

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

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

OCT 3 1977

Education needs foremost in survey

By PAUL NUSSBAUM
Daily News Staff Writer

Education and employment are the most important needs facing Alaskans, according to surveys of state residents conducted by the Alaska Public Forum.

And more than twice as many residents favored using royalty oil and gas for in-state residential use as favored other uses for the state's one-eighth portion of oil and gas found in the state.

A GREAT MAJORITY of those responding to the Public Forum survey questionnaires on future oil and gas leasing

wanted leases sold at a constant pace to insure a steady flow of income.

To questions on the use of the Alaska Permanent Fund, the highest percentage of those responding favored use of the state's savings account to develop renewable resources industries. New oil and gas money that is not dedicated to the permanent fund should be used to cut taxes for Alaskans, 30 per cent of those responding said. Those who wanted either permanent fund money or new oil and gas money used for industrial development were in a distinct minority, the survey showed.

Operated out of Gov. Jay S. Hammond's office, the Public Forum last year distributed questionnaires about state policy through newspapers and pamphlets. More than 3,800 persons responded to at least one question, and more than a third of those had lived in the state for at least 20 years. The respondents ranged in age from 13 to 94.

THESE ARE the questions asked and the responses received:

—How should the permanent fund money be invested?
Loan it for renewable resource development, 36 per cent.
(Continued on Page 2)

Ketchikan Daily
News
Ketchikan, Ak

OCT 6 1977

Resources, land priorities in public forums

By BOB SPEED

Daily News Staff Writer

After several months of public forums around the state and more months of digesting the information gathered, the Alaska Public Forum has issued its report on the first year's results.

The public forum, sponsored by The Alaska Growth Policy Council, has also announced its second round of forums to be held around the state, the first of which have already taken place. One is scheduled in Ketchikan on Dec. 3.

The forums, which are supposed to elicit state residents' opinions on statewide concerns, met for the first time in Ketchikan last winter, and according to a year-end report just released people expressed similar problems and ideas.

About 3,700 state residents were attracted to the meetings which were held in communities in each of the state's seven regions. The public forum, under the direction of Lt. Gov. Lowell Thomas, asked opinions on several statewide issues, including state policy on oil and revenue and planning, land use and

social services.

The forum also spent some time gathering information on topics of regional concern.

Renewable resource development and land were the most important areas of concern held in common among the state's seven regions, followed by transportation and problems regarding the size and growth of state government.

Some 58 percent of the participants believed the state should sell oil and gas leases at a constant rate for a "steady flow of income," according to the year-end report. Nearly half—45 percent—of the participants believed that the best use of royalty oil and gas would be to make it available for residential use at low cost and to ease any future national shortages. Another 21 percent said it should be used to promote industrial development, although people weren't in favor of subsidizing that industry.

However, there was little support for using the state's lands to promote industrial development, with only eight percent opting for that idea. The largest number of people, some 38 percent, said

the state should provide for people's needs through homesites, subsistence and recreational development. Another 19 percent said preserving the natural environment is a top priority.

Education was the top social need seen by forum participants, followed by employment. However, the Alaska Growth Policy Council determined that if those two issues were taken as "philosophical" statements, the largest single problem expressed by residents was alcoholism, a concern of 12 percent of the participants.

General health care was the next largest concern to participants with nine percent expressing that need, and related to that were the next two highest priorities, taking care of children and the elderly, each with seven percent expressing those needs.

A total of 3,714 people participated in the forums, ranging in age from 13 to 94. One-third of them were professional people including lawyers, nurses, pilots, government workers and others, but two-thirds were non-professionals ranging from carpenters and roofers to

lumbermen and farmers.

Of the participants, 68 percent were male and the largest single age group, 30 percent, were between the ages of 25 and 35; 20 percent were between 45 and 55 and another 18 percent were older.

In the second forum series, the permanent fund will again be a major issue, as will land use, and questions will be more specific on people's preferences for using the money and land.

Subsistence, which Thomas describes as "currently one of the most sensitive and controversial issues facing the state in the area of fish and wildlife management," will be a topic for the forum and the fourth question, will deal with the problem of balancing the state budget and financing government activities.

Thomas said today that emphasis will be placed this year on meetings in rural communities, although forums will also be held in Anchorage and Fairbanks and conclude in Ketchikan Dec. 3. Gov. Jay Hammond said today he would be in Ketchikan for that final forum.

(Continued from Page 1)

Save it, 26 per cent.

Loan it to communities, 14 per cent.

Loan it for industrial development, 10 per cent.

Loan it to individuals, 9 per cent.

—How should the state use its new oil and gas money? (All revenue except that invested in the permanent fund)

Use it for tax cuts, 30 per cent.

Loan it to develop renewable resource industries, 21 per cent.

Save it by increasing the permanent fund, 13 per cent.

Use it for more community revenue sharing and community grants, 12 per cent.

Use it for cash payments to Alaskans, 6 per cent.

Use it for more state services, 5 per cent.

Loan it to communities, 4 per cent.

Loan it for industrial development, 3 per cent.

Loan it to individuals, 3 per cent.

OCT 14 1977

At Southeast Conference:

Officials develop unified stand for SE

projects

by JANE HANCHETT
Daily News Staff Writer

SITKA—Municipal officials at the Southeast Conference strongly urged support from legislators and state administration officials for a percentage of the Alaska permanent fund to be designated for development of energy sources. The southeast conference met in Sitka Thursday and today to develop a unified stand for southeastern projects.

But the officials' remarks were received by cautious state officials and representatives of the senate and house special permanent fund committees. Those

committees and the state investment advisory commission currently are holding public hearings to find out what the public wants done with the permanent fund.

State voters in 1976 established the fund by passing a constitutional amendment that allows a minimum of 25 percent of all mineral lease rentals the royalties, royalties sale proceeds, federal mineral revenue sharing payments and bonuses to accumulate in a special fund.

Don Bowey, Ketchikan Public Utilities assistant manager; Rocky Gutierrez, Sitka city and

borough administrator, and Dick Ballard, of the Thomas Bay power commission (for hydroelectric development of Petersburg and Wrangell), emphasized the need in their communities for long term, low interest rate, hydroelectric development loans.

The community officials asked that a certain percentage of the fund be used for energy development, because continuance of a former source of loans, the water resources revolving loan funds, passed by the legislature in 1975, is now in question.

State Revenue Commissioner

Sterling Gallagher said there was no more money available for loans in the fund. The revolving loan fund depends on legislative appropriations.

A bill was passed this year to provide \$3.6 million for power projects development. The money consisted of \$200,000 for the water loan fund, \$1.6 million for Sitka's Green Lake hydroelectric project now in the planning stage, and \$1.8 million for a power project revolving loan fund, according to R.W. Beck Association consultants for Ketchikan, Sitka, and Wrangell-Petersburg water projects.

Sitka plans projects at Green

Lake, Ketchikan at Swan Lake and Wrangell-Petersburg at Thomas Bay.

Gov. Jay Hammond cut an original appropriation enacted in 1976 for the water resources loan fund from \$3 million to \$2.5 million, and this year cut the \$200,000 that the legislature had earmarked from the fund.

He also cut the power project loan fund from \$1.8 million to \$540,000, according to Beck consultant James V. Williamson. Sitka has been the only community to take advantage of the water resources loan fund since its enactment. Williamson said that the other communities

were "reluctant to borrow money from the loan fund since the loan conditions stipulated by the administration were not especially attractive."

Despite other communities comparative slowness to Sitka in applying for the funds, their officials Thursday expressed great need for continuance of the fund.

Ketchikan's Bowey called for "replacement legislation" that must contain "funding for hydroelectric and portable water projects" from the state's mineral resource wealth.

The next project of the legislature regarding the per-

manent fund is to enact "enabling legislation" setting for its structure and specifics on what the money will be used for. Proposed legislation now calls for "at least 40 percent to be invested in investment grade securities, not more than 30 percent to be invested in the private sector of Alaska's economy and not more than 30 percent to be invested in community development projects and private dwelling. Gallagher told the conference delegates.

Southeastern municipal officials all urged support for their hydro projects as community development projects.

But Bowey suggested that the latter 30 per cent "is up for grabs" for any community development project of municipalities public corporate entities, and private housing.

Therefore, he suggested a change in the percentage distribution of the fund by the proposed legislation. He called for investment grade securities investments to be at least 30 percent, private sector investments 20 percent, community development investments 20 percent and a fourth category for long term, low interest loan funding for hydroelectric and

Cont. on page 3

Cont. from page 1

potable water projects to get 30 percent.

"What good has been accomplished for the citizens of Alaska if the permanent fund has been invested out outside Alaska, earning six to nine percent interest and diesel oil for generation purposes is escalating at a rate of 20 percent in the last four years in Alaska?" Gutierrez said.

"I ask, who is subsidizing who under these circumstances?"

But Gallagher told the Daily News during a break in the Thursday session that the Southeast municipal officials "need to come back with better cost estimates of what they're thinking about" without "going leaping off into the sunset."

Some of the municipal officials indicated that their projects would be feasible with long term loans at a three- to five percent interest rate. If those loans were available, but difficult or impossible to build at higher rates.

Gallagher responded that if six and half percent were the long term rate of inflation then government should get at least six percent interest rate from loans; otherwise, loans with "an interest rate below the rate of inflation is actually subsidization whatever the investment is."

Sen. Pat Rodey, D.-Anchorage, a member of the senate special committee on the permanent fund, said he felt the fund could provide some sort of subsidization system that would be acceptable to Alaskans if the funds were labeled as subsidies, instead of hiding it in a loan fund.

He and Rep. Russ Meekins, D.-Anchorage, suggested that, in terms of political likelihood, the Southeast communities would be more successful seeking revenues from energy development from the state's general fund.

They both referred to the logevity in the legislature and political clout of Southeast legislators. Meekins a member of the house special committee on the permanent fund, pointed out that in his committee's travels, he's seen people regard the permanent fund as a way to get "automatic yearly appropriations for their pet projects."

He said the use of the principle of the fund is for "income producing investments." Hydro projects would pay for themselves in the long term in lower power costs, compared to diesel generation costs. But would take large investments of money for their construction.

He said a basic question is "should funding many of these projects be through the general fund or the permanent fund." Interest from the permanent fund is now stipulated would go into the state general fund.

Today conference delegates were to hear a presentation on state land selection by Chip Dennerlien, set a presentation about the southeast coastal management program by Mark Stevens, a state planner; Dean Lemon, of U.S. Borax and Chemical Corp and Don Finney of Louisiana-Pacific, Ketchikan.

This afternoon delegates were to conclude the conference with action on a unified policy statement and election of a board of directors and site selection for the 1978 conference.

Locking permanent fund profits in savings debated

By G. MICHAEL HARMON

Associated Press Writer

JUNEAU (AP) — The House

Permanent Fund Committee

meets here today to debate a

"rough, rough talking draft" of

legislation which would keep

profits from the fund locked

away in a savings account.

Under the tentative House

committee draft, profits from

investing the principal of the

fund would be plowed right

back into the fund for at least

the immediate future.

"We just don't know what we

want to do with the income

from the fund yet," said Rep.

Clark Gruening, D-Anchorage

and chairman of the com-

mittee. "At least until the 1980s

the fund isn't going to be that

great anyway so we're talking

about using it for the time

tailed provisions for the oper-

ation of the bank. But Gruening

said the proposals were only in-

tended to give the committee a

starting point for discussion,

and would be changed draستي-

cally in the weeks to come.

"One problem with this draft

is that we don't really know

what we want the development

bank to do," Gruening said.

"We really haven't approached

what philosophy we want to use

to decide what the money will

be loaned for."

"Do we want to provide the op-

portunity for lower interest

rates, longer term capital or so-

cial goals? We don't know yet."

Under the working draft pre-

pared by legislative attorneys,

the bank could invest in just

about anything it wanted to

with little restriction.

Although the rough draft is

destined for major changes be-

fore it's introduced in the 1978

legislature in January, Gruen-

ing and other committee mem-

bers voiced no objections with

provisions that would give the

legislature a major role in

overseeing management of the

Permanent Fund and the De-

velopment Bank.

The draft bill would create a

State Investment Oversight

Committee of legislators with

budget and audit review over

the Permanent Fund, the De-

velopment Bank and the al-

ready-created Renewable Re-

sources Development Fund.

Under the tentative House

draft, the Permanent Fund

would be supervised by a board

of trustees and the Develop-

ment Bank would be managed

by both a board to set policy

and a committee to make spe-

cific investment decisions. The

legislature would have con-

firmation powers over both the

trustees and the policy board.

The draft House proposal

would continue the conservative

standards for investment of

Permanent Fund income estab-

lished by the 1977 legislature

for monies flowing until the

fund until a permanent man-

agement concept is approved.

The tentative proposal would

restrict investments to U.S.

securities, bonds issued by Can-

ada, states and other public

bodies and property improve-

ment not under the National

Housing Act.

It also provides that "income

from investment of the per-

manent fund becomes a part of

the permanent fund" with the

exception of money needed to

pay the administrative ex-

penses of the board of trustees.

Southeast Alaska

Empire

Juneau, Alaska

Permanent Fund Discussion Held

In a small turnout for hearings on the Permanent Fund, two Juneauites testified for special interest groups this morning.

Dale Henkins of the Alaska Miners Association asked the House committee on the Permanent Fund to use revenue from the fund to support mining research and exploration; Jane Stewart sought funding of cultural programs and facilities.

The morning session was the beginning of a day of public hearings on the Permanent Fund approved by voters last year. Members of the House committee are holding hearings to learn what residents want from the fund, committee chairman Rep. Clark Gruening, D-Anchorage, said.

The hearing here will continue through 5 p.m. today in the Fifth Floor Conference Room of the State Office Building.

"I think the state has a moral obligation to use a certain amount (of the fund) to enhance renewable industries so they can continue long curve industry," Henkins said. "Alaska will be forced to become the U.S. supplier. Remoteness will be offset by the fact there are still deposits that can be stumbled across here."

When asked by Gruening if private capital could fund mineral exploration, Henkins said the time lag between finding and working mineral prospects is too long for such investment.

In her testimony, Stewart requested fund revenue be used to expand cultural programs and facilities in the state.

In response to Stewart, Gruening said he believed the arts should be a high priority but he anticipated others would not agree.

What are 'wise investments' for Permanent

(EDITOR'S NOTE: With the flow of oil from Alaska's North Slope, the state will receive vast amounts of revenue in the coming years, but the oil—and the money—won't last forever. This three-part series prepared by the Daily News-Miner examines the new Permanent Fund for non-renewable resources.)

By **DERMOT COLE**
Staff Writer

There'd been scraps and pieces of news all that winter and spring about discovering oil on Alaska's North Slope, but on July 18, 1968, came the big news.

Atlantic Richfield and Humble Oil and Refining, which had been jointly exploring Prudhoe Bay, revealed that the oil and gas fields there made up "one of the largest petroleum accumulations known to the world today."

That was a fancy way of saying there was a lot of oil up there. It was 9,500 feet deep and there was no way yet to carry it to market, but you could almost hear the money rolling in.

Nine years later, with oil from Alaska's North Slope now filling American gas tanks, the long-term effects of that 1968 discovery are just beginning to be felt here.

Prudhoe Bay eventually may provide 10 per cent of the nation's oil needs, but more important for the state, taxes and royalties on North Slope oil are expected to be the major source of money to run the state's government for the next two decades.

In the next eight years the state may earn \$9 billion from the North Slope, according to a "medium income" projection prepared in July by the Legislative Affairs Agency. In three years, annual revenues from Prudhoe alone are expected to top the \$1 billion mark.

And according to that projection, total annual state revenues by 1985 will be about \$2.6 billion—more than two and a half times the size of the total state operating budget for this fiscal year.

The long-term effects of oil development on Alaska's economy

will be determined mainly by how the state government uses the windfall it collects from the North Slope.

Prudhoe Bay may be the biggest shot in the arm Alaska is ever going to receive, but it won't be producing oil—or money—forever. Many

First of a series

scientists believe Alaska may have vast undiscovered oil reserves, but until there's proof that those reserves exist, the state will have "all its eggs in one basket with Prudhoe Bay," one state official says.

Alaska will face crucial decisions in the coming years over how its oil riches can best be used to meet the needs of the state.

Alaska's voters took the first step last November when they approved creation of the so-called Permanent Fund, believed by many to be the state's "savings account" for the future.

The belief that at least some of the state's oil money should be saved for the benefit of future Alaskans, instead of being used to pay for the growth of government programs, led voters to approve the fund by a 2-1 margin.

The state constitutional amendment approved by the voters says that at least 25 per cent of certain revenues from oil and other non-renewable resources are to be set aside and not spent in a traditional governmental fashion. That money is to be used instead for "income-producing investments."

According to supporters of the fund, wise investments will extend the impact of Prudhoe Bay revenue long beyond the expected 20-year life of the oil field. But what are "wise investments?"

Alaska's royalty oil, the 12.5 per cent share of Prudhoe Bay's output collected by the state as a form of "rent" for allowing the oil companies to extract oil on state-owned land, will be the major source of money for the Permanent Fund.

Along with the oil money, at least one-quarter of mineral lease rentals, federal mineral revenue-sharing payments, bonuses, other royalties and royalty sale proceeds are to go into the fund.

The eventual size of the Permanent Fund will depend on how much the state actually does collect in oil money and how much more than the constitutionally required 25 per cent is placed into it.

If only the 25 per cent of applicable revenues are deposited in the fund, it will grow to \$1.3 billion by 1985, according to the Legislative Affairs Agency projection. By increasing the amount to 100 per cent, the fund could contain \$5 billion by 1985.

Oil production taxes, which may account for more than half of the state's oil income, are not included as a source of Permanent Fund revenue. But some legislators support the idea of coming up with a formula that would limit how much the state budget could increase each year and would require that the

(See *WHAT*, page 2)

Fairbanks
News Miner
Fairbanks, Alaska

SEP 2 1977

A crucial question: who'll control the Permanent Fund?

A strong system of checks and balances will be needed to keep the Permanent Fund from operating like a separate branch of state government, many elected officials say.

But at the same time, "If you don't have some sort of half-step removal from the political arena, you could have monumental pressure exerted on the group that manages the fund," Gov. Jay Hammond said recently.

Under legislation introduced this year, the fund would be run through a two-tiered management system. A board appointed by the governor would decide general policy within the investment guidelines set by the legislature, and a committee under that board would approve individual investments. The president of the Permanent Fund corporation would be given strong executive authority under those proposals. Permanent Fund managers could be removed only for cause.

House Bill 298, which was developed by the State Investment Advisory Committee, is a good place to start, according to Rep. Clark Gruening, D-Anchorage, chairman of the House Special Committee on the Permanent Fund, but Gruening believes tighter controls over the money will have to be built into the bill.

