The effect of a district's program, or lack of a program, on adjoining districts was also a concern of persons present.

The afternoon of October 14 started off with a presentation by James Johnson of Alaska Airlines. Alaska Airlines is presently involved in trying to get authorization for flights from Alaska to Oregon and California. They have built several new buildings in the last two years, and look forward to a number of new planes in the next several years.

The business meeting was opened by President Jim Eide. The roll was called and a quorum was declared. Communities with representatives present were: Haines, Hoonah, Juneau, Kake, Ketchikan, Petersburg, Sitka, and Wrangell.

The first item of business was the presentation of the draft Policy Statement by the Policy Statement Committee. Chairman, Harry Aase, presented the statement. The members of the committee were Pat Teaugeu, Dave Fremming, Sam Privett, Rocky Gutierrez, John Halliwill, and George Davidson. Mr. Aase thanked all members of the committee for the work they did.

Municipal Land Selections. The statement as submitted reads as follows:

Because communities of Southeast Alaska are for the most part surrounded by Mental Health Lands making logical and orderly land selections by those municipalities under the NFGC impossible. Since the State is in the process of nominating lands to be withdrawn under selection from the National Forest for community expansion, and Southeast community needs cannot be met by selecting non-contiguous lands, the Southeastern Conference urges the State to reclassify certain lands surrounding Southeastern municipalities from Mental Health, to a classification allowing municipal selection.

MOTION by Cecil McClain seconded by John Halliwell to accept the statement as read. Motion passed.

Coastal Zone Management. The statement as submitted reads as follows:

The Southeastern Conference strongly supports the concept of the development of coastal zone management policies which will maximize local municipal control over the development of land use planning for all coastal areas within the corporate boundaries of each organized municipality.

MOTION by John Halliwill, seconded by Sunny Hicks to accept the statement as read. After some discussion this item was deferred for further consideration.

CMAL Proposal. The statement as submitted reads as follows:

The Southeastern Conference supports the program and ongoing efforts of the Citizens for the Management of Alaska Lands. CMAL's balanced approach to the problem of equitable land allocation in Southeast Alaska embodies the most practical solution that will allow for adequate economic growth and provide work for residents while at the same time protecting the environmental values we feel are important to our quality of life.

MOTION by Monte Guyman, seconded by Mike Salazar to accept the statement as read. Motion passed.

Permanent Fund. The statement as submitted reads as follows:

The Southeastern Conference supports the policy of setting aside a percentage of the Permanent Funds to be used solely for the construction of hydro-electric energy sources.

MOTION by Chuck Poole, seconded by Don Bowey to accept the statement as submitted. After some discussion this item was deferred for further consideration.

Tourism. The statement as submitted reads as follows:

The Southeastern Conference urges the State to provide effective support for tourism development by supporting projects which enhance community identification, and by assisting communities to develop projects which enhance off-season travel, such as convention centers. The development of multi-use facilities such as combination convention center/community center complexes are supported strongly.

MOTION by Bill Verwolf, seconded by Bill Sherman to accept the statement as read. Motion passed.

New Capital City. The statement as submitted reads as follows:

The Southeastern Conference opposes any State appropriation of investment from the Permanent Fund to build a new capital city until the critical needs of existing communities have been satisfied in such areas as adequate school facilities; housing; hospitals; energy supplies and/or power sources; sewer and water systems; transportation facilities; ports and harbors; communications; tourist and other economic diversification projects; etc. We support the right of the people to know the full cost and impact of building a new capital city and their right to vote on an initiative regarding bonding for the full amount.

MOTION by Monte Guyman, seconded by Bill Verwolf to accept the statement as read. MOTION to amend by Mike Salazar, seconded by Chuck Poole to add the word "airports" after "transportation facilities". Amendment passed, motion passed.

Fisheries Rehabilitation. The statement as submitted reads as follows:

The Southeastern Conference supports the development of a maximum sustained yield from Alaska waters through the development of salmon enhancement and rehabilitation projects. We urge the State and the National Marine Fisheries Center to conduct ground fish stock analysis and to design appropriate gear types for the harvesting of ground fish. We support regional

cooperation in a one-year demonstration catching and processing project to demonstrate the ability of Americans to take advantage of the opportunity provided by the Fisheries Management Conservation Act and strong markets for bottom fish.

MOTION by Ben Grusendorf, seconded by Monte Guyman to accept the statement as read. After some discussion the item was deferred for further consideration.