"Let's say that bill had been in

effect today," he said recently.

"Perhaps Sterling Gallagher's plan to finance the gas pipeline could have been done strictly through that entity without any executive, the governor, or the legislature having anything to say about it."

"It may be the greatest investment in the world, but an investment of that magnitude has environmental and social implications. It also has the effect of tying up the fund from doing anything else. So something of that magnitude, I think, should require greater public input, and either that's done through your elected officials or it's done by some kind of popular mandate. I don't see any provisions for that in House Bill 298."

Hammond said the proposal for a centralized and rather independent Permanent Fund would provide a balance against legislative or administrative abuse.

"You've really created almost a three-way check and balance with everybody looking over everybody's shoulder, which I would suspect would substantially reduce the potential for abuse."

An alternative to the centralized type of management that's been discussed for the fund is a proposal to have the legislature pass a bill each year apportioning available money to eligible investments.

Senate, House Panels Split On Tactics For Fund Plan

By The Associated Press

Sharp differences in philosophy surfaced here yesterday between the House and Senate permanent fund committees over how to comply with identical mandates to draft legislation for managing the fund.

In progress reports presented to the Legislative Council, the House committee said it will conduct a series of fall public hearings as a prerequisite to drafting proposed legislation, while the Senate panel outlined plans that call for limited public participation.

The interim reports reflected differences which have been building since the two panels were created by the 1977 legislature, with the House committee opting for high public visibility and the Senate panel maintaining a low profile.

The House committee chaired by Rep. Clark Gruening, D-Anchorage,

has announced all its meetings well in advance, but the Senate committee chaired by Sen. George Hohman, D-Bethel, has conducted its business without any public notice.

The philosophical differences were graphically illustrated during the Legislative Council meeting here yesterday as Hohman and other Senate committee members slipped out of the room for an unannounced meeting.

A committee employee described the gathering as a "closed, informal meeting" and said she had no idea where it was being held.

The House committee plans called for a symposium of economists in Anchorage Sept. 10 and public hearings in Fairbanks, Sept. 14, Anchorage Sept. 15 and Kotzebue Sept. 16. A formal committee meeting was scheduled for Sept. 17 in Anchorage.

Mike Doogan, staff director of the House panel, said other public hearings would be scheduled in October and the committee planned to begin drafting its recommendation to the legislature in November.

In its symposium, liberal economist Barbara Bergman of the University of Maryland and conservative Donald Gordon of Simon Fraser University in British Columbia will present opposing views on management of the fund, which is projected to total \$2 billion by 1985.

The House committee also told the council, which manages legislative affairs between sessions, that it has mailed out about 1,500 questionnaires to political and community leaders around the state.

The House panel said it has hired two consultants, Dr. Arlon Tussing of the University of Alaska and Dr. Beldon Daniels of Harvard University, for about \$30,000.

In contrast, the Senate Committee said it was relying heavily on contracts, including one single pact with a Juneau consultant which totals \$115,000.

In its progress report, the Senate committee said it would draft recommendations after studying loan programs in Alaska and other states and mail questionnaires to financial institutions, rural and native organizations, chamber of commerce members and mortgage bankers.

The Senate panel also said it would inventory capital improvement needs of Alaska communities and project permanent fund revenues through 1985.

Some have urged that income from the permanent fund, which is composed of 25 per cent of state petroleum royalties, be invested in high-yield, low-risk securities in traditional money markets outside Alaska.

Others, however, have recommended that the permanent fund should be loaned to Alaskans for business ventures or to municipalities in the state.

House approves cautious fund plan

By PAUL NUSSBAUM
Our Juneau Bureau Chief

JUNEAU — The state House Thursday gave overwhelming approval to a cautious Alaska Permanent Fund proposal designed to put about \$2 billion into a state savings account by 1985.

Another \$100 million would go to a state development corporation that is intended to make loans to private enterprises and community development projects.

THE PERMANENT FUND bill, the product of almost a year of studies and hearings by a special House committee, passed the House, 34-6, with objections from Republicans who said the development portion of the plan was too risky.

The permanent fund is a state nest egg mandated by Alaska voters in 1976, when they approved a requirement that at least 25 per cent of the money from petroleum royalty payments and bonuses be set aside for the future.

The plan approved by the House Thursday increased the ante to 30 per cent, with 25 per cent going into investments such as government bonds and corporate stocks and the other 5 per cent going to development corporation. After the development fund deposits reach \$100 million — probably by about 1982 — all 30 per cent would be placed in the "savings account."

ANOTHER 5 per cent of state petroleum revenues would be earmarked for a special fund to develop renewable resources, such as fishing and timber, under the terms of a

separate bill expected to reach the House floor next week.

The interest earned from permanent fund investments is to be spent for power projects in the state, such as hydroelectric dam construction.

The House plan for the fund differs markedly from a plan developed by a special Senate committee. The Senate proposal is likely to come to the floor of that body for a vote next Wednesday. It would reorganize the state's loan programs to use earnings from the investment of the fund for individual and business loans within Alaska.

THE TWO PLANS will undoubtedly be sent to a House-Senate free conference committee to work out a compromise proposal. Sen. George Hohman, D-Bethel, the chairman of the Senate Permanent Fund Committee, said no efforts had been made yet to plan for a compromise bill, but he said "it would behoove us to start talking with them (House leaders) about that."

In the hour-long debate over the House bill Thursday, several Republicans attempted to remove the development portion of the plan. A GOP effort to increase the amount of oil money placed in the fund from 30 to 50 per cent was also defeated.

"The public told us they wanted to set up a savings account — they wanted it saved for future generations," Rep. Ed Dankworth, R-Anchorage, said. "They told us to keep our grubby hands off it, and this violates that intent."

But Rep. Clark Gruening, D-Anchorage, who chaired the House

committee, said the savings account and the development fund "are entirely consistent with what the public told us."

Rep. Mike Miller, D-Juneau, said he was voting for the permanent fund bill "with more enthusiasm than any bill I've had a chance to vote on in seven and a half years. It is the single best piece of legislation that has been considered by the legislature in a decade."

Broadcast deadline

WASHINGTON (AP) — mission has granted Mid extension to April 1 to r group in January.

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"They have t they need desp

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Hammond considers major changes in revenue sharing

By G. MICHAEL HARMON

Associated Press Writer

JUNEAU (AP) — Gov. Jay Hammond said today he is exploring the potential for multi-million-dollar changes in the state's revenue sharing programs for local governments.

Hammond said his idea was based on the premise that state revenue sharing programs should recognize differences between property rich and property poor communities.

The current system, Hammond added, also is flawed because it acts as a roadblock to the formation of local government in unorganized boroughs.

"State revenue sharing now goes out to the municipalities on the same basis, regardless of needs or capabilities to fund programs at the local level," Hammond said. "It seems to me the system needs to be changed."

Hammond outlined his ideas in a wide-ranging interview with The Associated Press in which he also said:

—He will not push for passage during the upcoming legislature of his Alaska Inc. concept for sharing income from the state permanent fund directly with the people.

—A special legislative committee chaired by Sen. Mike Colletta, R-Anchorage, has "subtly distorted the issue" by claiming that administration-proposed booze tax increases will not solve the state's alcoholism problem.

—He will seek an attorney general's opinion on the constitutionality of his idea to balance growing urban influence in the legislature with a reapportionment plan that would provide for the statewide election of the senate.

In addition to his ideas for major revisions of state revenue sharing, Hammond said he would submit legislation to the 1978 session for the creation of a blue ribbon panel to "investigate current and future state and local government relations."

"The group's two-year mission," Hammond said, "would be to study state and local government relationships, particularly in the unorganized borough areas."

One of the state's major problems and one of his major goals, Hammond said, was "restructuring our revenue sharing delivery system so that localities which make good faith efforts to tax themselves and to provide necessary services are in some way rewarded for this effort."

Under the current system where the state picks up 100 per cent of the cost of services in unorganized boroughs, Hammond said there is no incentive

"In the future, it's my hope that we can encourage local governments to adopt more responsibility for governing themselves," Hammond said. "Perhaps there is a way of accomplishing this through revisions of the revenue sharing programs."

"Though such a system, municipalities with high per capita property values would receive less shared revenue than those which are property poor," Hammond said. Hammond said the system could be applied only to increases in shared revenues, shared revenues.

"Accordingly, I am considering submission of legislation increasing shared revenues for police purposes on such a basis," Hammond said.

The governor also said he was exploring the possibility of a similar adjustment to school

construction aid, keeping in mind that the ultimate goal of his administration is 100 per cent state funding of schools.

But until that goal is possible, Hammond said interim changes needed to be made in the current system whereby the state funds 50 per cent of any school construction a municipality might wish to undertake.

"Such a system does not relate to comparative needs nor capability of meeting such costs at the local level," Hammond said. "Rich municipalities and poor municipalities are treated just the same."

As Hammond explained his concept:

"We would first determine the average property values per capita found throughout all municipalities. Should a municipality then wish to construct a school, their debt service obli-

gation would be the amount which could be raised in their municipality were they to impose a mill levy equal to that which would be required if they had average property values per capita.

"Say, borough 'A' wished to build a \$1 million school and the normal 50 per cent or \$500,000 debt service obligation could be paid off with a three-mill levy if they had average property values per capita. However, because of low property values, a three-mill levy in borough 'A' would raise only \$250,000 or 25 per cent. The state then would come in with \$750,000 or 75 per cent instead of the normal 50 per cent."

Hammond also said he would not seek passage of his Alaska Inc. concept until the state budget was not so dependent on non-recurring oil income.

ALASKA CLIPPING
SERVICE

Ketchikan Daily
News

Ketchikan, Ak.
NOV 15 1977

NOV 29 1977

State Chamber Sets Legislative Goals

The Alaska State Chamber of Commerce has issued a 14-point legislative program following a pre-legislative conference held in Juneau last week.

Chairman Cliff Taro of Ketchikan said the statewide organization set goals in economic, labor and general legislation. More than 55 chamber members representing a wide geographic and economic distribution

attended the conference.

In proposed economic development legislation, the state chamber strongly opposed additional tax increases on the oil industry.

The group says there is no demonstrated need and additional taxes would discourage further exploration and reduce opportunity for employment and future state revenues.

Oversight of the proposed coastal management guidelines was urged to insure there are no adverse impact on future employment and economic opportunities. The chamber restated its support for strong local control of regional coastal zone management plans.

In other action, the chamber:

- Reiterated its position in support of a balanced D2 program embracing multiple land use concepts.

- Urged job development legislation that encourages a favorable investment and economic climate that will permit and encourage the private sector to create jobs in Alaska.

- Urged immediate planning efforts by the state administration for ultimate use of the North Slope haul road with proper safety and security precautions protecting the integrity of energy development.

- Restated support for prompt opening of the U.S. Borax resource road in Southeast Alaska and urged Gov. Jay Hammond to reiterate his backing of the U.S. Forest Service environmental statement as expressed to the Department of Agriculture.

- Asked for physical and financial support of Citizens for Management of Alaska Lands and urged the governor to reaffirm his earlier support for excluding Southeast Alaska from D2 legislation and support of the Forest Service planning process.

- Reaffirmed the state chamber's position that calls for energy evaluation of in-state use royalty oil and gas to develop an adequate economic base for Alaska.

to just banning non-returnable containers.

The state chamber also will seek support for private coverage for workmans compensation insurance and oppose the creation of a state fund in pending reports on legislation.

The chamber group approved four specific legislative proposals.

- Support of an anti-litter program that opposes legislation limited

to just banning non-returnable containers.

- Repeal of the gross business license tax and support of a revenue sharing program from the state's general fund to the municipalities.

- Continued support for a two-house legislative system.

- A proposal that the permanent fund be used to develop economic enterprise both private and municipal.

NOV 30 1977

Shortfall \$56.5 million

JUNEAU (AP)—The state's projected revenue shortfall for fiscal 1978 has been revised downward from about \$100 million to \$56.5 million, Revenue Commissioner Sterling Gallagher said Tuesday.

"The forecast for fiscal year 1978 indicates total unrestricted general fund revenue will be \$756.5 million after the permanent fund and Native land claims payments are made," Gallagher said.

"Matched against a general fund budget of \$813 million, a shortfall of \$56.5 million is projected," Gallagher said in a statement released by his office.

Iffy Proposition

THERE ARE more ifs concerning Alaska's permanent fund and its future than there are in Rudyard Kipling's famous poem.

Rep. Clark Gruening confirmed this recently when he told the Anchorage Bar Association that unanswered questions about the fund involve whether to take Alaska's royalty oil in cash or kind, what the management goals should be, how much of the fund's principal should be saved and who should manage it.

THE CHAIRMAN of the permanent fund committee esti-

mates that it will amount to between \$750 million and \$1.5 billion by 1985.

"We should be aware that this can slip through our fingers very easily," said Mr. Gruening.

To guard against such erosion, he added that the committee is taking a conservative approach and is determined "to protect the fund at all costs."

We hope all the other groups involved in deciding the fund's future will include the concept of protecting it in their deliberations.

SERVICE

Cordova Times
Cordova, Alaska

Public Forum workshop slated for Sunday

Management and use of the Permanent Fund, the future of subsistence use of fish and wildlife in Alaska, and the transfer of state land to private ownership will be topics of Sunday's Alaska Public Forum workshop slated for 1 p.m. in the high school library. Gov. Jay Hammond will make introductory comments and spend the afternoon listening to the ideas and recommendations of

participants on these major state issues.

The Alaska Public Forum is a program of the Alaska Growth Policy Council. It is encouraging Alaskans in a state-wide effort, to get involved and speak out on state issues.

Last year, in the first year of public forum activities, the Alaska Public Forum held workshops in more than 50 communities from Ketchikan in the

Southeast to Barrow in northern Alaska. Over 4,000 people became involved. Numerous laws and state policies emerging from Juneau already reflect the remarkable impact that citizens can have in state decision-making and on the future of Alaska.

At the conclusion of the forum workshop, Gov. Hammond will hold a people's news

(See Public, page 3)

Public forum...

(Continued from page 1)
conference during which he will field audience questions. They need not be related to previously discussed public forum issues.

For those who cannot attend Sunday's workshop but would like to participate in the public forum, return questionnaires are available in this newspaper.

ALASKA CLIPPING SERVICE

Anchorage Daily
Times

Anchorage, Alc
NOV 27 1977

On The Back Burner

THE ANNOUNCEMENT by Gov. Jay Hammond that he will not push for enactment of his Alaska Inc. proposal at the next legislative session demonstrates political maturity.

His decision not to make "must" legislation of his plan for giving each qualified Alaskan a piece of the profit pie from the permanent fund defuses a potential bomb.

The governor hasn't junked his idea, but has opted to put it on the back burner for the hot campaign ahead. He indicates awareness that there is no point in creating a hassle over sharing the profits from the permanent fund before the mechanics of how the fund will operate and who will manage it are shaped by the legislature next year.

GOV. HAMMOND IS also realist enough to know that Alaskans haven't demonstrated overwhelming enthusiasm for his Alaska Inc. proposal, so he has cooled it as a major campaign issue.

As originally proposed, Alaska Inc. was designed to funnel permanent fund profits directly into the pockets of established Alaska residents. This simplistic solution to the problem of sharing the wealth from our non-renewable

resources has undergone some revision in the months it has been kicking around.

In a recent speech to the Alaska Federation of Native convention in Anchorage, he said Alaska Inc.'s sharing formula could take various forms.

"It could be a simple tax credit, income insurance, a low interest loan, social security supplement, a piece of land or even a direct dividend."

Thus, while the legislature works on a way to establish and manage the fund, the governor is considering revisions which he hopes will make Alaska Inc. more appealing to Alaskans.

HIS COMMON SENSE decision not to make Alaska Inc. a top priority legislative issue doesn't mean abandonment of one of the more innovative proposals of his administration. It's still his idea and he is proud of it.

He knows, however, there really won't be much to share next year, so a year's delay will mean no great loss in prestige or dividends.

He also knows that the best endorsement of Alaska Inc. would be his re-election. If that happens, you can be sure it will be "must" legislation for the 1979 legislature.

ALASKA CLIPPING SERVICE

Southeast Alaska
Empire
Juneau, Alaska

NOV 22 1977

Permanent Fund 'Ifs' Remain, Warns Solon

ANCHORAGE (AP) — The chairman of the state House Permanent Fund Committee says despite considerable time and energy, there are still many "ifs" about Alaska's permanent fund.

And Anchorage Democrat Clark Vining told the Anchorage Bar Association on Monday: "We should be aware that this can slip through our hands very easily."

He said unanswered questions include whether to take Alaska's royalty share of Prudhoe Bay oil in oil or cash, what management goals of the fund should be, how much of the fund's principle to save, and who will run the fund operation.

He says the size of the fund is still un- known, with estimates ranging from \$750 million to \$1.5 billion by 1985.

He said the committee is taking "a pretty good position that is pretty unorthodox" to protect the fund at all costs, and that the operating and maintaining share of the fund is still unknown.

Vining said the committee now is on "a proposal to establish a board of trustees to manage the fund" such as the Alaska Permanent Fund Corporation, and is expected by the legislature.

He said one of the committee's proposals is to set a 10 percent annual dividend rate, with a 5 percent return would be a 5 percent return on adjusted dividends.

Fund Should Help All Alaskans, Panel Says

By PATTI EPPLER
Times Staff Writer

Kicking off a series of statewide public discussions on the uses of Alaska's permanent fund, two Outside economists and a five-man citizen's panel yesterday debated the many ways the fund should be used but agreed that the benefit of all Alaskans should be the main goal.

Dr. Barbara Bergman of the University of Maryland and Dr. Donald Gordon of Simon Fraser University in British Columbia were asked by the House Permanent Fund Committee to evaluate the issues involved with the fund and present their views on management of the fund.

Members of the citizens' panel were John Havelock, former state attorney general; Dr. George Rogers, former economist from the Institute of Social and Economic Research; Jamie Love, director of the Alaska Public Interest Research Group; Tim Bradner, an oil industry consultant, and Dr. John Lindauer, chancellor of the University of Alaska, Anchorage.

Ms. Bergman, considered to be a liberal in the field of economics, outlined three courses of action fund managers could take. The first she termed the "spend it as fast as you get it" approach, involving spending the money as soon as it came in and seeking new sources of revenue when oil-related revenues ran out.

The "gilt edge" approach would call for investment of the capital in markets in the Lower 48 and use the income gleaned from those investments in Alaska.

A third approach would be to use the fund as a development fund which would broaden the tax base in Alaska, she said, adding that the income from this approach would not be as big as from the "gilt edge" approach. "I would argue caution for the development fund approach," she said.

"The idea of the permanent fund is to preserve resources for future generations. You have to make sure the grandchildren are taken care of," Ms. Bergman said, likening the situation to that of managing the funds for a

family. "The real guts of the thing is the benefits and costs to groups of individuals . . . They all have different values."

Gordon said he was "intrigued by the suggestion of the governor to pass out the income to the people." He discussed advantages and disadvantages of a development bank, using money from the fund to stabilize the economy and use of the money so it benefits Alaskans.

"If you don't find a way to benefit Alaska, you might as well write a check to Jimmy Carter because that's where it's going," he said.

"I was struck by the awesome responsibility of those who are to decide what is going to happen with the permanent fund and the oil revenues," he said. "I think it's a very tricky problem and largely a legal one."

Members of the citizens' panel expressed opinions on uses of the fund from the point of view of what is needed in Alaska. Love said he thought proper management of the fund might be a problem and advocated public inter-

vention in the program when necessary.

Making sure the programs are doing what was intended should be a major concern of fund managers as well as the "fiscal integrity" of the fund, Love said. Distribution of the money should not be based on politics, he said.

Lindauer said he was concerned about distribution of the fund's income but was equally concerned about investment of the money by the state. He suggested loaning it to private lending institutions including banks and credit unions at a low interest rate so those institutions could in turn re-lend it to the public at comparably low interest rates.

"The goal . . . is to directly benefit today's Alaskans to have a better quality of life and standard of living," he said.

The permanent fund committee is scheduled to conduct a second public meetings on uses of the fund Thursday in Anchorage. Other meetings are planned for Juneau, Fairbanks and Kotzebue.

3-16-78 Empire

Permanent Fund

Facing the legislature this year is a problem that makes the other 49 states green with envy: what to do with the billions of dollars that will be channeled into the permanent fund.

When voters overwhelmingly approved a constitutional amendment in 1976 which would establish the fund, the thought uppermost in everybody's minds was to put the anticipated resource revenue money aside for the future. Alaskans had seen \$900 million generated through the sale of Prudhoe Bay oil leases dwindle away and wanted to invest future revenues and keep the resource income out of the state's general fund.

As legislators and executive branch officials considered what to do with the fund, three different philosophies developed. A House committee set up to study the fund has recommended a relatively small loan fund of \$100 million be established for development in the state. The Senate version recommends that almost all of the fund's income be used for loans and the executive branch's proposal is about halfway in between.

It is not too much of a simplification of the three proposals to say that the House plan embodies the principle of building a nest egg; the Senate plan is typical of the 'easy money' philosophy and the administration plan is a little of both.

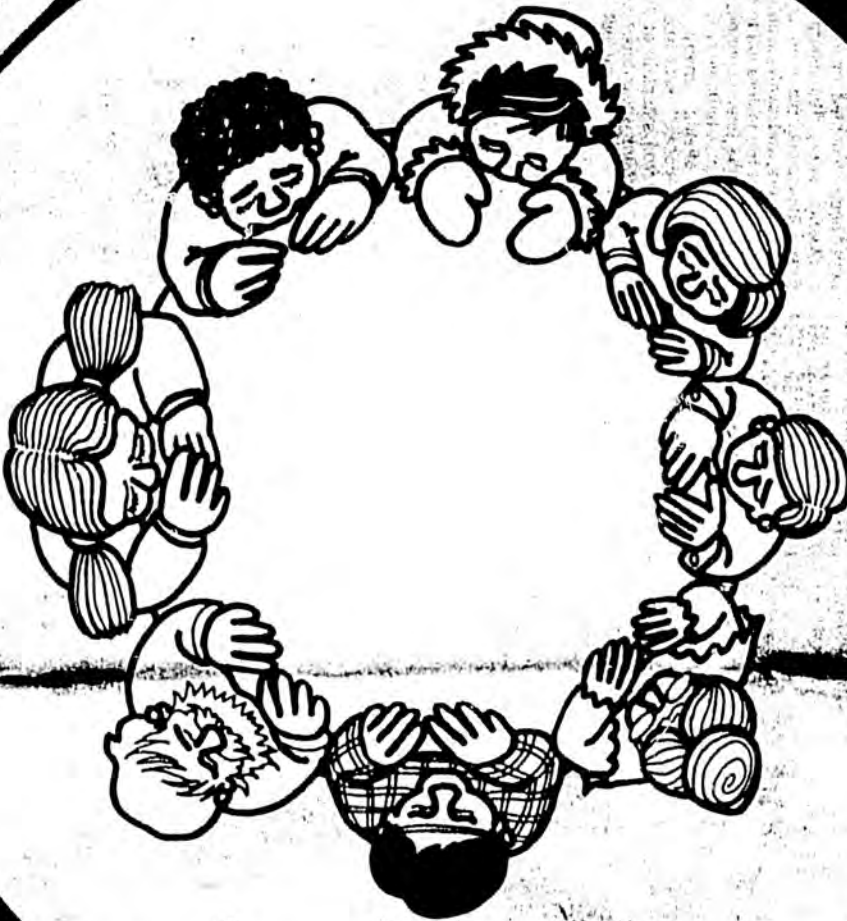
Of the three plans only the House version seems to be modest enough to meet the expectations of the 1976 voters. The permanent fund was approved partly in response to the vaporization of \$900 million Prudhoe lease money and partly because voters believe that state revenue should be treated just like personal income—cautiously.

As lawmakers begin the process of hammering out a permanent fund proposal we can only hope that they don't forget the premise Alaskans voted upon when they approved the fund concept. The very name 'permanent fund' implies that the resource money channeled into the kitty be used as a foundation for the future. The only way to ensure that is to put a lot of money in and make it hard for bureaucrats to take a lot of money out.

That's the direction the House is moving and we hope the Senate will go along.

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Important Questionnaire Inside



The Alaska Public Forum

A program of the Alaska Growth Policy Council

The Alaska Public Forum: Alaska's Travelling Road Show

The Preview

The Public Forum may never make it to Broadway. And it may never be the Critics' Choice. But its billing is far from modest.

**"Alaskans Deciding Alaska's Future.
Come to the Public Forum,
It's not just another boring meeting."**

The suspense lies in that the script is only partially written. It will take years for the drama to unfold. You are the director, the audience, and the critics. The lights are dimming, the curtain is about to go up. Don't miss the sneak preview.

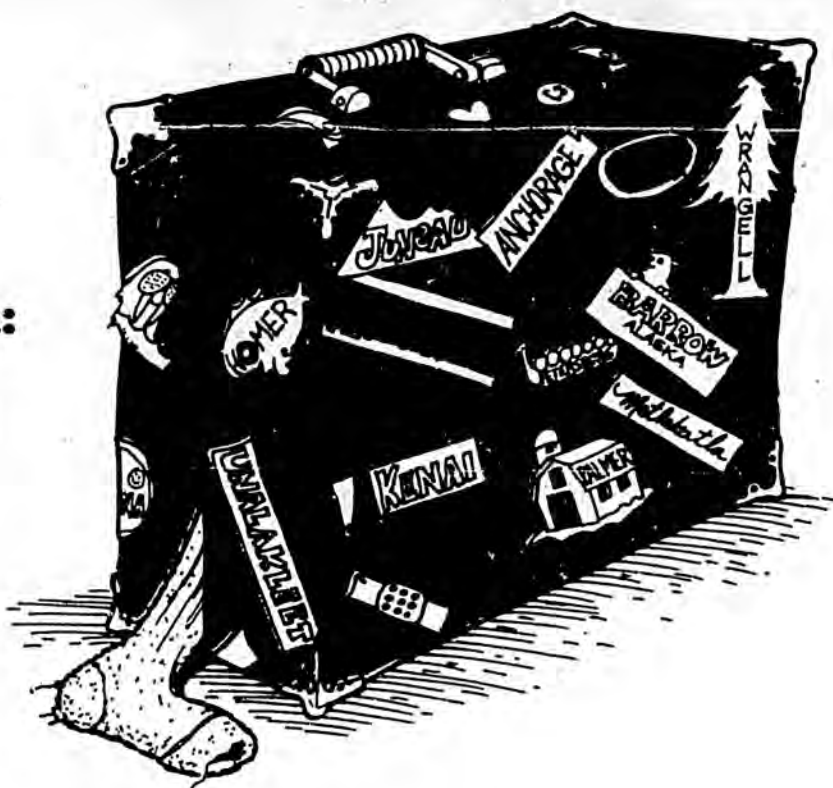
The first act begins with the Alaska Public Forum on tour around the state. A brief glimpse of the setting reveals the nature of this travelling road show. From Angoon in Southeastern to Wainwright on the Arctic Ocean, the Public Forum is, quite simply, the people of Alaska—you, your neighbors, your friends down river or up the road—sitting down to discuss important state issues and then making recommendations on those issues to the Governor and state legislators. The Forum is state leaders listening to the ideas of Alaskans. Ultimately, the end result of the Forum is that policy makers weave the directives of the people into decisions which will shape the future of Alaska.

The Public Forum sets the stage for Alaskans to voice their opinions on a series of state issues and promises that those responses will not be lost. You are asked to read, think about, discuss, and recommend action on such topics as land, subsistence, the Permanent Fund, and the balancing of the state checkbook.

The Alaska Public Forum is directed by the Alaska Growth Policy Council. This eleven-member council was created by the Governor in 1975 for the purpose of broadening citizen involvement in matters of statewide importance.

The Alaska Growth Policy Council members are:

Lowell Thomas, Jr., Chairman	
Mark Boesser	Leonard Lane
Tim Bradner	Harold Pomeroy
Frank Homan	Lidia Selkregg
Jimmy Huntington	Herb Smeicer
David R. Klein	Diana Tillion



In April 1977, the Public Forum concluded its first year of activities. More than 3,500 Alaskans in 60 urban and rural communities throughout Alaska participated. That enthusiastic response signaled a promising beginning. The past year has shown that citizens want to be included in making policies which will directly affect their lives and, also, that it is possible to inform people and get meaningful responses on complicated issues.

The Performers

We encourage you to be "on stage" and to speak out.

The Alaska Public Forum meetings are not only free, they are open to everyone, and you are invited to attend. In addition, several individuals throughout the state will be selected at random and asked to participate in local meetings.

If you cannot attend a workshop, please fill out the questionnaire at the end of this paper and send it to the Growth Policy Council. Your thoughts on these issues are extremely important. They will be made available to both the Governor and the legislature for use in the upcoming legislative session and in the preparation of the state budget.

There are decision makers who want to know what you think. That is what makes the Public Forum unique. If you want to play a role in determining the future of Alaska for yourself and your children, join the Travelling Road Show when it comes to your town.

The Program

The Alaska Public Forum will tour the state from October to December. The schedule of meetings include the following communities.

Dillingham	Oct.
Togiak	Oct.
Wainwright	Oct.
Kotzebue	Oct.
Noorvik	Oct.
Anchorage	Oct.
Nunapitchuk	Oct.
Emmonak	Oct.
Fairbanks	Nov.
Chalkyitsik	Nov.
Kenai	Nov.
Galena	Nov.
Copper Center	Nov.
Cordova	Nov.
Hoonah	Nov.
Ketchikan	Dec.

In addition to these meetings, the Public Forum will conduct a workshop on November 11 during the Alaska Federation of Natives Convention scheduled to be held in Anchorage.

For those people who cannot attend one of the community meetings, this newspaper you are reading contains a questionnaire on the last page. It may be filled out and mailed in without attending any previous meetings. The information contained in this paper is the same material which will be the basis for discussions during the workshops.

Your Invitation

This newspaper is your invitation to participate in the Alaska Public Forum, whether you choose to do so at home or at a workshop. At public meetings, this publication will be used as the agenda. You will be asked to read and discuss the background information provided on these pages. Afterwards, you will be able to answer a series of questions which will serve as your recommendations to state leaders.

If you choose to participate in the Public Forum

at home, we urge you to read the following pages, fill in the questionnaire on the last page, tear that page off, fold as directed, and mail it back to us. No postage is necessary.

There is an abundance of information contained within these pages. It has been collected from knowledgeable people throughout the state and then condensed to provide you with the basic information you need to answer the questions. We have tried to

keep from overloading the pages with technical material, and yet some background is helpful to better understand the implications of each question and answer.

We welcome any comments you may have about the Public Forum process. Please feel free to jot them down at the bottom of the questionnaire. We urge you to participate and look forward to receiving your answers.

**PLEASE FILL OUT THE QUESTIONNAIRE ON THE BACK PAGE
AND RETURN IT TO US — Alaska Growth Policy Council, 429 D Street, Anchorage, Alaska 99501**



Introducing: The Cast of Characters

Taking a quick bow on stage are this year's cast of characters whose script you will help to write. These are the issues as they are today. What they will look like tomorrow depends on how we collectively plot their destiny.

Two have returned this year by popular demand—Alaska's Land and the Permanent Fund. Two more will make their debut in October when the Public Forum goes on tour—Subsistence and The Billion Dollar Enterprise.

Land

Last year during Public Forum meetings, the management of state land was an intense emotional issue promoting lively discussions. The question was "What should be the objectives for managing Alaska's land?" The most popular choice was "to provide land for people's needs." But those needs were defined differently from individual to individual and from region to region.

Surrounded by waterways and national forests, Southeasterners called for land for homesites and cautioned the state to keep lands out of the hands of speculators.

In the North, the home of the Inupiat Eskimo, residents wanted their needs met through better management of renewable resources.

Land for homes was a major concern in the populous southcentral region. Again, participants urged that state lands be kept out of the speculative market and also voiced support for preservation of the environment.

In the Copper River region, land for homesites, farms, and renewable resources were viewed as most important, with special interest that agricultural areas be protected.

Communities along the Gulf of Alaska, from Kodiak to Yakutat, wanted land for homes.

And in the Interior, land for homesites, recreation, and preservation of wilderness and wildlife were given priority.

This year we hope you will answer more detailed questions about those individual needs for land you feel the state should address. In addition, we would like to know if you think the state should sell this land or use long-term leases to make this land available for private use and whether state land should be made available for private use at or below market value.

Subsistence

While subsistence was not among the prepared questions of the Public Forum last year, the need for the protection of the subsistence lifestyle surfaced continually as a vital concern. Public Forum discussions, particularly in northern and southwest Alaska, were permeated by the feeling of a people caught in transition and desperate to protect some portion of their traditional way of life.

In the area of fish and wildlife management, subsistence use of the resources has become a very controversial issue. The animals and fish necessary to sustain a subsistence lifestyle are not limitless. With the growing population of the state, these resources are subject to increased pressures from hunting, fishing, and development of the land.

State policy recognizes subsistence use of fish and wildlife as the highest priority among consumptive uses of the resources. And yet there are many people who feel that the state has not lived up to that policy.

We hope that Public Forum discussions will generate a better understanding of the complexities of the subsistence issue and also provide suggestions for an equitable solution. In a departure from the usual Public Forum style, the questions on subsistence are open-ended. We felt this was the best way to allow for all interpretations rather than constrain answers to a specific list of options. However, before answering the questions, we urge you to read carefully the background information on subsistence.

The Permanent Fund

The tubby little character you see flexing his muscles under the spotlight is called the Permanent Fund. For those of you who participated in the Public Forum last year, he may look familiar, although he's grown a little fatter during the past 10 months.

The Alaska Permanent Fund was created in November 1976, when Alaska voters approved a constitutional amendment which stated that at least 25 percent of certain specified oil and other mineral revenues coming into the state would be used for investment purposes. None of that money can be put into the General Fund for state programs. It can only be invested. The money invested must ultimately return to the Permanent Fund. The portion which

may be spent in future years is the interest from those investments.

Last year the Public Forum asked "How should the Permanent Fund money be invested?" An overwhelming number of participants statewide voted to invest the Permanent Fund money in renewable resource industries such as fisheries, tourism, and farming. The second choice, to invest in other industries, reflected the desire for secure investments—those with guaranteed earnings and high returns. There was also considerable support for increasing the size of the Permanent Fund.

In January, the legislature will consider laws governing the management and structure of the Permanent Fund. If revenue projections for the future prove to be true, by 1985 the Permanent Fund will have accumulated \$1.3 billion (assuming the 25 percent minimum contribution). Deciding the destiny of the Permanent Fund is an enormous responsibility. Your advice on what goals should be achieved through investment of Permanent Fund money will be valuable to legislators and the Governor.

The Billion \$\$ Enterprise

Life would be considerably easier if we all had a wealthy aunt to support us in the style to which we would like to become accustomed. However, most of us must contend with juggling our finances to make sure that the money earned covers the amount spent. Imagine that experience on a grand scale.

Balancing the state checkbook involves close to a billion dollars. The Alaska state government is responsible for providing a wide variety of goods and services to the public. It must pay for these activities from the State Treasury.

Since statehood, revenues from the sale of our mineral resources have financed an increasing proportion of state operations. Today, approximately 55 percent of all government activities are paid for with mineral sale revenues. The Governor is particularly concerned over this growing economic dependence on mineral resources, since our mineral deposits are ultimately finite.

Substantial oil revenue seems assured for at least 10 years. However, the question is how will we pay for government when revenue from mineral sources ultimately declines?

Since state legislators and the Governor must determine the level for state expenditures, they are interested to know how you feel about using non-recurring oil revenues to finance state government.



Land

Land. It is our greatest natural resource, and one that touches us all in a personal way. Few issues affect us more deeply than how it is used.

Surrounded by millions of acres, many Alaskans lament the scarcity of land for their particular needs. For example, some Alaskans want land available for a home, garden, and a measure of privacy; another group looks to land to maintain their subsistence lifestyle; and others want land made available for recreation and agriculture.

The majority of participants in last year's Public Forum told us their most important objective for managing Alaska's land was "to provide land for people's needs." Yet "people's needs" varied from person to person and from region to region.

This year we would like to know more detail about the personal needs you think the state should meet and how it ought to meet them. But first, some background.

Land Ownership in Alaska

There are 365 million acres of land in Alaska. The federal government owns the largest chunk—215 million acres. Under the Statehood Act, Alaska is entitled to more than 103 million acres, an area a little larger than the state of California. Private landowners, including individuals and the native corporations, hold or will soon receive title to 45 million acres. Boroughs and municipalities own or have selected about 1.2 million acres; 900,000 of these acres were originally part of the state entitlement.

State Lands

To date, the state has selected 71 million acres of its 103 million-acre entitlement. Full title has been conveyed on 20 million of those acres, and another 15 million have been tentatively approved for state ownership. The state is free to manage, sell, or lease only the 35 million acres which are patented or tentatively approved.