Land Management Concerns. The statement as submitted reads as follows:

The Southeastern Conference urges that potential hydroelectric projects be eliminated from Federal and State D-2 selections by providing sites for dam sites, corridors for water and electric transmission lines, associated substations and all attendant facilities.

The Conference further supports the preservation of rights-of-way from all Non-State land selection and classification for the purpose of providing for future construction of public accesses of various types.

MOTION by Sunny Hicks, seconded by John Halliwill to accept the statement as submitted. This item was deferred for further consideration.

Ports and Harbors. The statement as submitted reads as follows:

Since Alaska economically depends heavily upon ocean shipping, the Conference supports the State's Port and Harbor Grant programs and urges further expansion of those programs. Major port facility plans should be prepared and developed.

MOTION by Dave Fremming, seconded by Mike Salazar to accept the statement as read. Motion passed.

Transportation. The statement as submitted reads as follows:

The Conference supports effort to provide efficiencies in the operation of the Alaska Marine Highway System providing those efficiencies do not further reduce the quality of service.

The Southeast Conference strongly supports expansion of ferry service to southeast Alaskan ports and strongly urges the State to provide for community review prior to finalizing marine highway rates and schedules.

The Conference supports efforts toward an expanded Alaska railroad system to serve areas beyond the current railroad terminus and to extend said system to Southeastern Alaska.

The Conference supports the development of a transportation program which identifies the needs and establishes an improvement program for all forms of transportation in Southeastern to include commercial and private air, marine and land transportation systems and adequate consideration for emergency facilities.

MOTION by Monte Guyman, seconded by Mr. Klien to accept the statement as read. This item was deferred for further consideration.

Permanent Fund. MOTION to amend was made by Don Bowey and seconded by Sunny Hicks to 1. delete the word "a" after "setting aside" and add "an adequate", 2. add "long-term, low-interest financing of" after "used solely for", and 3. add "energy and potable water supply sources" after "hydro-electric". The President decided to divide the vote. Portion 1 of the amendment passed. A roll call vote was called on the portion 2 of the amendment, it did not pass. Portion 3 of the amendment passed. The motion was voted on and passed. The statement as adopted reads as follows:

The Southeastern Conference supports the policy of setting aside an adequate percentage of the Permanent Funds to be used solely for the construction of hydro-electric energy and potable water supply sources.

Fisheries Rehabilitation. MOTION to amend was made by Sunny Hicks and seconded by Bill Verwolf to insert the word "marketable" in place of the word "ground" after "National Marine Fisheries Center to conduct", and to delete "and to design appropriate gear types for the harvesting of ground fish." The amendment passed, the motion passed.

Land Management Concerns. MOTION to amend was made by Don Bowey and seconded by Mike Salazar to add "headwater rights" after "D-2 selections by providing" and to add "power house" after "electric transmission lines". The amendment passed, the motion passed.

Transportation. MOTION to amend was made by John Halliwill and seconded by Don Bowey to delete the paragraph referring to railroads. The amendment passed.

MOTION to amend was made by Mike Salazar and seconded by John Halliwill to delete the last word of the statement, "facilities", and add the word "airports". The amendment passed.

MOTION to amend was made by Rocky Gutierrez and seconded by John Halliwill to change the first paragraph to read "The Conference supports effort to provide efficiencies in the operation of the Alaska Marine Highway System providing those efficiencies are not in the form of a reduction of passenger service." Amendment passed.

MOTION to amend was made by Bill Verwolf and seconded by Mike Salazar to change the second paragraph to read: "The Legislature of the State of Alaska is requested to initiate and conduct a complete investigation of the administration of the Division of Marine Transportation to determine the degree of good business practice and operational responsibility being exercised in the overall planning, operation and legislative mandate creating the Alaska Marine Highway System." The amendment failed.

MOTION to amend was made by Bill Verwolf and seconded by John Halliwill to add the words "operational changes" after "marine highway" in the second paragraph. Amendment passed.

The motion passed. The statement as adopted reads as follows:

The Conference supports effort to provide efficiencies in the operation of the Alaska Marine Highway System providing those efficiencies are not in the form of a reduction of passenger service.

The Southeast Conference strongly supports expansion of ferry service to southeast Alaskan ports and strongly urges the State to provide for community review prior to finalizing marine highway operation changes, rates, and schedules.