State lands are concentrated in southcentral, southwest, and interior Alaska, with scattered selections in southeastern and arctic Alaska. The State Division of Lands estimates that only about four percent, or 15 million acres, of the total land area of Alaska is well suited for intensive use—for homes, commercial, and industrial development, etc. Much is too steep for development, while other areas are wet or susceptible to flooding. Permafrost, poor surface soil, geologic hazards, and fragile vegetation are other limitations that directly increase construction costs, cause erosion, or even endanger life.

Realistically, there is simply not enough suitable land to satisfy everyone. Compromises and trade-offs will have to be made, and it is important to understand the limitations of the state's capabilities in providing land for private use.

State Land Available for Private Use

A homesite act went into effect in September 1977, making parcels of up to five acres available for permanent homesites. The act calls for classification and survey of 25,000 acres of state land for homesite entry.

Residents of Alaska for the past six years or a total of 20 years may apply for a tract for a \$10 filing fee. To obtain patent, the applicant must live on the land a total of 21 months within the first three years (only five months for 20-year residents) and build a permanent home within that time. They must also reimburse the state for survey costs.

Land is excluded if it lacks adequate drainage or water supply, has agricultural or mineral potential, is located where homesites would threaten fish regeneration or where existing services provided by the state and municipalities would be inaccessible, or is unsuitable for community or onsite sewage disposal.

About 1,500 acres that meet the proper standards have been located in the areas of Tok, Delta Junction, Rex, and Central. The first disposal of homesite

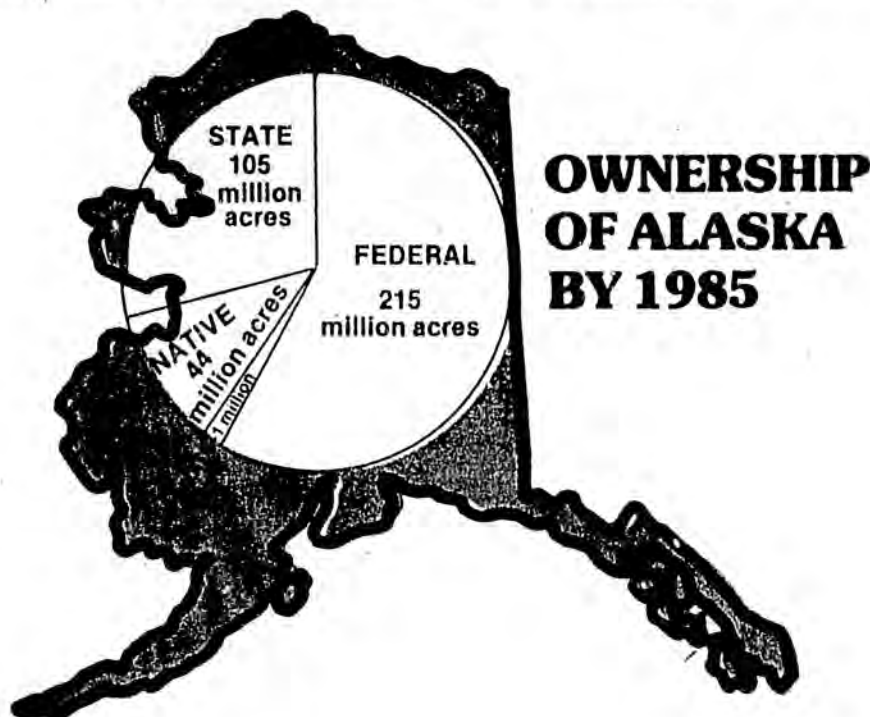
tracts is tentatively scheduled for spring 1978.

The program will be difficult to implement in the state's organized boroughs where most of the best homesite land lies. These boroughs would have to provide many of the services for homesite families.

Some boroughs are refusing to permit any further classification of land within their boundaries until they receive title to the lands they have selected. Municipalities are entitled to select 10 percent of the vacant, unappropriated, unreserved state land within their boundaries under the Mandatory Borough Act of 1963. A bill that would have settled the municipal land entitlement failed to pass the last legislative session.

Other boroughs are refusing to waive their subdivision regulations requiring the subdivider to construct roads. Under the homesite bill the state itself is acting as subdivider. Since the legislature did not appropriate money for road construction, it is impossible for the state to comply with that portion of local laws.

If the state goes beyond borough borders for homesites, the land still must be near an existing road network which does not overlap selections by natives or the federal government under the Alaska Native Claims Settlement Act.



Land for Recreational Homes and Cabins

The state's open-to-entry program, which opened in 1968, was an earlier attempt to meet the desire of Alaskans for a personal piece of wilderness. More than 2.5 million acres were classified as open-to-entry in semiremote areas near Fairbanks, in the Susitna Valley, on the Kenai Peninsula, in the areas of Kachemak and Resurrection Bays, around Tok, and on Kodiak Island.

Residents could stake up to five acres and apply for a five-year renewable lease. They could buy the land for fair market value at the time of staking, provided they paid for their own land survey.

More than 3,600 parties staked and leased tracts under this program. It was discontinued in 1973 after it proved increasingly difficult to administer and fell prey to various abuses. Further, it had failed to set aside areas for roads and trails and areas with high public recreation value.

The state had assumed that individuals were looking for isolated tracts, but people tended to cluster their fillings near settlements and areas with water frontage. With no overall plan, entries sometimes overlapped or left pieces of unusable land between them.

Any new program for providing recreation lands should be designed to avoid the pitfalls of this earlier one and to carefully address Alaskans' practical desires and needs for recreation land.

Land for Urban Homes

State land near established communities where jobs, public services, and amenities already exist is deceptively scarce. In the years before statehood, much of the land in and around the population centers of Anchorage and Fairbanks was acquired by private owners under the federal Homestead Act. After statehood, the state selected most of the remaining lowland area. Municipalities have since selected or received approval or patent to about 900,000 acres of state lands. More than 168,000 acres originally owned by state and local governments are now in private hands through borough and state land disposals.

As a result, much of the best-located land within commuting distance of urban centers is already owned privately or by local government. Much of the state land which remains near growing urban centers is held in trust to help support the state's mental health program, public school system, and the University of Alaska.

Other state land near cities has been selected by local governments under the Mandatory Borough Act or pressed into a public service-related use. In the Anchorage Bowl, for example, the state owns 8,200 of the 64,000 acres. All but 300 of those acres are mental health, school, and university land or pre-

used for airports or leased to the municipality. The remaining 300 acres are scattered throughout the bowl, and much of it is used by some public agency or is under selection by the municipality.

Land for Farms and Rural Homes

In 1976, the legislature passed a bill calling upon the Department of Natural Resources to classify 650,000 acres for sale for agricultural use only. Through this classification, the state protects this resource from uses that would render it unsuitable or unavailable for farming. These tracts will probably have to be conveyed in much larger tracts than the 160-acre federal homestead parcels since these proved too small to support Alaska agriculture in almost all cases.

Land could also be made available for rural homesites away from established communities. However, such a program might encourage urban sprawl and unplanned development. Many of these homeowners would have to commute long distances to urban jobs, aggravating traffic problems. Additionally, extending public services to these areas might be expensive and unpopular with local governments.

Land for Small Businesses

Many Alaskans dream of owning a small family business. The state could make some of its lands available for such uses as a country store, cottage industries, a roadside cafe, or a taxidermy shop. Some people feel this option represents state intrusion into private industry, while others point out that finding land for small businesses near existing communities would pose the same problems as finding land for urban homes.

Land Held in Trust

State land could be preserved in its natural state as a bequest for future Alaskans. It could be managed for existing uses or to insure productivity of fish and wildlife and other resources for recreation and subsistence.

Land Conveyance

Currently, state land can be transferred to private use either through fee simple sale or by lease. All or partial rights can be conveyed at either full or below market price. Each of these options has advantages and disadvantages.

Sale

Some people believe that the sale of state land would relieve scarcity and consequently lower prices. However, since the state owns very little land in areas where there is a shortage of building sites, this course would have little effect. In many rural areas the high cost of land is due not to a shortage of building sites but to competition among speculators which has boosted prices. Among the

more than one million acres privately owned in Alaska (not including native lands), about 10 percent is used for homes, farms, industry, recreation, and commercial development; 90 percent is used only slightly or not at all.

Lease

When the state leases land it retains title but authorizes other people or agencies to use it. The state's school, mental health, and university lands are examples of leased lands which are held to earn revenue for specific purposes. Some lands, such as state tidelands and lands classified for resource management, may only be leased and not sold. Leases generally run for 55 years with an option to renew for another 55 years. Subleasing is permitted on improved properties.

Greater use of leasing has been suggested as a way to reduce land speculation, retain a measure of land use control within the state, and allow the state to share in the revenue to be gained through rising land values.

Selling or Leasing Land at or below Market Value

Selling or leasing land at market value maximizes income to the state. At the same time, there is evidence that this practice inflates surrounding land values and actually casts the state in the role of developer.

State lands are generally sold or leased at public auction for no less than current appraised value. However, the auction method produces intense competition, and properties sometimes sell for two to four times the appraised value. Parcels without successful bidders can be offered over-the-counter for no less than appraised value.

Total proceeds to the state have not been great. The Division of Lands estimates that state coffers have been enriched by \$33 million through land sales since statehood. That averages less than \$2 million per year, or less than one percent of the annual state budget.

If the state opts to sell land at below market value, it must decide that meeting individual needs is more important than earning maximum profits. The home-site bill and open-to-entry program, previously discussed, are examples of land disposal below market value.

If land is leased or sold below market value, the state must decide who is to benefit. Certain land uses could be encouraged by giving preference to those applicants who would use the land in a designated way, such as for agriculture. On the other hand, certain categories of people might first qualify for a price break. These might be people with low incomes, those who own no other property, senior citizens, or long-time state residents. Some people have suggested a lottery system.

I. Land Questions:

A. Please rank the following private uses of land according to which you think the state should stress the most. (1-most important, 6-least important)

- ☐ 1. Provide land for recreational homes and cabins
- ☐ 2. Provide land for homes near existing communities
- ☐ 3. Provide land for homes away from existing communities
- ☐ 4. Provide land for farms
- ☐ 5. Provide land for small businesses
- ☐ 6. Keep land in trust for future Alaskans

B. Should the state sell this land or use long-term leases to make this land available for private use?

- ☐ 1. Sell the land
- ☐ 2. Use long-term leases
- ☐ 3. Don't know

C. Which of these users, if any, do you think should not have to pay the full price of the land that they use?

- ☐ 1. Farmers
- ☐ 2. People with low incomes
- ☐ 3. Loggers
- ☐ 4. People who have lived in Alaska a long time
- ☐ 5. People who do not own other land
- ☐ 6. People who are chosen by lottery
- ☐ 7. Other _____
- ☐ 8. No one should pay less than the full price

PLEASE FILL OUT QUESTIONNAIRE ON BACK PAGE.



The Subsistence Lifestyle

Introduction

One of the most sensitive and controversial issues facing the state in the area of fish and wildlife management is subsistence use of the resources.

At the heart of the problem lie these questions: What does the term "subsistence" mean? What is a fair method to determine who should use these resources for subsistence purposes? And what management system would best assure the well-being of animal and marine life, and also provide for subsistence uses?

There are no easy answers.

As Alaska's population grows, pressures increase on fish and wildlife and conflicts intensify over who should be allowed to hunt and fish. While no one likes the idea of restrictions on his activities, today's level of dependence on the land cannot be sustained for an ever-increasing number of people. Eventually, demand will exceed supply.

In any discussion of hunting and fishing, we must keep one critical element clearly in focus—the protection of healthy populations of fish and wildlife. If we pursue them to extinction through overuse of

the resources or abuse of the land, any further discussion will be purely academic.

The Alaska Constitution says that these resources belong to all Alaska citizens. The state has the responsibility for managing resident populations of fish and wildlife, with the exception of some species of marine mammals, migratory birds, and endangered species. As manager, the state has already assigned some priorities for use. In 1973, the Alaska Department of Fish and Game and the Alaska Board of Fish and Game recognized subsistence use of fish and wildlife as the highest priority among other consumptive uses, i.e., recreational and commercial. Governor Hammond recently stated, "To preserve the potential for the subsistence way of life is an extremely high priority of my administration."

Few people, we imagine, would argue against the state establishing preferential treatment for the person who relies solely on the land and sea to provide for his or her existence.

But the issue is far more complicated than that.

There are few examples today in Alaska of "pure" subsistence, that is, total reliance on the land for food, clothing, and shelter. In most cases, modern

conveniences and technology have become part of the subsistence lifestyle, and as a result there are varying degrees of dependence on some cash income. In addition, use of fish and wildlife resources for recreational, cultural, and commercial pursuits overlap or are intimately interwoven with subsistence living. While it may be possible to determine how many pounds of meat and fish are necessary to keep a person alive, we cannot measure the emotional or spiritual benefits of following such a lifestyle.

Even though the state government has assigned highest priority to subsistence, many people feel that the state has not lived up to that policy. However, the difficulty lies not in a recognition of the problem, but rather in the complexity of determining who the subsistence users are and what program might best provide for that use.

Through the Public Forum process, we hope that many people will share their views on subsistence. Perhaps then, with a better understanding of the problem statewide, the question of subsistence use can be dealt with fairly and the continued well-being of the fish and wildlife resources will be assured.

What is subsistence?

Although there is a state law defining it and several federal and state policies recognizing it, there is no universally accepted definition for subsistence.

The Alaska Statutes define subsistence fishing as "the taking, fishing for, or possession of fish, shellfish or other fishery resources for personal use and not for sale or barter." The statutes define subsistence hunting as "the taking of game animals by a state resident for food or clothing for personal or immediate family use."

In 1973, the Federal-State Land Use Planning Commission sponsored an informal conference on "Subsistence Uses of Fish and Game in Alaska." The participants concluded that an acceptable definition should include "(1) to sustain life, (2) for economic benefit, (3) for relaxation and recreation, and (4) to maintain a lifestyle or culture." The majority felt that "to sustain life" should be the highest priority and "to sustain a lifestyle" the second priority.

Some may define subsistence activities as the direct use of fish and wildlife for food, clothing, and shelter. Others may include some commercial uses such as the sale of ivory, furs, fish, fish eggs, handicrafts, and clothing. Still others feel that the taking

of fish and wildlife resources is a vital part of their cultural and historical heritage and involves traditional foods, art, and religion.

For the purposes of discussion, consider the following questions involving current "subsistence" uses.

1. Is the taking of walrus so that saleable handicrafts can be made from the ivory a subsistence activity?
2. Is guiding others on hunting and fishing trips a subsistence activity?
3. Is taking moose, caribou, or fish to supplement a person's diet a subsistence activity? Even if the person depends mostly on a job for pay?
4. Is the harvesting of fish to provide food for sled dogs used exclusively for racing a subsistence activity?
5. Is commercial fishing a subsistence activity if a person relies totally on that activity for his or her livelihood?

Who should use the resources for subsistence purposes?

In the next decade we may have to face a very difficult and sad question: If there are not enough fish and wildlife for all subsistence purposes, who should be allowed to fish and hunt?

Some people have suggested that priorities should be based on the user's (1) degree of dependence, (2) past cultural or historical use, (3) local residency, and (4) traditional versus modern methods and means of harvest.

Degree of dependence

Most native people, as well as other Alaskans living in rural areas, spend much of their time hunting, fishing, trapping, and berry picking. These food sources supply a major portion of their diet. Although commercialization of fish, ivory, and fur long ago introduced a cash economy in rural Alaska, many villages and outposts of the state still lack cash employment opportunities. This forces most rural Alaskans to depend on the natural environment to provide a significant part of their livelihood.

Cultural or historical use

Activities which sustain life often have roots which go much deeper than that of purely satisfying a physical need. For centuries the Alaska native people depended completely on the land and sea to survive. This was the foundation on which societies were structured and the life which gave a people dignity and pride. Obvious examples today are the arctic communities where activities and social status depend on the catching of the bowhead whale.

For native people subsistence is an intimate part of their life and a celebration of culture. During the Public Forum workshop in Bethel last year, the protection of the subsistence lifestyle was raised as a vital concern. One young man explained, "The young people who went out to school, like myself, when we couldn't have subsistence foods, sometimes we get up from the table with tears. I mean, you couldn't help that. It is not only to fill yourself, your hunger, stomach, but also to fill your being ... to have a good feeling, to have mental health and employment. If subsistence is threatened, then you take away all these things."

But subsistence is not entirely an ethnic pursuit. In the past, many Alaskans, regardless of their origins, lived predominantly off the land. While their reasons for wanting to continue such a lifestyle may not be what are traditionally thought of as cultural, they too have strong emotional and historical ties to the land.

Some people believe that only Alaska natives should be allowed to continue subsistence activities. They maintain it is the only possible solution for protecting their heritage and unique cultures. Others feel that qualifying a subsistence user by race or ethnic origin would be contrary to the Alaska State Constitution, which recognizes all citizens as equal under the law. Furthermore, a "natives only" policy does not address the matter of need, which varies between individuals, communities, and geographical areas.

Local Residency

Many people feel that those who harvest subsistence resources from areas around where they live should be given first preference to continue to hunt and fish there. That would mean that priority for the use of resources would be determined by local residency. This policy would require a definition of residency. Would it be based on a certain number of years? Would it allow new residents to subsistence hunt and fish? As communities expand, pressures on local fish and wildlife would undoubtedly increase.

Traditional versus modern methods and means of harvest

Modern technology has changed the pattern of subsistence living. Modern tools, firearms, and transportation methods are becoming increasingly available to the subsistence hunter and fisherman. With this technology available, the subsistence user has the capability of ranging further and taking more animals than his needs may dictate. Thus, his impact upon the fish and wildlife can be much greater now than was possible in the past.

Only a few years ago, it was customary for residents of Fairbanks and Anchorage to drive out of the city in the fall to shoot a moose or caribou for the winter. Now, however, game animals have been so heavily hunted near these growing urban areas, particularly along the road system, that this is seldom possible. As a result, many city dwellers seek more remote wildlife by using aircraft, off-road vehicles, or riverboats. Since those methods of travel also allow rural Alaskans to range further and take

more game than in the past, competition between sport and subsistence users is increasing for often diminishing wildlife resources.

Some people feel that those who use older, more traditional methods of harvest, such as travelling by foot, dogsled or skinboat, should be given preference in subsistence pursuits. This would undoubtedly limit the take of resources. However, others argue that this option is unrealistic and comparable to asking the urban dweller to give up his automobile and return to the horse and buggy. Perhaps we can distinguish between people who subsistence hunt on snow machines and those who still use dogsleds. But it is less clear in establishing priorities when the choice is between two modern modes of transportation such as the snow machine and airplane.

Another suggestion has been to allow all traditional and current methods of taking fish and wildlife, but prohibit the use of any new technological developments in weaponry or transportation for future subsistence activities.

Management of Fish and Wildlife

The State of Alaska is responsible for the management of all resident populations of fish and wildlife except when excluded by federal regulations or international treaty. Two citizen boards, which are appointed by the Governor (the Alaska Board of Fisheries and the Alaska Board of Game), make regulations affecting fish and wildlife. Management of fish and wildlife is done by the Department of Fish and Game, while enforcement of the regulations is primarily the responsibility of the Department of Public Safety.

In addition, citizens are encouraged to take part in fish and game management decisions through the existing 53 fish and game advisory committees in the state. These advisory committees have increased local involvement, but lack of funding, formal organization, and other frustrations have caused many people to conclude that the present advisory committee system no longer adequately addresses such things as subsistence needs, resource allocation, or stock depletion.

Thus, it seems evident that more significant participation at the local level is required. It has been suggested that the state modify the present statewide board-local advisory committee system by establishing regional fish and game boards. There are many possible variations under this basic concept, ranging from primary regional responsibility to a three-tier system of local, regional, and master

boards. The main differences of opinion here revolve around the degree of responsibility each board should have. Should the boards have merely an advisory role or actual authority to set regulations affecting fish and wildlife and subsistence users on a local, regional, or statewide level?

Another major option which some people favor is that of federal fish and game management on federal and native-owned lands. Without cooperative agreements, management of fish and wildlife would be fragmented between state and federal governments, each setting its own regulations on the lands within its jurisdiction.

Another possibility is for Congress to set legislation concerning subsistence, leaving fish and game management with the state but under some form of federal oversight committee. Or, perhaps, the state legislature could pass specific laws governing the subsistence question. Many people fear both of these solutions because it "institutionalizes" subsistence and, therefore, lacks the flexibility to truly meet the lifestyle and cultural needs of most Alaskans. What is subsistence to one person or place differs from the meaning or emphasis of another person or place.

Subsistence is an evolving, changing way of life. Whatever management structures we adopt should reflect the times as well as the changing patterns of the animal and marine world.

2. Subsistence Questions:

A. What do you mean when you use the term "subsistence"?

B. State policy recognizes that subsistence use of fish and wildlife has priority over commercial and recreational uses of these resources. Do you agree with this policy? If not, why?

☐ Yes ☐ No

C. In implementing this policy, it is often difficult to separate subsistence from commercial and recreational uses of fish and wildlife. If subsistence has priority, how do we distinguish between these uses to determine who the subsistence users are?

D. How should we manage our fish and wildlife to provide for subsistence uses?

PLEASE FILL OUT QUESTIONNAIRE ON BACK PAGE.



The Permanent Fund

What is it?

In November 1976, voters of the state approved changing the language of the Alaska Constitution to allow for "dedicated" monies to be set aside for a special purpose—the Permanent Fund.

The amendment reads:

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

There are five important points to be noted in the amendment.

1. At least twenty-five percent means that more than twenty-five percent can be placed in the Permanent Fund.
2. All mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses specifies the type of money that will go in the Permanent Fund.
3. The principal of the Permanent Fund can be invested but not spent.
4. Permanent Fund investments must be income-producing.
5. The income from Permanent Fund investments, which shall be deposited in the general fund unless otherwise provided for by law, can be spent.

In brief, the voters agreed to use at least 25 percent of the specified oil and other mineral revenues paid to the state for investment purposes. None of that money may be put into the General Fund, which finances the general operating expenses of government. All that may be spent in future years are the earnings from Permanent Fund investments.

Understanding the difference between the prin-

cipal and the earnings of the Permanent Fund is important. For example, if the state put \$250 million into a savings account, it might earn interest at seven percent. That interest over a five-year period would amount to approximately \$87.5 million, plus what has been compounded. The state may spend the \$87.5 million, the earnings, but the \$250 million, the principal, must stay in the Permanent Fund for investments.

The same idea applies to a loan. If the state loans a community \$100,000 to build a dock, it will expect to receive that \$100,000 back plus, perhaps, six percent interest. In this case the state will earn \$6,000 at the end of one year which it can spend on state activities, unless otherwise provided for by law. Again, the state returns the \$100,000 to the Permanent Fund for future investments.

The fund is a big responsibility, and it is critical that it is understood and managed properly. The estimated revenues which will be produced by the development of our oil and gas resources give an idea of the potential magnitude of the fund. Total state petroleum revenues produced between 1977-1985 are estimated to be \$11 billion from all sources (taxes, royalties, leases, and bonuses). The portion of that petroleum revenue required by the constitutional amendment creating the Permanent Fund is expected to be at least \$1.3 billion by 1985.

Current Status of the Fund

The fund began accumulating money in January of this year. In February, the legislature adopted an interim management policy which will govern the investment of the fund until the legislature decides on and establishes the agency and procedure for managing the fund. Under the interim statute, the Department of Revenue is required to invest the fund in low-risk, short-term, and guaranteed-return securities.

Beginning in January, the state legislature will

consider laws on the Permanent Fund. In the last legislative session, two bills dealing with the structure and management of the Permanent Fund were introduced for the purpose of discussion. The State Investment Advisory Committee, which advises the Commissioner of Revenue on investment policies for the state, wrote House Bill 298. This bill was sponsored in the legislature by the Governor. A second bill, House Bill 300, based on HB 298 but incorporating some changes, also was entered in the last session.

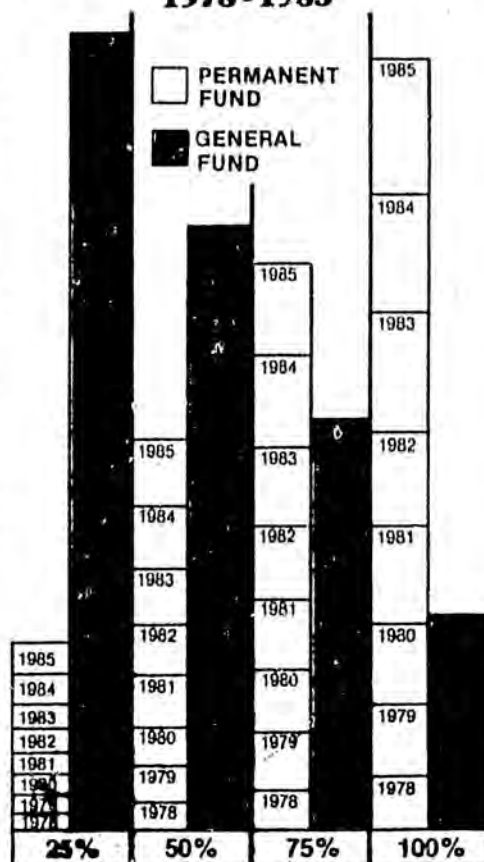
Research and analysis continues as policy makers prepare for the debate which will take place during the 1978 session. Special House and Senate committees have been working through the summer to answer questions about how to set up and manage the fund. To assist these committees and the Governor, who will have to decide whether to sign any Permanent Fund bill passed by the legislature, the Alaska Public Forum is asking you to consider your goals for this special fund. Although other methods of gathering Alaskans' opinions are currently underway, your responses to the Public Forum questions will be a valuable aid for those who must decide policy.

How much money should go into the fund?

Perhaps the most important thing to understand when answering questions about Permanent Fund goals is that choosing one goal over another involves compromises or trade-offs.

In answering question B, for example, you should know that money placed in the Permanent Fund (the principal) will not be available for financing government program through the General Fund. Although some projections of state revenue indicate that the state will have large surpluses of money by 1985, the amount of money is not infinite. You also should know that the money earned by Permanent Fund investments (the interest) may be available for financing government programs through the General Fund.

**ACCUMULATED
PERMANENT FUND BALANCE
AND GENERAL FUND SURPLUS
1978 - 1985**



*Surplus decreases in 1979.

**Surplus decreases between 1978 and 1982.

Source — The Legislative Affairs Agency



The Billion Dollar Enterprise

The Alaska state government is a billion dollar enterprise, responsible for providing a wide range of goods and services to the public. These goods and services must be paid for from the State Treasury, where all public funds are kept.

When an individual purchases a product or service from a private business, the cost and the payment are direct and are reflected in the price of the purchase. The individual can look at the price of the item, determine whether or not it is worth the money, and act accordingly. Although just as real, payment for government products is less direct and the benefits are less easily measured.

Money in the Treasury

Government operations are funded through a combination of tax revenues, user fees (e.g., camping permits, fishing and hunting licenses), federal aid and grants, and the sale of state-owned resources such as oil and land. Some state revenues occur only once, for example, the \$900 million Prudhoe Bay lease sale. Others are yearly collections from a continuing tax base such as corporate and personal income.

Since statehood, our mineral sale revenues have financed an increasing proportion of ongoing state expenditures. There is growing concern over this situation. Today, approximately 55 percent of all government activities are paid for with mineral sale revenues. Since oil, gas, and other mineral deposits are finite, this source of money is ultimately limited. Currently, the state is deliberating how to move from a dependence on this unreplenishable source of funding to sources based on continuing state economic activity without drastically reducing services, disrupting the growth of the Alaska economy, or saddling the populace with a large tax burden.

Although substantial oil revenue seems assured for at least 10 years, how will we pay for government when revenue from mineral sources ultimately declines?

(Refer to charts on page 7.)

Meeting Expenses

As the population increases and costs rise, it becomes more difficult to maintain the current levels

of services without spending more money. Some people suggest that we should restrict government spending only to those additional activities which can be financed by new taxes or service charges. Yet on the other side of the scale, there seems to be rising expectations of government and demands for new or more expanded services.

Perhaps, examples of projects now under consideration may help to clarify the dilemma.

Alcohol abuse is a serious problem in Alaska. Many people feel that the state should become more involved in rehabilitation, education, medical care, and law enforcement programs which deal with the devastating effects of alcohol. But if these programs are expanded, how should we pay for them? There are several possibilities: we could reduce spending in other areas; we could increase general taxes; we could increase taxes specific to alcohol (user fees); or we could use oil monies.

The potential opening of the North Slope Haul Road involves similar questions. If the road is opened, the state will have to pay substantial sums of money for annual maintenance and other related activities. Who should pay these costs — the people who will use the road or the state? Should we reduce the money for other programs to finance this one? Should we reduce the level of road maintenance elsewhere? Should we raise general taxes or tap oil money? These are the kinds of difficult trade-offs which must be considered.

Balancing the checkbook

Some people believe that we should continue to finance state government predominantly with revenues from mineral sales because we will continue to discover and develop these resources indefinitely. This position is difficult to support or disprove, since it assumes the existence of resources which have not yet been found. Some individuals maintain that scarcity of developable mineral resources is too far in the future for it to be of major concern to state government and the Alaska people today.

It is possible that the Alaska economy will expand at a greater rate than increases in government spending. This would probably mean attracting new industries to Alaska which would increase revenues more than they would increase the demand for expanded state services and facilities (e.g. new schools and roads).

The legislature and the Governor, with public advice, will decide on the level of government expenditures. Finding the appropriate balance between state spending and the financing of that spending is the question of financial management. If you think spending should be held down, certain activities now undertaken by state government will need to be reduced. The questions below seek to determine your preferences regarding state expenditures and how they are financed.

4. Billion Dollar Enterprise Questions:

A. What should be our state spending policy?

- ☐ 1. Keep spending at what it is now and reduce services.
- ☐ 2. Increase spending only enough to keep up with state population growth.
- ☐ 3. Increase spending only enough to keep up with inflation.
- ☐ 4. Increase spending only enough to keep up with population growth and inflation.
- ☐ 5. Increase spending enough to meet the need for critical new services.
- ☐ 6. Increase spending only as additional recurring revenues become available.

B. How do you feel about using non-recurring oil revenues to pay for state expenses?

- ☐ 1. We should use as much as we need of the non-recurring oil revenues for state expenses while we have them.
- ☐ 2. We should use the non-recurring oil revenues only for about the same proportion of state expenses as we do now.
- ☐ 3. We should reduce the proportion of state expenses that are paid from non-recurring oil revenues.
- ☐ 4. We should not use non-recurring oil revenues to pay for state expenses.
- ☐ 5. Other _____

C. As the non-recurring oil revenues decrease, how should we pay for state expenses?

- ☐ 1. Raise general taxes.
- ☐ 2. Raise fees and taxes for licenses, gasoline, alcohol, and other goods and services.
- ☐ 3. Use the money earned from investments that are made with oil money.
- ☐ 4. Encourage only those industries to locate in the state which will increase the amount the state gets in taxes more than they increase state expenses.
- ☐ 5. There will be other sources of money in the future to pay for state expenses.
- ☐ 6. Cut services to a level that requires no tax increase.
- ☐ 7. Other _____

PLEASE FILL OUT QUESTIONNAIRE ON BACK PAGE.

However, as far as the principal is concerned, the trade-off is obvious: money put into the Permanent Fund will not be available in the General Fund.

Instead of determining a straight percentage of the non-renewable resource money which shall be dedicated to the Permanent Fund, it is possible that the legislature will use a more flexible formula.

The legislature can decide, either by fixing in the enabling legislation or on a year-to-year basis, whether more than 25 percent should go into the Permanent Fund. This decision may depend on the need for state expenditures, the amount of oil revenues coming in relative to that need, and the uses to which the Permanent Fund will be put.

Your Goals for the Permanent Fund

In answering question C, it is equally important to keep trade-offs in mind.

If, for example, you choose the goal of creating more jobs, you should realize that it involves a trade-off against the goal of not encouraging more people to come to Alaska. Historically, many people have come to Alaska to fill available jobs. The more jobs that are created here, the more likely it is that people will arrive to fill them. The most recent example of this, of course, is the construction of the Trans-Alaska Pipeline.

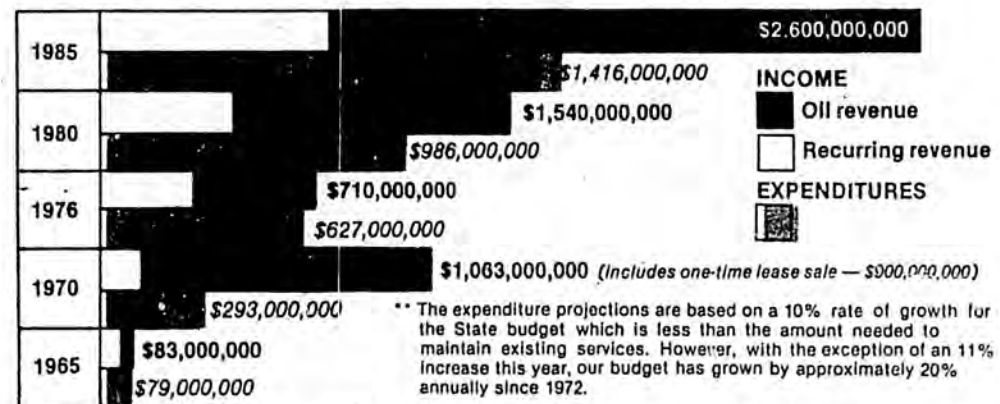
Different goals involve other trade-offs, some more subtle than others. It is possible, for instance, that the goal of making more Alaska products available may involve a trade-off against the goal of making the safest possible investments. Investments designed to make more Alaska products available may not be as safe as investments in housing mortgages or government bonds. Likewise, the goal of making more Alaska products available may involve trade-offs against the goals of maintaining environmental quality or not encouraging more people to come to Alaska.

The fact that compromises may be involved does not necessarily mean that some goals are better than others. That's for you to decide. But trade-offs cannot be ignored by policy makers, so we ask you to consider them carefully before ranking your investment goals.

The majority of last year's Public Forum participants wanted to invest the Permanent Fund money in renewable resource industries. This year we seek to clarify this response and also ask some additional questions on how to achieve your objectives.

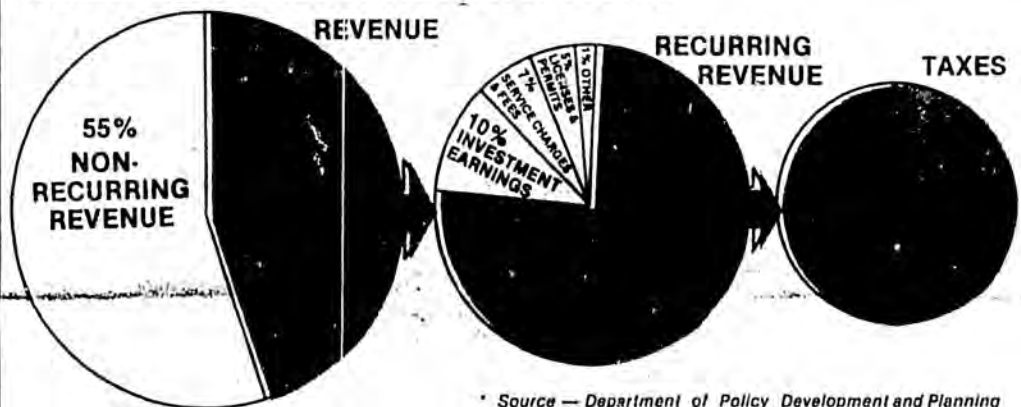
FINANCIAL CHARTS FOR QUESTION 4

PAST STATE INCOME AND EXPENDITURES AND PROJECTIONS FOR THE FUTURE (WITH OIL REVENUE BROKEN OUT)



* Source — Department of Policy Development and Planning and the Legislative Affairs Agency.

WHERE THE MONEY CAME FROM IN 1976:



* Source — Department of Policy Development and Planning

3. Permanent Fund Questions:

A. Which use of the Permanent Fund do you feel is most important?

- ☐ 1. To save money for the future
- ☐ 2. To avoid using the money for state programs
- ☐ 3. To provide money for income producing investments

B. Would you like to see more than 25 percent of the specified mineral revenues placed in the Permanent Fund?

☐ Yes ☐ No

C. Please rank the following possible goals for Permanent Fund investments according to which goals you think are most important. (1-most important, 9-least important)

- ☐ 1. Create more jobs in Alaska
- ☐ 2. Not encourage more people to come to Alaska
- ☐ 3. Maintain environmental quality
- ☐ 4. Make the maximum amount of money
- ☐ 5. Make more money available for investing in the state
- ☐ 6. Make the safest possible investments
- ☐ 7. Make more Alaska products available
- ☐ 8. Assist in stabilizing the Alaska economy
- ☐ 9. Other _____

D. In last year's Public Forum, the participants indicated that the highest priority for using the Permanent Fund was to promote renewable resource industries, such as fisheries, timber, and farming. Do you agree with this?

☐ Yes ☐ No

E. Do you feel that the goals you have identified as most important can be met by investing in renewable resource industries?