The Conference supports the development of a transportation program which identifies the needs and establishes an improvement program for all forms of transportation in southeastern to include commercial and private air, marine and land transportation systems and adequate consideration for emergency airports.

Coastal Zone Management. MOTION to amend made by Bill Verwolf and seconded by Rocky Gutierrez to change the statement to read "The Southeastern Conference strongly supports the concept of providing maximum local participation in the development of State guidelines for coastal management, and local control over development of coastal programs." The amendment passed, the motion passed.

John Halliwill was called upon next to present the report from the Nominations Committee. The nominations for the four vacancies on the Board of Directors are as follows: Hack White, Petersburg; Sam Privett, Wrangell; Ted Ferry, Ketchikan; and George Davidson, Juneau. All four men were unanimously elected.

A MOTION was made by Sunny Hicks and seconded by Dave Fremming to hold the 1978 convention in Petersburg. Motion passed.

The meeting was then opened for new business.

Mike Salazar made a MOTION read in the form of a resolution, the motion was seconded by Cecil McClain and read as follows:

WHEREAS, The Southeastern Conference recognizes the great contributions that David F. Murdy has made to Southeast Alaska as well as the whole State of Alaska, and;

WHEREAS, His unselfish contributions to various and many organizations and his attitude to see that tasks assumed were accomplished with professionalism and dispatch thereby resulting in the enhancement of the livability and life of all Alaskans;

NOW THEREFORE BE IT RESOLVED, That the Southeastern Alaska Delegation representing all of the Southeast Alaska and known as the Southeastern Conference, do hereby officially recognize by unanimous consent, the tremendous efforts of our dear departed friend, Mr. David F. Murdy;

BE IT FURTHER RESOLVED AND DIRECTED, That a copy of this resolution be delivered to Mrs. (Phyllis) David F. Murdy.

Dated this 14th day of October 1977.

Motion passed.

A MOTION was made by Don Bowey and seconded by Bill Schirmer, "that the Southeastern Conference employ the services of a lobbyist to work in the best interests of the Southeastern community in Juneau during the forthcoming legislative session; further, contingent on the President and Board of Directors of the Southeastern Conference selecting such a person and arranging for the funding of the lobbying effort." Motion passed.

A MOTION was made by Cecil McClain and seconded by John Halliwill to reopen the policy statement for an addition. Motion passed.

Bill Verwolf invited the members present who are also members of the Municipal League to contact him to discuss the feasibility of self-insurance for basic liability and comprehensive insurance.

Jim Eide thanked the City and Borough of Sitka and the Sitka Chamber of Commerce for hosting the conference. Thanks were also extended to Jim Williamson for his seminar to be held at 6:30 p.m.

A MOTION was made by Chuck Poole and seconded by Monte Guyman to add the following to the Policy Statement

"Economic Development Policy

We support the prompt, expeditious handling of all permits and work-plan approvals by all State and Federal agencies necessary to the approval, construction, and operation of reasonable access routes to mineral deposits and natural resources in Southeast Alaska."

Motion passed.

The 21st Annual Convention of The Southeastern Conference was adjourned at 4:30 p.m., October 14, 1977