☐ Yes ☐ No

F. If you said "yes" in question "D", would you still vote to invest in renewable resource industries even if the money earned was less than the money that could be earned from other investments?

☐ Yes ☐ No

PLEASE FILL OUT QUESTIONNAIRE ON BACK PAGE.

QUESTIONNAIRE:

Please fill out this questionnaire. There are decision makers who want to know what you think. Right now, your opinion can make a difference in the future of Alaska. Answer the questions, tear off the back page, and mail your opinions to us. Thank you.

I. Land Questions:

A. Please rank the following private uses of land according to which you think the state should stress the most. (1- most important, 6-least important)

- ☐ 1. Provide land for recreational homes and cabins
- ☐ 2. Provide land for homes near existing communities
- ☐ 3. Provide land for homes away from existing communities
- ☐ 4. Provide land for farms
- ☐ 5. Provide land for small businesses
- ☐ 6. Keep land in trust for future Alaskans

B. Should the state sell this land or use long-term leases to make this land available for private use?

- ☐ 1. Sell the land
☐ 2. Use long-term leases
☐ 3. Don't know

C. Which of these users, if any, do you think should not have to pay the full price of the land that they use?

- ☐ 1. Farmers
- ☐ 2. People with low incomes
- ☐ 3. Loggers
- ☐ 4. People who have lived in Alaska a long time
- ☐ 5. People who do not own other land
- ☐ 6. People who are chosen by lottery
- ☐ 7. Other _____
- ☐ 8. No one should pay less than the full price

4. Billion Dollar Enterprise Questions:

A. What should be our state spending policy?

- ☐ 1. Keep spending at what it is now and reduce services.
- ☐ 2. Increase spending only enough to keep up with state population growth.
- ☐ 3. Increase spending only enough to keep up with inflation.
- ☐ 4. Increase spending only enough to keep up with population growth and inflation.
- ☐ 5. Increase spending enough to meet the need for critical new services.
- ☐ 6. Increase spending only as additional recurring revenues become available.

B. How do you feel about using non-recurring oil revenues to pay for state expenses?

- ☐ 1. We should use as much as we need of the non-recurring oil revenues for state expenses while we have them.
- ☐ 2. We should use the non-recurring oil revenues only for about the same proportion of state expenses as we do now.
- ☐ 3. We should reduce the proportion of state expenses that are paid from non-recurring oil revenues.
- ☐ 4. We should not use non-recurring oil revenues to pay for state expenses.
- ☐ 5. Other _____

C. As the non-recurring oil revenue decrease, how should we pay for state expenses?

- ☐ 1. Raise general taxes.
- ☐ 2. Raise fees and taxes for licenses, gasoline, alcohol, and other goods and services.
- ☐ 3. Use the money earned from investments that are made with oil money.
- ☐ 4. Encourage only those industries to locate in the state which will increase the amount the state gets in taxes more than they increase state expenses.
- ☐ 5. There will be other sources of money in the future to pay for state expenses.
- ☐ 6. Cut services to a level that requires no tax increase.
- ☐ 7. Other

2. Subsistence Questions:

A. What do you mean when you use the term "subsistence"?

B. State policy recognizes that subsistence use of fish and wildlife has priority over commercial and recreational uses of these resources. Do you agree with this policy? If not, why?

- ☐
- Yes
- ☐
- No

C. In implementing this policy, it is often difficult to separate subsistence from commercial and recreational uses of fish and wildlife. If subsistence has priority, how do we distinguish between these uses to determine who the subsistence users are?

D. How should we manage our fish and wildlife to provide for subsistence uses?

3. Permanent Fund Questions:

A. Which use of the Permanent Fund do you feel is most important?

- ☐ 1. To save money for the future
- ☐ 2. To avoid using the money for state programs
- ☐ 3. To provide money for income producing investments

B. Would you like to see more than 25 percent of the specified mineral revenues placed in the Permanent Fund?

- ☐
- Yes
- ☐
- No

C Please rank the following possible goals for Permanent Fund Investments according to which goals you think are most important. (1-most important, 5-least important)

- ☐ 1. Create more jobs in Alaska
- ☐ 2. Not encourage more people to come to Alaska
- ☐ 3. Maintain environmental quality
- ☐ 4. Make the maximum amount of money
- ☐ 5. Make more money available for investing in the state
- ☐ 6. Make the safest possible investments
- ☐ 7. Make more Alaska products available
- ☐ 8. Assist in stabilizing the Alaska economy
- ☐ 9. Other

D In last year's Public Forum, the participants indicated that the highest priority for using the Permanent Fund was to promote renewable resource industries, such as fisheries, timber, and farming. Do you agree with this?

- ☐
- Yes
- ☐
- No

E. Do you feel that the goals you have identified as most important can be met by investing in renewable resource industries?

- ☐
- Yes
- ☐
- No

F. If you said "yes" in question "D", would you still vote to invest in renewable resource industries even if the money earned was less than the money that could be earned from other investments?

- ☐
- Yes
- ☐
- No

Please tell us:

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☐ community workshop ☐ local newspaper ☐ other

Your community _____

Your age _____ Male ☐ Female ☐

What kind of work do you do? _____

How long have you been in Alaska?

Bulk Rate

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Southeast Alaska Empire

Ketchikan Daily News
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Petersburg Pilot
Wrangell Sentinel
Seward Phoenix Log

Peninsula Clarion
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Tundra Drums
The North Wind
The Chilkat Valley News

A.

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Description: Newspaper Article
Anchorage Daily News, Saturday, June 18, 1977
Page 9
"After the Boom What is Next?"

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IS UNSUITABLE FOR FILMING. PLEASE REFER TO THE ALASKA
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Description: Newspaper Article
The Anchorage Times, Sunday June 19, 1977
Section E, page 1
"141 Days In Juneau: What Happened" or "60 Legislators
And Three Big Bills"

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Description: Newspaper Article
The Anchorage Times, Saturday, July 30, 1977
Front page.

"Offical Nurtures El Pasco Hope"

"Tanker Arrives in Valdez"

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Description: Newspaper Article
The Anchorage Times, Sunday , July 3, 1977
Section C, page 1
"Natural Resources: Alaska's Stronghold"

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IS UNSUITABLE FOR FILMING. PLEASE REFER TO THE ALASKA
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Description: Newspaper Article
The Washington Post, Sunday, December 19, 1976
page B-2
"Alaska's Plight - Too Much Money"

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Description: Newspaper Article

The Anchorage Times, Wednesday, July 20, 1977

page 14

"Alaskan's Educate Californians On All-Alaska Gas Pipeline"

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Description: Newspaper Article
The Anchorage Times, Volume 63, No. 137
"Oil Sale Approved"

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Description: Newspaper Article
The Anchorage Times, July 21, 1977
page 67

"Work to Begin on Gas Pipeline to Soldotna"

"Gas Company 'Tamed' Turnagain Arm"

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DESCRIPTION: NEWSPAPER ARTICLE

THE ANCHORAGE TIMES, NOVEMBER 21, 1976

SECTION B, PAGE 1

"ALASKA CONFRONTS THE DILEMMA OF BEING RICH"

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DESCRIPTION: NEWSPAPER ARTICLE
ANCHORAGE TIMES, SUNDAY JULY 25, 1976
SECTION D, PAGE 1
"THE PERMANENT FUND DEBATE: OIL = \$ = ?"

SCOMM

#9:201

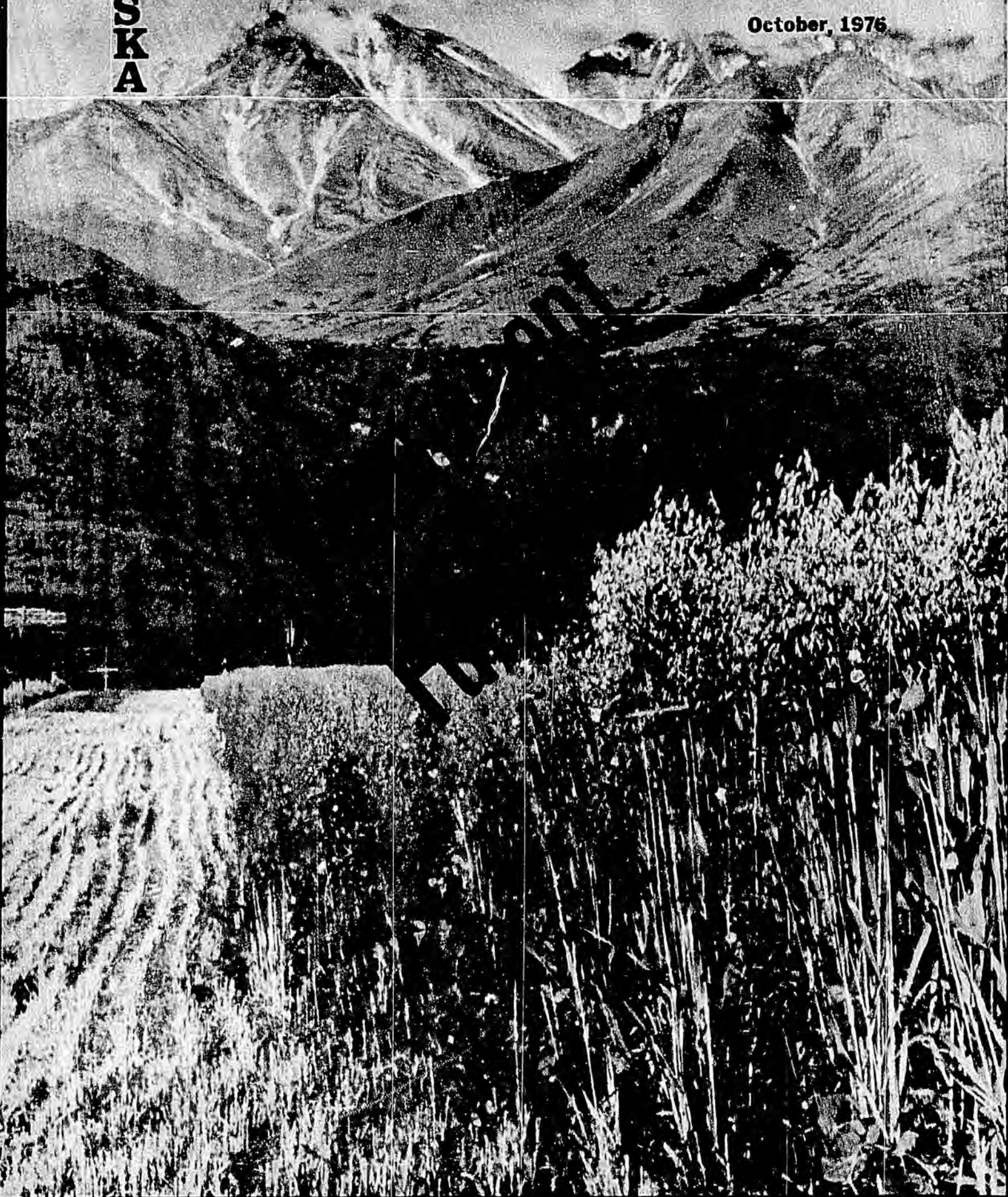
ALASKA

Revenue Journal

Department of Revenue

Vol . 1 No. 2

October, 1976



The estimates included herein are based on a preliminary analysis. They are subject to modification based on changing expectations of future economic conditions.

Jay S. Hammond, Governor

Sterling Gallagher, Commissioner

Vincent Wright, Research Chief

Permanent Fund Decision Nears

This issue of the Revenue Journal is devoted to the Permanent Fund concept that Alaska's electorate will decide on in November of this year. The goal of the fund is to invest revenues received from the State's non-renewable resource areas so as to provide for the economic and social well-being of Alaska's future generations.

This fund is important in that the money involved will have a significant impact on the State's populace if invested properly.

The following synopsis is a presentation of ideas inherent in the Permanent Fund concept. It is hoped that such ideas will be scrutinized, discussed, and improved upon by the voter.

Constitutional Amendment

The Second Session of the Ninth State Legislature overwhelmingly approved House Joint Resolution No. 39 calling for a Constitutional Amendment to establish the Alaska Permanent Fund.

The reason for the Amendment is due to the language in Article IX, Section 7 of the State Constitution which explicitly prohibits the dedication of proceeds from taxes or licenses for any special purpose except in the case of joint federal/state participation programs.

The Resolution specifically provides for the dedication of at least 25% of

"...all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State..."

to be channeled into income producing investments. The earnings from such investments are to be deposited in the general fund unless otherwise provided by law.

The amendment will either be approved or disapproved by the voters in the November, 1976 election.

The letter of intent which the Governor sent along with the amendment to the Speaker of the House revealed the following points:

- 1) The permanent fund would not include proceeds from petroleum exploration, production, and property taxes as listed under AS 43.56.
- 2) The fund would exclude receipts from petroleum

reserves and ad valorem taxes as indicated under AS 43.58.

- 3) The monies dedicated to the fund would be used only for income producing investments.
- 4) The fund could not be utilized to finance the general operating expenditures or general capital improvements of the State.

Organization

The organizational structure established to control the fund will be one of the key factors in determining its success or failure.

The question of prime importance then will be how will such an organization be established? Although this question is currently being addressed by the Electorate, Legislature, and Administration, very little can be said at this time about the probable outcome of debate.

It may be pointed out, however, that any proposed system should encompass characteristics which insure an effective organizational structure. The system should be free of overt pressures from special interest groups, provide for obtaining the best available management leadership, and make use of efficient operating techniques.

Objectives

The objectives of the Permanent Fund, as expressed by various interested parties, encompass a wide range of ideas including economic diversification, controlled expenditures, saving accounts, revenue sharing, and community development.

The concept of "controlled economic diversification" is being broached by many as one that merits the attention of the populace. If the State can "wisely" funnel money into good investments within its borders, then several goals may be achievable, including those listed below. It should be noted that the utilization of permanent fund monies would be complimentary to the banking system within the State. The funds could thus immensely aid Alaska's citizenry.

- 1) The renewable resources of the state could be developed, if financially feasible, so that a self sustaining economy would support Alaska's populace.
- 2) The highly seasonal employment atmosphere that currently pervades the State could be partially alleviated through acceptable industrial development.
- 3) The establishment of a broader tax base, through industrial development, could insure the State financial viability for future years.
- 4) The consumer would benefit cost-wise if certain types of goods were produced within the State. The elimination of import transportation charges could be one advantage.

The idea of a "savings account" type arrangement has been advocated by many. The arguments for this action include the following:

- 1) The rate of economic growth within the State could be partially controlled.
- 2) The State could still benefit in terms of earnings received from the savings account.
- 3) The future residents of Alaska would have funding to fall back on should it be needed.

The possibility of "community development" as a viable consideration for utilization of permanent fund monies is suggested by some. The advantages include:

- 1) The provision of additional health, education, and social needs.
- 2) The improvement of infrastructure in the form of utilities, power, ports, and roads.
- 3) The aid to businesses located within the community.

It should be noted at this juncture that many of the aforementioned ideas are complimentary in nature. It is possible that various combinations of these ideas could be successfully implemented so that all Alaskans benefit.

Distribution of Earnings

If House Joint Resolution No. 39 is approved by the voters, then a mechanism to distribute earnings to residents from investments of the Permanent Fund will be of paramount importance to the State. The options under discussion include employment programs, cash grants, social services, and lower taxes.

The ultimate approach to be decided, outlined, and implemented will require the efforts of the Administration, Legislature, and Populace.

The projected figures presented in the following tables are preliminary in nature, but do reveal the general significance of the permanent fund in terms of dollars.

Petroleum Revenue Subject to Permanent Fund

(in millions of current dollars)

	<u>State Oil</u> <u>Royalties</u>	<u>State Gas</u> <u>Royalties</u>	<u>Federal**</u> <u>Royalties</u>	<u>Mineral</u> <u>Lease/Rentals</u>	<u>Bonus***</u> <u>Sales</u>	<u>Total</u> <u>Revenues</u>
FY 77	34.1	4.6	6.0	?	?	44.7
FY 78	352.0	5.5	5.8			363.3
FY 79	517.1	6.5	5.6			529.2
FY 80	725.8	8.6	6.1			740.5
FY 81	825.0	12.2	7.1			844.3
FY 82	961.9	14.6	7.7			984.2
FY 83	1104.3	83.3	7.8			1195.4
FY 84	1262.7	99.0	7.9			1369.6
FY 85	1379.8	109.1	8.1			1497.0

**The figures in this column are currently subject to a legal dispute between the U.S. and Alaska.

***The possibility of a Beaufort Sea sale in September of 1977 would generate an undetermined amount of revenue to Alaska.

Permanent Fund Analysis at 25% Contribution Rate

(In millions of current dollars)

	<u>Revenue Subject to Contribution</u>	<u>25% Contribution</u>	<u>Permanent Fund Balance</u>
FY 77*	11.2	2.8	2.8
FY 78	363.3	90.8	93.6
FY 79	529.2	132.3	225.9
FY 80	740.5	185.1	411.0
FY 81	844.3	211.1	622.1
FY 82	984.2	246.1	868.2
FY 83	1195.4	298.9	1167.1
FY 84	1369.6	342.4	1509.5
FY 85	1497.0	374.3	1883.8

*The FY 77 figures have been adjusted to reflect the fact that, if approved, the amendment becomes effective 90 days after election returns are certified by the Lt. Governor.

Assumptions

Tariff Rates Relative to TAPS Operation

FY 78 - \$5.93	FY 79 - \$6.90	FY 80 - \$6.01
FY 81 - \$5.74	FY 82 - \$5.49	FY 83 - \$5.38
FY 84 - \$5.26	FY 85 - \$5.25	

The above rates include tanker, line, and related tariff rates.

Prudhoe Bay Oil Wellhead Values (per barrel)

FY 78 (I - II QTRS.) - \$8.48	FY 78 (III - IV QTRS.) - \$8.29	
FY 79 (I - II QTRS.) - \$7.95	FY 79 (III - IV QTRS.) - \$8.34	
FY 80 - \$9.90	FY 81 - \$11.08	FY 82 - \$12.30
FY 83 - \$13.43	FY 84 - \$14.63	FY 85 - \$15.79

The aforementioned values are based on world oil prices netted back to Prudhoe Bay.

Cook Inlet Oil Wellhead Values

The projected crude oil prices in each Cook Inlet field are held constant within the range of \$4.37 to \$5.15 per barrel. The royalty oil prices are expected to increase from present levels by only \$.10 per barrel per year.

Prudhoe Bay Natural Gas Wellhead Values

The cost of production basis was adopted in determining a wellhead value of at least \$.52/MCF (1976 1st QTR. Dollars). If a gas pipeline is completed in mid-1982, then the nominal price per MCF would be approximately \$.80. The price is assumed to rise at a rate of \$.05/MCF per year thereafter.

Cook Inlet Natural Gas Wellhead Values

The existing and pending contracts were utilized to forecast prices of production from this area.

Thruput Forecast For Prudhoe Bay Oil Fields

FY 77 - 2 MB/D	FY 78 - 929 MB/D	FY 79 - 1.3 MMB/D
FY 80 - 1.6 MMB/D	FY 81 - 1.6 MMB/D	FY 82 - 1.7 MMB/D
FY 83 - 1.8 MMB/D	FY 84 - 1.9 MMB/D	FY 85 - 1.9 MMB/D

Thruput Forecast For Cook Inlet Oil Fields

FY 77 - 178 MB/D	FY 78 - 164 MB/D	FY 79 - 148 MB/D
FY 80 - 135 MB/D	FY 81 - 122 MB/D	FY 82 - 110 MB/D
FY 83 - 101 MB/D	FY 84 - 91 MB/D	FY 85 - 83 MB/D

Thruput Forecast For Prudhoe Bay Gas Fields

FY 77 - 3 BCF	FY 78 - 4 BCF	FY 79 - 5 BCF
FY 80 - 6 BCF	FY 81 - 28 BCF	FY 82 - 42 BCF
FY 83 - 777 BCF	FY 84 - 828 BCF	FY 85 - 869 BCF

Thruput Forecast For Cook Inlet Gas Fields

FY 77 - 147 BCF	FY 78 - 166 BCF	FY 79 - 199 BCF
FY 80 - 257 BCF	FY 81 - 312 BCF	FY 82 - 333 BCF
FY 83 - 339 BCF	FY 84 - 345 BCF	FY 85 - 351 BCF

Cost Factors Relative to TAPS Project

Phase II

Capital Cost	\$7.7 MMM
TAPS AIDC	\$1.5 MMM
Working Capital	\$100 MM

Phase III

Capital Cost	\$900 MM
TAPS AIDC	\$ 90 MM
Working Capital	\$ 50 MM

Inflation Factors

The OPEC oil prices are assumed to track with worldwide inflation rates averaging 6% per annum during the forecast period.

The operating costs of capital intensive transportation systems are assumed to increase at the general rate of inflation of 4% per year.

Amendment as Passed by the Legislature

Source:

SCS CSSS HJR 39 (Resources) am S

HOUSE JOINT RESOLUTION NO. 39

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

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

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

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

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

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

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

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

Thank you

The following individuals were very helpful in providing much of the background material comprising this study.

John Baxandall - Department of Natural Resources

Hoyle Hamilton - Department of Natural Resources

David Knudson - Department of Revenue

John Miller - Department of Natural Resources



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Starting Gallagher asked me to have this information with you. If you have any questions please call 465-2391.

Rep Swearingin:

Vincent Wright

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

FISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.6	17.2	17.2	632.8	626.4	6.4	385.7
FY77	728.7	63.5	15.9	33.1	712.8	705.9	6.9	392.6
FY78	986.4	688.7	172.2	205.3	814.2	871.6	(57.4)	335.2
FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

Original Version

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

FISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE 1) CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND 2) CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	41.6	10.4	10.4	639.6	626.4	13.2	392.5
FY77	729.3	38.8	9.7	20.1	719.6	705.9	13.7	406.2
FY78	986.6	448.2	112.1	132.2	874.5	871.6	2.9	409.1
FY79	1179.1	568.2	142.1	274.3	1037.0	990.8	46.2	455.3
FY80	1487.6	780.0	195.0	469.3	1292.6	1124.6	168.0	623.3
FY81	1880.8	881.4	220.4	689.7	1660.4	1240.9	419.5	1042.8
FY82	2121.7	1001.0	250.3	940.0	1871.4	1259.8	611.6	1654.4
FY83	2414.0	1172.0	293.0	1233.0	2121.0	1300.0	821.0	2475.4
FY84	2661.7	1269.5	317.4	1550.4	2344.3	1400.0	944.3	3419.7
FY85	2829.8	1334.3	333.6	1884.0	2496.2	1500.0	996.2	4415.9

- ASSUMPTIONS:
- 1) Property Tax (20 mill) due date is moved up from Sept. 15th to June 15th starting FY76. Permanent Fund earns 6% on previous years balance which is deposited in General Fund.
General Fund also earns 6% on previous years balance.
 - 2) Revenue subject to Permanent Fund would be Bonus Sales, Federal Shared Oil and Gas Revenues. Total Oil and Gas Royalties - before Alaska NLC contribution is made.

Amended Version

WHITE, WELD & CO.
INCORPORATED
ONE BUSH STREET, SAN FRANCISCO, CALIF. 94104
TELEPHONE (415) 981-1077

July 9, 1976

Mr. James B. Rhode
House Finance Committee
Pouch V
Juneau, AK 99811

Dear Jim:

I was delighted to hear from Ken Butler that our firm was to be asked to continue to serve the Alaska Legislature in regard to financing electric power requirements for the State and in the preparation of legislation and guidelines for creating and operating a Permanent Fund. We appreciate your confidence in us and will continue to devote our efforts to the best interests of the State.

With regard to the Permanent Fund, we suggest the following outline as a basis for initial discussion at the next meeting of the State Investment Advisory Committee:

- I. Estimates of size and rate of accumulation of the fund.
 - A. Conduct a detailed study of anticipated amount and rate of accumulation of principal and earnings.
 - (1) Take into account recent developments in pipeline construction, estimates of reserves and world price trends.
 - B. Discuss considerations for preservation of principal while maximizing earnings.
 - (1) Should both principal and earnings be committed?
 - C. Explore possible benefits of the use of tax-exempt privilege by the Fund.
 - (1) Arbitrage considerations.
- II. Establishment of specific goals of the Fund.
 - A. Should the Fund participate only in revenue producing ventures?

Mr. James B. Rhode
July 9, 1976
Page Two

B. Should Fund activities be limited to major developmental projects?

(1) Should these be predominantly oriented toward economic diversity for the State?

C. Should the Fund become involved in both public and private ventures?

(1) Joint ventures involving a combination of the above?

D. Should priority be given to assisting projects where there is a critical "bridge" factor missing from an otherwise viable program?

E. What should be the relationship between the Fund and Native Corporations?

F. What are the merits of using Fund assets to create insurance or reserve funds for other financing of projects?

(1) Loans, mortgages, equity, participation, etc.

(2) Industrial Revenue Bonds.

(3) General Obligation Bonds.

(4) Other

III. Conduct a critical review of the operation of other similar funds.

A. Quebec Development Bank.

B. Alberta Heritage Fund.

C. British Columbia Fund.

D. Texas Permanent Fund.

E. Government Development Bank of Puerto Rico.

F. World Bank

G. Asian Development Bank.

IV. Explore required legislative action to accomplish goals of the Fund.

A. Creative legislation.

Mr. James B. Rhode
July 9, 1976
Page Three

- B. Procedures and guidelines.
- C. Investment restrictions.
- V. Management of the Fund.
 - A. Organization.
 - B. Representation.
 - C. Decision Making.

I will be on vacation for the month of July. Ken will be available and can direct any of your needs for our services during that time.

We have initiated research on the three Canadian Provincial Funds, the Texas Permanent Fund and the Government Development Bank of Puerto Rico.

With best regards, I am,

Sincerely,

Ted

Theodore P. Swick
First Vice President

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE: April 13, 1976

FILE NO:

TELEPHONE NO:

FROM: Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: SCS CS SS HJR 39

I have reviewed the Senate State Affairs amendments to the Permanent Fund Resolution. This amendment adopts the House format but changes the percentage sharing formula from 25% of petroleum revenue to 50% of royalties, bonuses, and rentals. In other words, the severance tax is deleted from the sharing. The following table displays the dollar impact of this change using assumptions consistent with the petroleum revenue estimates attached to the original Fiscal Note:

Millions of Dollars			
	25% Sharing Rate (includes Severance Tax)	50% Sharing of Royalty	Difference
FY 77	\$ 15.9	\$ 19.4	\$ 3.5
FY 78	172.2	224.1	51.9
FY 79	218.6	284.1	65.5
FY 80	299.8	390.0	90.2
FY 81	343.7	440.7	97.0
FY 82	381.6	500.5	118.9
FY 83	439.3	586.0	146.7
FY 84	482.8	634.7	151.9
FY 85	504.6	667.1	162.5
FY 86	529.4	705.0	175.6
Total 10 Years	<u>\$2,858.5</u>	<u>\$4,451.6</u>	<u>\$1,063.7</u>

A second major change is the provision for required reinvestment of 10% of the earnings of the fund. To illustrate the impact of this reinvestment requirement, we have calculated that beginning with a \$5 billion fund, then 20 years reinvestment of a tenth of a 6% return would increase the fund to \$5.64 billion. If the investment yield were to average 10% then the fund would grow to \$6.10 billion.

The amounts become more significant as the term of reinvestment increases. For example, the same conditions for 50 years would increase the fund to \$6.74 billion at 6% and \$8.22 billion at 10%.

Lastly, the State Affairs version of the Permanent Fund Resolution provides for additional legislative "dedication" of revenue without limitation. This is a massive change in the degree of authority to dedicate funds from that being sought in the original HJR 39. It may not even be what its author had intended. In any case, its effect cannot be measured.

LCE:ge

ASSUMPTIONS

NATIVE CLAIMS (millions)

FY76 - \$ 6.4	FY77 - \$ 5.9	FY78 - \$ 71.6
FY79 - \$90.8	FY80 - \$124.6	FY81 - \$140.9
FY82 - \$59.8		

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX (millions)

FY76 - \$16.3 + \$70.1 = \$86.4	FY77 - \$70.1 + \$58.1 = \$128.2
FY78 - \$128.2 + \$23.9 = \$152.1	FY79 - \$152.1 + \$2.3 = \$154.4
FY 1980 = \$154.4	FY 1981 = \$154.4
	FY 1982 = \$148.2

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT (millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

Receipts \$220 in FY76	\$269 in FY77	for a total of \$489
Paybacks \$109.2 in FY78	\$142 in FY79	\$198.4 FY80
\$ 39.4 in FY81		

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

FISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.6	17.2	17.2	632.8	626.4	6.4	385.7
FY77	728.7	63.5	15.9	33.1	712.8	705.9	6.9	392.6
FY78	986.4	688.7	172.2	205.3	814.2	871.6	(57.4)	335.2
FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

524.6
2315.2
1500.0
815.2

1500.0
3815.2

AKC Daily News
5/1/76 P. 4

Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or valous worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meantime and for what purpose?

IF THE FUND is a permanent endowment fund with no near term disbursement of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a serious economic decline, who has been assisted by the savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?



ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.



WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaska? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 99 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet!

There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority of Alaska citizens are concerned about excessive rates of growth.

Reports from the fishermen are that overcapitalization, not undercapitalization is the problem in the private sector. It is in the public sector where investment is needed to build fish stocks.

All this new investment may well have only marginal effects because the "soft" money will push out hard money. Particularly if we disburse loans through the existing banking system, the injection of new capital will tend to drive away outside capital, isolating Alaska from national money markets. That is, people will borrow from the easiest and cheapest source available for the class of risk involved. More conservative private investors will invest elsewhere.

LET US ASSUME that no more oil fields are discovered in Alaska, that the gas line doesn't go, that private investment capital is not emptied by Alaska's other bountiful resources in coal, steel, minerals; in short, that the prophets of economic gloom for Alaska are correct. Is it then a sound public fund investment policy to put our money into loans or development prospects that no one else thinks are economic?

Ordinary experience indicates that capital invested in submarginal economic activity, money invested in risks that a prudent investor would not touch, is money down the rathole. Only if capital became truly scarce, a phenomenon, should it occur, likely to be national in scope not Alaskan, would state investment in Alaskan capital markets make sense.

There may be merit in encouraging the diversification of Alaska's economy. If it is to be the case, however, it should be through the identification of a solid economic base, not in specious opportunities pumped up by public fund subsidies.

(Monday: Dedicated funds and public extravagance.)

Permanent fund: public extravagance

By JOHN HAVELOCK
(Second of two articles)

Some of the support in Juneau for establishing state dedicated funds arises from perfectly laudable sentiment in favor of public thrift. By expressing such overwhelming enthusiasm for these proposals, our legislators assure us both of their own frugality and the hazards down the road for the treasury if we should be so careless as to replace them with others less dedicated to saving our money.

Unfortunately, there is no substitute for not spending money when it comes to thrift.

DEDICATED FUNDS do not save money. They provide for the manner of its use. By tying the hands of state budget makers, dedicated funds may well create additional pressures for taxes or other revenue measures.

This is the case even when dedicated funds are required to be accumulated. The effect of accumulation is to assign part of the usual appropriation process to a state bank. Each of the proposals for dedicated funds is potentially a proposal to split state government in two.

One of these governments is familiar to me. I help elect its directors and help to kick them out when they run it badly. The directors are politicians. That means they are eager to please. They spend much time communicating with us about what they are doing and try to state it in understandable terms. If we don't control them effectively, we usually have only ourselves to blame. If we become complacent, they spend money foolishly and raise taxes. That usually wakes us up again.

NOW I SEE ANOTHER, less familiar, twin government on the horizon. We won't notice its management problems as much because it won't have to raise our taxes when it spends money foolishly. We don't know who its managers will be. We don't know what policies they will adopt nor is it likely that they will respond to us on a day to day basis. We must accept that what they do for us will be in our best interests — by benefiting some of the people who are going to be around in thirty years. We will get the trickle down, whatever and whenever that may be.

I am told that I can't trust the government I can control so I should invest my heritage in a government of bankers I can't control. There is no logic to this.

Assuming thrift is our purpose, what discussion has there been of alternatives to constitutional amendment?

FOR INSTANCE, if this wealth is such a public embarrassment, what would be wrong with giving it directly to the people on a per capita basis, perhaps by raising the state's minimum exemption on income tax or by a disbursement to school tax payers? If tax rebate plans are seen as discriminating against the very poor, who have an equal share in our commonly owned resources, maybe we could combine tax relief with increases in welfare payments, or through some more equitable per capita distribution.

Since most of us are quite aware that Prudhoe Bay is just the beginning, how about saving by keeping new oil reserves in the ground or by otherwise dampening immediate income growth through slowing the pace of natural resource exploitation? Since the possibility of a real nuclear power cost breakthrough has

ALASKA FORUM

This is the final installment of a two-part Alaska Forum on the proposed permanent fund to be derived from state oil revenues by John Havelock, the state attorney general during the Egan administration.

pretty well faded away, in the long run, the state's wealth may be much safer in the ground than in the hands of a new banking system.

By dedicating a large part (but not all) petroleum income to a special fund, pressure will heighten on the state to meet normal budget requirements through expanding resource exploitation in order to increase usable income from either royalty or taxation.

IF WE ARE TO HAVE a dedicated fund, maybe we should decide what it's for. There are some traditional objects of public investment that bear good return. Our greatest resources are our human resources. By investing in human resources we get the best return on capital.

If the pie is to be split among "builders, businessmen and fishermen," what rationale will control the split? Legislative approval will come from log rolling — the process of combining enough special interests to constitute a majority. The rush for a piece of the investment fund will be a sight to behold next year if the constitution is amended. Who will come in last? J. Q. Public is a safe bet.

It is possible that an Alaska dedicated fund is desirable. But I would be uneasy about following foreign models, such as Social Credit dominated Alberta, where political and economic traditions and the role of government in the economy are quite different. We do have domestic models in a number of the states. Closest to home, the State of Washington has a dedicated fund for education. The State of Texas has endowed its University.

AGREEABLE AS THESE sound, those who wrote our state constitution had the opportunity to observe these models and rejected them.

Considered individually, out of the context of all government needs, an endowment for loans to fishermen, public education, our pioneers, medical research or whatever, will sound like a swell idea. But the job of government is to balance among all these and hundreds of other laudible compelling interests. The relative merits of each purpose will change from year to year as new needs arise and old forms of expenditure seem less pertinent.

There is no need to believe we are spendthrift because we spend natural resource dollars. Those who presided over the founding of Alaska knew that revenue from resource development would be necessary to meet the ordinary expenses of government. Because the Congress knew these resources would go to the state treasury and help pay the way for state government, Alaska was granted statehood. The record of

congressional debate is clear.

NO ONE CAN DOUBT the superficial charms of dedicated funds — protecting our money from wicked or profligate politicians. Frugality is a great American virtue. But money saved does not go away, it is just spent by somebody else. If we decide to "invest" it in Alaska we have really only shifted the power of control from one group of people to another: from the legislators, the Governor and the executive branch of government, to bankers and borrowers.

Advocacy of dedicated funds has been based on a theory of economic behavior that has great virtue in the home but little relevance when the state itself is both the saver and the banker. It has also been based on a theory concerning the economic future of the state which is, at best, highly speculative. Many people, including the writer, do not believe that Alaska is likely to face a severe economic downturn in any near future resulting from exhaustion of natural resources. Before establishing a new system for the management of public monies, we should ask ourselves, who benefits? Who loses?

The advocates of dedicated funds have not come to grips with the real problems inherent in a dedicated fund, dedicated not to any purpose but to the principle of saving for its own sake. It is a novel enterprise for the state to set up an investment bank, in the absence of very specific needs for capital. Saving and investing "against a rainy day" is a money management policy dedicated to the benefit of a vaguely defined class of people quite different from the present taxpayers and voters of this state.

WE SHOULD ASK OURSELVES, is there a remedy better suited to meet the ills perceived? The constitutional fathers created a powerful budgetary control tool, rarely seen in state government, in the governor's line item veto. If we are truly concerned about legislative fiscal excesses, we should encourage him to use it.

Management tools, also, such as the recently recommended periodic zero-based budget analysis may prove effective. Dedicated funds discourage zero-based analyses and set up powerful vested interests against change in the status quo of benefit distribution.

If you are worried about the temptation of huge bonus bids, receipts can be leveled out over a longer time by allowing bidders to pledge a per cent of the value of the oil — royalty bidding, by putting up smaller tracts for sale — not a billion dollars at a time; by providing for rental bonuses paid over years. There are many ways to assure income at a steady level over many years.

ULTIMATELY, THE CALL that we protect ourselves from the budgetary excesses of the legislature and the governor is a call that we protect ourselves from ourselves. We are asked to do this by removing a restraint on legislative action, the very purpose of which is to encourage legislative fiscal responsibility.

With this restraint removed, we will be offered a smorgasbord of proposals to dedicate revenue to special investment. Who benefits? Who loses?