THE SOUTHEASTERN CONFERENCE

21st ANNUAL CONVENTION

OCTOBER 13 - 14, 1977

REGISTRATION

- | | |
|-------------------------|---|
| 1. Jim Williamson | R. W. Beck and Associates, 200 Tower Bldg.
Seattle, WA |
| 2. Miles Murphy | |
| 3. Thomas Broady, Jr. | P. O. Box 6410, Anchorage |
| 4. Rocky Gutierrez | P. O. Box 79, Sitka |
| 5. Bill Overstreet | 318 Hiland Dr., Juneau |
| 6. Sam Privett | P. O. Box 841, Wrangell |
| 7. Jim Eide | P. O. Box 841, Wrangell |
| 8. Walt McPherson | P. O. Box 109, Juneau |
| 9. Drn Bowey | P. O. Box 7300 Ketchikan |
| 10. Ted Ferry | P. O. Box 3700 Ketchikan |
| 11. Carl Larson | 3356 Dale St., Ketchikan |
| 12. Mike Kouni | 1306 Water, Ketchikan |
| 13. Bill Verwolf | 344 Front, Ketchikan |
| 14. Monte Guyman | 701 Buren, Ketchikan |
| 15. Reinhardt Klien | 320 Broaden, Ketchikan |
| 16. Helen Finney | 3903 Baranof, Ketchikan |
| 17. Tom Glenn | 625 Cornwall Ave., Bellingham, WA |
| 18. John Umlauf | P. O. Box 182, Douglas |
| 19. Andy Hughes | Rt. 6, Box 4050-80, Juneau |
| 20. Larry Armstrong | P. O. Box 657, Sitka |
| 21. David Moffit | P. O. Box 329, Petersburg |
| 22. Hack White | P. O. Box 586, Petersburg |
| 23. Bill Schirmer | P. O. Box 1110, Wrangell |
| 24. Mort Cook | Rt. 4, Box 4355, Juneau |
| 25. Senator Pete Meland | P. O. Box 53, Sitka |
| 26. Ken Johnson | P. O. Box 3-1000, Juneau |
| 27. Harry Aase | P. O. Box 2895, Juneau |
| 28. John Halliwill | P. O. Box 547, Haines |
| 29. N. L. Teague | P. O. Box 7300, Ketchikan |
| 30. Susie Greggflower | Pouch V., Juneau |
| 31. Doug Burton | Rt. 6, Box 4120, Juneau |
| 32. Schaefer Dixon | P. O. Box 2268D, Pasadena, CA |
| 33. Chuck Poole | 1225 Tongass, Ketchikan |
| 34. Mike Salazar | P. O. Box 69, Ketchikan |
| 35. Jim Edenso | Pouch S.B., State of Alaska, Juneau |

The Southeastern Conference
Registration
Page 2

36. Steve Race	1 Maritime Plaza, San Francisco, CA
37. Dave Fremming	200 N. Franklin, Juneau
38. Ben Grusendorf	P. O. Box 928, Sitka
39. Dale Rusnell	338 Denali, Anchorage
40. Bill Mearig	P.O. Box 329, Petersburg
41. Sterling Gallegher	Pouch S, Juneau
42. Frank Gordon	P. O. Box 142, Kake
43. Jane Hanchett	P. O. Box 7900, Ketchikan (Daily News)
44. Don Sheia	P. O. Box 475, Juneau
45. Larry Stewart	Hydro Specialist, General Electric Co. 1031 N. 4th Ave., Kent, WA
46. Jim Johnson	154 S.W. 18th, Seattle, WA
47. Jamie Love	P. O. Box 1093, Anchorage
48. Charles Logsdom	P. O. Box 387, Palmer
49. Gene Erskine	3636 Low Rd., Anchorage
50. Mark Stephens	Pouch B, Juneau
51. Russ Meekins	1526 K Street, Juneau
52. Mike Doogan	926 W. 19, Anchorage
53. Dave Miller	P. O. Box 130, Juneau
54. Sam Plaia	1 Liberty Plaza, 91 Liberty St., New York
55. Ted Swick	1 Liberty Plaza, 91 Liberty St., New York
56. Bob Pride	100 W. Harrison, Seattle
57. Gordon Johnson	6551 - 47th Ave., Seattle
58. George Davison	1711 Gasier Ave., Juneau
59. Ken Freeman	Sitka
60. Dick Ballard	Thomas Bay Power Commission, Wrangell
61. Carl Steeby	P. O. Box 4610, Anchorage
62. Mike Cunningham	2035 - 2nd Ave., Ketchikan
63. Cecil McClain	P. O. Box 118, Sitka

THE SOUTHEASTERN CONFERENCE

21st ANNUAL CONVENTION

OCTOBER 13 - 14, 1977

SITKA, ALASKA

POLICY STATEMENT

MUNICIPAL LAND SELECTIONS

Because communities of Southeast Alaska are for the most part surrounded by Mental Health Lands making logical and orderly land selections by those municipalities under the NFGC impossible. Since the State is in the process of nominating lands to be withdrawn under selection from the National Forest for community expansion, and Southeast community needs cannot be met by selecting non-contiguous lands, the Southeastern Conference urges the State to reclassify certain lands surrounding Southeastern municipalities from Mental Health, to a classification allowing municipal selection.

COASTAL ZONE MANAGEMENT

The Southeastern Conference strongly supports the concept of providing maximum local participation in the development of State guidelines for coastal management, and local control over development of coastal programs.

CMAL PROPOSAL

The Southeastern Conference supports the program and ongoing efforts of the Citizens for the Management of Alaska Lands. CMAL's balanced approach to the problem of equitable land allocation in Southeast Alaska embodies the most practical solution that will allow for adequate economic growth and provide work for residents while at the same time protecting the environmental values we feel are important to our quality of life.

PERMANENT FUND

The Southeastern Conference supports the policy of setting aside an adequate percentage of the Permanent Funds to be used solely for the construction of hydro-electric energy and potable water supply sources.

TOURISM

The Southeastern Conference urges the State to provide effective support for tourism development by supporting projects which enhance community identification, and by assisting communities to develop projects which enhance off-season travel, such as convention centers. The development of multi-use facilities such as combination convention center/community center complexes are supported strongly.

NEW CAPITAL CITY

The Southeastern Conference opposes any State appropriation or investment from the Permanent Fund to build a new capital city until the critical needs of existing communities have been satisfied in such areas as adequate school facilities; housing; hospitals; energy supplies and/or power sources; sewer and water systems; transportation facilities; airports; ports and harbors; communications; tourist and other economic diversification projects, etc. We support the right of the people to know the full cost and impact of building a new capital city and their right to vote on an initiative regarding bonding for the full amount.

FISHERIES REHABILITATION

The Southeastern Conference supports the development of a maximum sustained yield from Alaska waters through the development of salmon enhancement and rehabilitation projects. We urge the State and the National Marine Fisheries Center to conduct marketable fish stock analysis. We support regional cooperation in a one-year demonstration catching and processing project to demonstrate the ability of Americans to take advantage of the opportunity provided by the Fisheries Management Conservation Act and strong markets for bottom fish.

LAND MANAGEMENT CONCERNS

The Southeastern Conference urges that potential hydroelectric projects be eliminated from Federal and State D-2 selections by providing headwater rights, sites for dam sites, corridors for water and electric transmission lines, power houses, associated substations and all attendant facilities.

The Conference further supports the preservation of rights-of-way from all Non-State land selection and classification for the purpose of providing for future construction of public accesses of various types.

PORTS AND HARBORS

Since Alaska economically depends heavily upon ocean shipping, the Conference supports the State's Port and Harbor Grant programs and urges further expansion of those programs. Major port facility plans should be prepared and developed.

TRANSPORTATION

The Conference supports effort to provide efficiencies in the operation of the Alaska Marine Highway System providing those efficiencies are not in the form of a reduction of passenger service.

The Southeastern Conference strongly supports expansion of ferry service to Southeast Alaskan ports and strongly urges the State to provide for community review prior to finalizing marine highway operational changes, rates, and schedules.

The Conference supports the development of a transportation program which identifies the needs and establishes an improvement program for all forms of transportation in Southeastern to include commercial and private air, marine and land transportation systems and adequate consideration for emergency airports.

ECONOMIC DEVELOPMENT POLICY

We support the prompt, expeditious handling of all permits and work-plan approvals by all State and Federal agencies necessary to the approval, construction, and operation of reasonable access routes to mineral deposits and natural resources in Southeast Alaska.

SCOMM

#9:189

meeting, house special committee on the permanent fund
city hall, kotzebue
september 17

py
date

present: Clark Gruening, chairman, Terry Gardiner, vice chairman,
Russ Meekins, Ernie Haugen, Rick Urion, member; Sen. Pat Rodey etc.

The meeting convened at 10 a.m. The first order
of business was public testimony.

Mr. Ed Bohnert, counselor with the University of
Alaska extension center, testified on sources of energy for the
Kotzebue area, including a windmill being installed at the extension
center. His testimony pointed to the high cost of petroleum-based
fuels in the Kotzebue region and the potential benefit of developing
alternative energy sources in that region.

Mr. Marty Straus, environmental planner for Menilik
(sp?) also testified on alternative energy sources, including a
pilot windmill at Kivikina (sp?), steam generation at Koñuk and
geothermal potential at Kotzebue. In answer to a question from
Rep. Gruening, Mr. Straus gave a brief outline of fisheries potential
in the Kotzebue region.

Mr. Chairlie Edwardsen, Washington representative of
the North Slope Borough, testified on management structure and
investment goals of the Permanent Fund. A transcript of Mr.
Edwardsen's testimony is attached.

Following a lunch break, Mr. John Schaeffer, president of NANA, testified on his corporation's experience and
investments it had made in within the region. The main investments
had been in a wildlife museum and jade processing operation in
Kotzebue. These, Mr. Schaeffer said, had been subsidized by the
corporation's profits in from other investments outside the region.

Rep. Gardiner presented the Renewable Resources
Development Fund subcommittee's first interim report (a copy
of the report is attached) and discussed the "leading edge" theory
and the subcommittee's work plan.

-more-

Dr. Belden Daniels, committee consultant, presented his paper Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability. Discussion followed, during which Dr. Daniels pointed to the latter portion of the report which detailed accountability problems of existing development banking structures.

Rep. Gruening then moved that he would direct the committee staff to begin preparation of ~~xxxxxxxxxxxx~~ draft legislation structuring the Permanent Fund. The motion passed with unanimous consent. There followed discussion of the committee's schedule.

The meeting adjourned at 4:45 p.m.

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

House Permanent Fund Committee Meeting
September 17, 1977
Kotzebue

Present: Clark Gruening, Chairman; Terry Gardiner, Vice Chairman; Ernie Haugen; Russ Meekins; Rick Urion; Pat Rodey, Senate Permanent Fund Vice Chairman.

GRUENING: Do we have somebody who would like to talk to us this morning on the Permanent Fund? I ran into a number of people last night, who indicated that they would come in at various times to talk to us. On a very informal basis, I think we're ready to take testimony as people come in. In Anchorage, there were a lot of people who were hesitant to talk to us, because they said, 'we don't have investment banking background.' We're not looking for that. We're kind of looking for the philosophy that people feel the Permanent Fund should have in terms of dealing with Alaska problems. We're not looking for technical advice at this point. We don't have any bill before us on how to structure the Permanent Fund. We're very much interested in what people, especially in the rural areas, think the Permanent Fund might do that would be relevant to them. If anyone has any comments or suggestions, we'll take them right now.

BOHNERT: I would like to make a comment. I have yet to understand the whole process. I'd like to encourage your interest in renewable resources. (inaudible)...tap our gold mines as cleaning out the shelf. I've seen those same strong drives, Im sure it's not the first time you've heard it, but it's my feeling in general.

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GRUENING: That's a good comment. We have a Renewable Resources Subcommittee, that's looking into investments that could be handled either by the Permanent Fund or the Renewable Resources Development Fund, which is a dedication of 5% of oil revenues, as opposed to 25% the Permanent Fund has.

HAUGEN: Could I ask him a question?

Would you say that the development of energy sources to keep power on long term, low interest basis to communities-- do you feel that would be a good area to invest Permanent Fund earnings, the Fund be guaranteed to those communities that could draw a good power source like hydroelectric source developed?

BOHNERT: Yes, (inaudible) ...basic as energy. I do intend my comments to include developing energy sources. For example, energy is so basic that when the oil, just one of the sources, prices quadruple, an inflationary mechanism, there should be a way to have a long range development of sources through renewable energy plans. I strongly encourage this.

GRUENING: Sir, could you give your name and occupation?

HAUGEN: And why don't you come up to the table?

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BOHNERT: I'm Ed Bohnert. I am the University of Alaska program counsellor here. The Extension here--if you have a chance you should see it.

GRUENING: We did see it.

BOHNERT: (inaudible)

MEEKINS: Backing the windmill. In how long did you say?

BOHNERT: Probably 30 days. All it takes is natural power.

GRUENING: Just for the building?

BOHNERT: Yes, just for the building. That again is something we need.

HAUGEN: Have you discussed with--it's Rutherford, I understand who works--is he associated with or aware of what you're doing? Is this your own source of power to run your own facility?

BOHNERT: Well, it is but the source of money in the program is statewide. What we use for electricity in the building, I understand the supply is falling.

HAUGEN: How many khw's do you produce?

BOHNERT: I don't know the factors. With the interest I've got in this, I haven't got deeply into the windmills. It's on again, off again.

HAUGEN: We heard some interesting statements from Rutherford on wind power probably being one way to provide energy in some of the smaller areas. Of course, we're interested in the subject. In my opinion, the money has got to be paid back. If you take small communities in the Southeast and made it into all one problem, then the ability to finance it (inaudible). I don't personally believe the Fund should be deluded from the principal, and subsidize these things. I think you can have some kind of interest subsidy of something else, then over a long period of time it averages out so that the Fund (inaudible)..comparable to what they could invest in the private market of the whole (inaudible).

BOHNERT: (inaudible) ...the windmill is reaching out and gathering more data to have some practical or commercial resources. This is in demand.

HAUGEN: Are there any hydroelectric sites in this area--say within 50 miles?

BOHNERT: I understand--I'm not into that study totally--but I've heard that there are studies that have been made about hydroelectric sources. (inaudible)

HAUGEN: You don't know of any specific (inaudible)...

BOHNERT: No. I've not seen the data on that at all.

HAUGEN: The reason I asked is that it was presented as a new idea--one wire attracts (inaudible)...

GRUENING: You know, yesterday we had a tour of the museum. John Schaeffer showed us the jade operation. He gave us kind of an insight to investing opportunities in Kotzebue. He's probably taken the lead in it. Although these two examples are not incoming producing at this time, they are probably the closest thing to money making investments in Kotzebue, that we're aware of. Hopefully, he'll come by today.

The Fund being a loan program, we're anxious to know what relevance the Permanent Fund could have in this area, and what kind of criteria you have for a loan program that it deals with. I think there's some hesitation by rural people

about the relevance of the Permanent Fund. They see, I think, money going to Anchorage or to urban areas as (inaudible) I'm kind of interested to know whether people think there's some specific role the Permanent Fund can play.

BOHNERT: On the loan basis, we pay in realities too. Somewhere in a panel such as this, we could be considering there's a limit to the amount of oil and specifically to gas. To make sure we do our homework, probably will still have oil and gas to develop our own resources. You have to trade off (inaudible) and cost (inaudible)..availability. I think the (inaudible) is doing her homework be it data program probably more so than generation of electricity. I think when we get out here and get one running in Kotzebue and see the problems (inaudible)... We're talking about a billion dollar hydroelectric plant.

HAUGEN: \$30,000. Well how many khw's--you said you didn't know how many kw's that plant could produce.

BOHNERT: No. They never provided any of the information on the--it's non-public information. I'd say, figure, what's a house?

(inaudible)

HAUGEN: A thousand dollars a khw...(inadubile)

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STRAUS: The alternative energies we've been able to come up with over at (inaudible) are seen as (inaudible). Wind power, on the average, costs about \$3,000 (inaudible) to Anchorage per kw.

GRUENING: That's a one time cost?

STRAUS: Yes. To install a 15 kw windmill in Kivilina, we're talking of a cost 45 to 60,000. To install it in Kivilina would be mainly a research (inaudible)..to run the runway lights and city buildings. You're talking 130,000 total to install, purchase, get it up there, put it up. The whole package. Wind power is a (inaudible).

In the steam generation, we're looking at--to give you some comparative figures--(inaudible)...But steam generation we're looking at in Kobuk--Kobuk is a low population area--and therefore, we can get a small steam generator. A steam generator is strictly a steam engine to monitor boiling. Over any kind of combustible fuel is 60% more efficient than diesel.

HAUGEN: Do you have any coal or anything around there?

GRUENING: Just wood?

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STRAUS: Well, would you would not want to go with. The trick is this: Being 60% more efficient--presently Kobuk has more electricity--the cost to support two 25 diesel generators, normal generators, would cost a good \$25 per house per month. People would go broke trying to support that thing.

HAUGEN: Have you got a paper on laying all this stuff out?

STRAUS: I've written a paper to the state energy office with a cc to Community and Regional Affairs. (inaudible).

GRUENING: Please state your name for the record.

STRAUS: Marty Straus. (inaudible). A 50 kw generator steam generator, (inaudible) for income because, unfortunately, the only really decent ones right now are built over in Europe. This would run 30,000 pounds or 51,000 American dollars, as of a month ago. It would cost to monitor it, to install it, to get it up here--would be about \$100,000. A steam generator would bring electrical costs down using diesel fuel to \$60 per house per month. That is (inaudible) half of that. This is assuming that steam generator runs at 80% efficiency when everything is perfect so we assume that it's running at 70. Diesel generator only runs at 60% so let's assume that it's running at 40%, because of mechanical problems, breakdown, maintenance (inaudible). So we're approximately having also

here in Kotzebue, we have, according to Bob Forbes in the geophysical institute--he applied for a (inaudible), you have a geothermal project. The cost we are sitting on top of presently. It is not good for electrical uses. But it's good for heating. It was found when Standard Oil was over here drilling. They did not find oil. The water column came up at a higher temperature--it was 7,000 feet below ground, it came up to 6,000 feet. It climbed a column of 6,000 tons of heat within the surface. We're talking very little (inaudible).

GRUENING: What temperature?

STRAUS: The temperature variance Bob did not give us. He felt that they worked good enough--he told me the state of Alaska has been looking for a geothermal pocket of this type near a community that was hot enough. That's all that I can tell you at this time is that geophysical institute under the direction of Bob Forbes (inaudible) out of our pocket to justify the feasibility stuff they can get underground. It shows that it's feasible engineering wise, economically. They plan on going in and tapping some holes in the ground and pulling up some columns. As long as they tap holes in the ground, they might as well hook up. Those are the alternatives that we have found.

You start talking hydro, they have done studies--
Corps of Engineers did studies on Noatak and Kobuk for hydro-
electric (inaudible). Hydroelectric and wind power in
Southeast Alaska may be a good answer, in combination with
solar, assuming it doesn't rain too much. You start talk-
ing hydroelectric here, the rivers do not have enough fall
here.

HAUGEN: Are there any studies the Corps of Engineers has
studied in areas and given a figure (inaudible) megawatts was
in the (inaudible)?

STRAUS: They did a study that, unfortunately, I have not been
able to find, that they claim that they could build a hydro-
electric dam way up above Kobuk--almost to the headquarters
of Kobuk River.

HAUGEN: How far away from here is that?

STRAUS: Kobuk is 90 air miles and we're talking about another
50 to 70 miles above Kobuk.

HAUGEN: 150 miles of transmission line. What's the rating
of the site? Megawatts?

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STRAUS: I have never seen that. This is Corps of Engineers. From my work that I've done on that river and from what people relied on and from looking at the type dams have done in the past, it would be a very unwise move.

HAUGEN: I know there's a lot of chum salmon.

STRAUS: A lot of chum salmon, a lot of chee fish, a lot of mud shark, a lot of the food comes out of that river. A lot of the nutrient matter that feeds that river is going to be coming to the headquarters.

GRUENING: You mention the steam generators in relation to diesel.

STRAUS: Steam generators can burn any kind of combustible fuel; you can have a lot of (inaudible)...many times you do have coal--we have coal deposits here. We do have other fuel. The big push we're making for steam generators is the simple fact that even if we have to stay with diesel fuel, diesel fuel has jumped up in price, a 20% should be (inaudible)... If we don't come up with an alternative source for rural Alaska all over the state, when the energy goes, the people are going to freeze to death. I brought this out yesterday that we've taken a low energy society and made them into a high energy dependent society.

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GRUENING: So with a steam energy, you could chop wood for it?

STRAUS: If you start talking chopping wood for a whole village, you're going to end up with the problem of India and Africa stripping forests. You're talking just diesel or coal or methane, alcohol--

GARDINER: Is what you are saying the worst case possible is that we have to stick with oil, and even in that case, you're still going to steam for (inaudible)?

STRAUS: Yes. Because the efficiency of it is--your cost goes down about 50%. It's 50% more efficient approximately.

HAUGEN: How close to Kotzebue is this geothermal hole?

STRAUS: Kotzebue is sitting right on top of this geothermal hole.

HAUGEN: In other words, if you drilled right outside the building here, you'd hit that same pocket of geothermal...?

STRAUS: You would not necessarily want to drill right outside the building. But according to Forbes, you'd (inaudible).

HAUGEN: The point I'm trying to get out is that you first off you'd save tremendous transmission costs if you got outside of the populated area.

STRAUS: But our point that we've been working on is Kotzebue has ideals for keeping oil for heating, electrical use, because oil is used for both heating and electrical generation. We are paying, the last prices I saw, \$29.00 for a 55 gallon drum here in Kotzebue. That range is \$29.00 for a 55 gallon drum to \$86.00 for a 55 gallon drum. We pay 24¢ a kilowatt hour here in Kotzebue right now. Deering is paying \$60.00 per month per house, so they run one lightbulb or the entire village from that month. The school right now is the differential payment. Deering is not on AVAK. AVAK charge is we charge the school 33¢ per kilowatt hour and we charge you guys 4. AVAK is going up in its price constantly. Pretty soon AVAK is going to price rural Alaska out of electricity.

HAUGEN: Two percent, 50 year money.

STRAUS: Nick Landis of NANA did the cost benefit analysis. Assuming that we took a loan on a windmill, and a loan on a windmill, at this time, would not pay for itself.