Alaska on Alaska



The sky's the limit

Vol. 4, No.20 August 1, 1977

Test Well Drilled in Lower Cook Inlet

A TOTAL OF 19 OIL COMPANIES ARE NOW PARTICIPATING in a major stratigraphic test well in lower Cook Inlet. The area is scheduled for an oil and gas lease sale in October. Described as Lower Cook Inlet COST Well No. 1 (Continental Offshore Stratigraphic Test), the 12,500-ft. well is located 43 miles south and west of Homer and is being drilled by the world's largest semisubmersible drillship, the Ocean Ranger. The rig was spudded in early June in 214 feet of water, approximately 20 miles west of the Kenai Peninsula. According to ARCO, operator for the exploration group, the purpose of the test hole is to "obtain information relating to the age, thickness and potential for generating and retaining oil or gas in the various rock formations." Projected cost of the three-month project is \$11.4 million. Current plans call for the operation to continue until shortly before the lease sale for the area.

Alaska Fishing, Hunting Fees Top \$1 Million in 1976

A RECORD 60 MILLION AMERICANS SPENT CLOSE TO \$318 MILLION on state hunting and fishing licenses in 1976 according to figures released recently by U.S. Fish and Wildlife Service. The breakdown for Alaska shows a total of \$167,873 fishing licenses sold at a total cost to fishermen of \$1,284,217. A total of 77,736 hunting licenses were sold and the total cost to hunters, including tags and the like, came to \$1,298,635.

Satellite Services Extended to Adak

RCA ALASKA COMMUNICATIONS, INC. HAS BEGUN SATELLITE SERVICES to Adak Naval Station near the tip of the Aleutian Chain. This represents the most western extension of satellite communications by RCA Alascom. Located only three degrees from the 180 degrees meridian, the Adak earth station is the third of

a series of 21 satellite ground facilities being constructed by RCA Alascom to replace key sections of the White Alice Communications System. RCA Alascom is leasing the White Alice System from the Air Force and, under an agreement, will replace specified facilities with earth stations. Replacement earth stations are already in operation in Kotzebue and Barrow. Next year RCA Alascom plans to build another station in Shemya.

King Crab Fishery Considered For Nome

A COMMERCIAL KING CRAB FISHERY COULD BE IN THE OFFING FOR NOME. The decision will be based on crab explorations now underway and results to date are encouraging. The Alaska Department of Fish and Game is endorsing the search. Speculation is that if a successful fishery is undertaken, a shore plant would be built in the Nome area to save fishermen the long run to Kodiak. Nome residents have been catching crab for many years through the Bering Sea ice in winter.

Pump Station Loss Lowers Oil Flow Rate

ALYESKA EXPECTS THE FLOW RATE OF THE TRANS-ALASKA OIL PIPELINE TO HOLD STEADY "at about 700,000 barrels per day until pump station 8 is back on the line." The station was shutdown July 8 when an explosion attributed to an open valve leveled the pump house and severely damaged adjacent facilities but did no damage to the pipeline itself. According to Alyeska spokeswoman Beverly Ward, no recommissioning date for the station has been set, mainly due to "uncertainty over delivery dates of replacement pumps and turbines, none of which are off-the-shelf items." Three each of the units must be manufactured according to highly precise specifications unique to the trans-Alaska pipeline pump stations. Loss of the station is expected to postpone the 1.2 million barrels per day delivery rate until early 1978. Alyeska had recently said it would come as early as September 1977.



Anchorage Firm's Parent Co. Listed No. 1 in Nation

THE RESOURCE SCIENCES CORPORATION (RSC), TULSA, PARENT COMPANY of Alaskan Resource Sciences Corporation, Anchorage, has been recognized as the number one design-engineering firm in the nation in a survey by a major engineering and construction industry journal. *Engineering News-Record*, a McGraw-Hill publication, showed RSC as the country's leading engineering design firm in its annual top 500 listing. RSC is made up of Alaskan Resource Sciences and several other subsidiaries, including: Williams Brothers Process Services, Inc. and Williams Brothers Engineering Company, Tulsa; Holmes & Narver, Inc., Anaheim, California; and Williams Brothers Engineering Limited, London, England. The company offers project management and systems engineering for pipelines, process plants, energy exploration and production, enhanced recovery, mining and metallurgy, water and waste treatment, and communications.

13th Regional Corp. Wants Land Settlement

THE SEATTLE-BASED 13th REGIONAL CORP., WHICH REPRESENTS ABOUT 4,000 NON-RESIDENT ALASKA NATIVES, is beginning to move forward in its campaign to add a land settlement to the corporation's assets. The Alaska Native Land Claims Act excluded the then unformed 13th from sharing in the 40 million acre land grant received by the 12 regional Native corporations in Alaska. The 13th, now well organized and strong, believes that was unjust, and is drafting legislation to change things. Support is being sought from the Alaska-based Native groups and so far there appears to be little open opposition to the 13th Regional Corp.'s proposal. It should be emphasized that the 13th does not intend to siphon off land from the corporations in Alaska. It wants additional lands.

Construction Starts on Sitka Sheffield Hotel

CONSTRUCTION HAS STARTED ON A NEW, 80-ROOM SHEFFIELD HOUSE HOTEL ON THE SITKA WATERFRONT. Bill Sheffield, president of the hotel chain, said the facility is now scheduled to open in October. The establishment will include a marina for pleasure craft, banquet space for 140 persons and a split-level dining room and lounge overlooking the Sitka harbor and Mount Edgecumbe. Space also will be provided for several shops. The hotel is on the site of the former Pelican Cold Storage plant.

New Refinery Proposed For State's Royalty Oil

A \$1 BILLION REFINERY HAS BEEN PROPOSED BY A JOINT VENTURE involving several Alaska Native cor-

porations and two Outside firms. The refinery is part of a proposal by Alpetco presented to the Alaska Royalty Oil and Gas Development Advisory Board for purchase of the state's Prudhoe Bay royalty oil. When the trans-Alaska oil pipeline reaches a flow rate of 1.2 million barrels a day, the state will have 150,000 barrels of oil per day for sale. That output has been delayed at least until early 1978 due to the loss of pump station eight. Alpetco, the Alaska Petrochemical Company, would build a petrochemical refinery complex that would process "150,000 barrels of Alaska crude oil feedstock per day, producing gasoline, jet aviation fuels, arctic diesel, fuel oils and a broad range of petrochemicals." An engineering management firm retained by Alpetco estimates over 2,000 Alaskan jobs would be generated by the refinery and its shipping operations. Members of Alpetco include six regional Native corporations (Aleut Corp., Bristol Bay Native Corp., Calista Corp., Chugach Natives, Inc., Cook Inlet Region, Inc., Koniag, Inc.); Alaska Interstate Company; Alaska Consolidated Shipping, Inc.; Seatrain Lines, Inc.; and Barbour Oil Company. The consortium is one of about eight groups bidding on Alaskan royalty oil. The Royalty Board will make a decision by December 1 and a contract will be ready for legislative approval 60 days later.

Survey Shows High Oil Demand

AS THE FIRST OIL FROM ALASKA'S NORTH SLOPE FIELDS NEARS THE VALDEZ TERMINAL and the marketing stage of operations, mid-year forecasts are for a greater demand on petroleum products than ever before. Surveys by the Oil and Gas Journal indicate that national demand for crude oil and petroleum products will be 6.8 percent higher this year than the all-time high set last year. Use of petroleum products during the first half of 1977 has been 8.3 percent higher than the same period in 1976, according to the magazine. The publication predicts that nationwide demand will reach 18,636 million barrels a day in 1977. The survey results also indicate a 9.5 percent increase in the number of wells drilled in the United States this year.

Government Report Issued On Pump Station Disaster

A PRELIMINARY REPORT ISSUED BY THE NATIONAL TRANSPORTATION SAFETY BOARD SAID THE BLAST which destroyed pump station 8 on the trans-Alaska oil pipeline was caused by workers disregarding procedures set up by Alyeska. According to the report, pump station workers should have requested permission from the central controller at Valdez before working on the pump. In addition, the report said the workers did not isolate the pump electrically and tag the circuit switch with warning signs before removing a strainer. The report criticized Alyeska for not "completely coordinating the written start up and operation plans at the pump station." The FTSB report

recommended that Alyeska set up a manager or management team at each of the pump stations to make sure that workers follow procedures and that Alyeska review the procedures for start up "to ensure that all critical actions will be done in a safe manner."

Wildlife Refuge Hunting Now Requires Permit

THE U.S. FISH AND WILDLIFE SERVICE IS REMINDING HUNTERS planning to hunt on National Wildlife Refuges this fall of some special provisions related to the new permit drawing/registration system being implemented this year by the Alaska State Department of Fish and Game. For the first time a permit drawing will be held for the taking of grizzly bear on the North Slope, including the Arctic National Wildlife Range. Two seasons will be held with one running from September 1 through October 10 and another from May 10 through May 25. The deadline for permit application has passed for this hunt but hunters can apply for permits to take Kodiak Brown bear on the Kodiak National Wildlife Refuge. The deadline to apply for the fall hunt (October 25 to December 21) is August 13. Applications can be submitted to the Alaska Department of Fish and Game until February 6, 1978 for the spring hunt running from April 1 to May 15, 1978.

North Pole Refinery Set for Start Up

A \$40 MILLION REFINERY AT NORTH POLE, ALASKA, near Fairbanks is set to go on the line August 15. Owned by Energy Co. of Alaska, the operation will process 20,000 barrels of North Slope crude per day to meet petroleum needs in the Fairbanks area. Oil will be transported both to the refinery and to the Golden Valley Electric Association's generating plant, through a 2.8-mi. 8-in. spur line from the trans-Alaska oil pipeline. The first phase calls for producing heating oil and diesel and military jet fuel by early September. Phases II and III, scheduled for 1978 through 1980, call for production of turbine and commercial jet fuel, asphalt and gasolines. The latter two phases will be completed at an estimated cost of \$20 million.

Underwater Mining Institute Set For November in Seattle

THE EIGHTH UNDERWATER MINING INSTITUTE, COSPONSORED BY THE UNIVERSITY OF ALASKA and the University of Wisconsin Sea Grant Programs in cooperation with the University of Washington Sea Grant Program and the AIME, will be held Nov. 10 and 11 in Seattle, Wash. Topics will include: environmental aspects of coastal zone mining; economics and marine mining; ocean law and deepsea nodule mining; nodule nucleation and metals; nuclear methods in marine minerals exploration; geophysics—some new techni-

ques; conservation and marine mining; new frontiers in marine minerals exploration and mining; and coastal mining in Alaska. For further information on fees and arrangements write Dr. Gregory Hedden, Institute Coordinator, Sea Grant Advisory Services, University of Wisconsin, 1815 University Avenue, Madison, Wisconsin 53706. □

High Rise Apartment Proposed for Auke Lake

PLANNING OFFICIALS OF THE CITY-BOROUGH OF JUNEAU are studying a proposal for construction of a high rise apartment building on the west shore of Auke Lake near the University of Alaska-Juneau campus. Dave Horton, who owns the property, is seeking approval for a structure containing between 12 and 24 units of housing. The Planning Department is also studying a master plan for the university.

Forest Service Analyzes H.R. 39 Impact

THE SOUTHEAST ALASKA ECONOMY "WOULD NOT BE SIGNIFICANTLY IMPACTED" by d-2 national interest lands legislation proposed by Arizona Rep. Morris Udall, according to the U.S. Forest Service. The agency recently concluded there would be little negative impact by the proposal after it analyzed the provisions of the highly controversial H.R. 39 "Udall bill." Included among the terms of H.R. 39 is the removal of more than four million acres of the Tongass National Forest from multiple-use classification. The four million acres would be given single-use wilderness status. Such action would close Admiralty Island to logging and would also likely make a planned sawmill in Juneau no longer viable. During recent hearings in Southeast Alaska, a large majority spoke out against the Udall bill, describing it as anti-employment.

Yukon Indians React to Energy Board Recommendation

CANADA'S COUNCIL OF YUKON INDIANS (CYI) HAS EXPRESSED "SHOCK AND DISAPPOINTMENT" over the recommendation by their country's energy board that a gas pipeline be built through the Yukon Territory. According to a CYI release, the (Canadian) National Energy Board's recommendation "is not the final decision in this matter and the Council does not intend to give up its fight against this and any other pipeline which threatens the progress of the Indian people toward full self-determination and self-control of Indian destiny." The position presented by the CYI to the recent Berger Commission which studied the Arctic Gas route, to the in-progress Lysyk study of the Alcan proposal and to the NEB states that the Council "will not stand by and watch the construction of pipelines while the question of land claims settlement and its implementation are still pending and outstanding."

Contract Award Activity High During June

A SURGE IN CONSTRUCTION AWARD ACTIVITY DURING THE MONTH OF JUNE has pushed the total of heavy construction contract awards reported in Alaska during the first six months of 1977 to \$146.6 million according to Alaska Construction and Oil magazine. June's total of \$61 million is the largest monthly total recorded so far this year and is far above the \$20 million total for June 1976. The June recovery was not enough, however, to offset earlier low monthly figures and the six-month total is 24 percent below 1976's mid-year figure.

New Agreements Announced by Gas Companies

NORTHWEST ENERGY CO., PARENT FIRM OF NORTHWEST PIPELINE, HAS ANNOUNCED SIGNING A CONTRACT with Pan-Alberta Gas Ltd. of Calgary for delivery to the United States of up to 800 million cu. ft. of natural gas a day for five years. A company statement said the agreement, starting in 1979, is for a loan of the gas and is dependent upon approval by the U.S. government of a trans-Canadian route for the natural gas line from Prudhoe Bay. Northwest Pipeline, which backs the Alcan gas line route, believes the pact will give its proposal an added impact with President Carter when he makes his recommendation on September 1. **Meanwhile**, the State of Alaska has announced that it will guarantee \$750-\$800 million of the cost for constructing the all-Alaska route proposed by El Paso Alaska. The offer would be backed by the state's newly established permanent fund and would allow gas line builders to secure loans at lower interest rates, according to government spokesmen. To become effective the offer will need an additional commitment of the state's oil and gas royalties and bonuses to the permanent fund. Currently 25 percent goes into the fund, but the state legislature has the power to raise that percentage.

Interior Secretary Tours D-2 Lands, Offshore Areas

INTERIOR SECRETARY CECIL ANDRUS RECENTLY TOURED some of Alaska's proposed national interest (d-2) lands and areas scheduled for offshore leasing in the fall. Included on his national parks itinerary were visits to Katmai National Park and proposed additions, Lake Clark and Harding Ice Field. Interior is scheduled to make its recommendations for additional federal system withdrawals by mid-September. Under terms of the 1971 Alaska Native Claims Settlement Act, the Secretary is directed to withdraw up to 80 million acres for national parks, forests, wild and scenic rivers and wildlife refuges. Congress can increase or decrease that

amount. The Interior chief also visited Kachemak Bay and English Bay on the Kenai Peninsula, two areas which are adjacent to tracts in lower Cook Inlet that will be up for oil and gas leasing in October.

Brubaker Heads Team Studying NPR Land Use

RAY BRUBAKER, A BUREAU OF LAND MANAGEMENT OFFICIAL FROM MONTANA, has been selected to lead the task force studying the National Petroleum Reserve in Alaska, formerly Naval Petroleum Reserve No. 4. The team is to compile a land use plan for presentation to Congress in 1979. Seven work groups, representing various federal agencies, are in the field now, studying such subjects as native dependence on the area, recreational possibilities, history and fish and wildlife populations. A resource inventory also will be drawn. The BLM is responsible for surface management of the reserve.

Correction: Governor Ray in Strong Opposition to Udall Bill

THE JULY 4 ISSUE OF ALASKA ON ALASKA ERRONEOUSLY listed Washington Governor Dixy Lee Ray as one of those in support of the so-called Udall bill (HR39), which would set aside some 116 million acres of Alaska land for wilderness and wildlife preservation. The governor came out in strong opposition to the bill. Due to a typographical error, her support was placed at the wrong end of a sentence—and on the wrong side of the issue.

New Alaska Corporations

KEE International, Inc., SR2, Box 738, Soldotna, AK 99669; **International Gold Nugget Distributors, Ltd.**, 7th Floor, 510 L St., Anchorage 99501; **Quality Construction Alaska, Inc.**, 2718 W. 65th Ave., Anchorage 99502; **Suburban Center Development, Inc.**, P.O. Box 1630, Wasilla, AK 99687; **Provider, Inc.**, 311 Franklin, Ste 201, Juneau, AK 99801; **Rondys, Inc.**, Seattle Ship Supply Co., Fishermen's Terminal, Seattle, WA; **Mark I, Inc.**, 8801 Golden Gardens Drive N.W., Seattle, WA 98107; **Howard-Cooper Corporation**, 8501 N.E. Killingsworth, Portland, OR 97220; **Atlantico, Inc.**, Seattle Ship Supply, Fishermen's Terminal, Seattle, WA; **Sigfried K., Inc.**, 23221 Wachuset Road, Edmonds, WA 98020; **Gray Tool Company**, 811 Dallas Ave., Houston, Texas 77002; **Curry Copy Centers of America, Inc.**, 43 Harvard St., Worcester, Mass. 01608; **Sunlite International, Inc.**, 43 North Sierra St., Reno, Nevada; **King & Winge, Inc.**, Spruce Cape Rd., c/o J.L. Hall, Box 2137, Kodiak, AK 99615; **A & S Trucking, Inc.**, Box 4-1482, Anchorage 99509; **D & D Towing and Auto Repair, Inc.**, P.O. Box 962, Valdez 99686.

Permanent fund: new independence

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the \$900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of



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It would be unfair to say that the total expenditure of the \$900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employees has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employees.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust "for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

However, the real problem facing the state is just the opposite extreme — too much is being spent to meet supposed immediate needs by auctioning off non-renewable resources which in some part rightfully belong to future generations.

The supreme arrogance is the supposition that any one administration or legislature has all the answers. The annual allocation of 100 per cent of current non-renewable resource revenues to what are then perceived as priorities hardly gives future governments much to work with. A permanent fund should and can be structured to as to be flexible enough to meet future needs. On the other hand, given the present level of per capita government spending in Alaska, a modest 25 per cent set aside of revenues from one time only mineral development will not hamstring necessary government operations.

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The preface to the Alberta act states that "... it would be improvident to spend all non-renewable resource revenues as they are received ..." and "... it is appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years."

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President Carter
during fireside chat

Economist stuns gas line panel

By PAUL NUSSBAUM
Our Juneau Bureau Chief

JUNEAU. — A University of Alaska economist Wednesday splashed cold water on hopes for a trans-Alaska natural gas pipeline and said state efforts to influence the gas route decision were futile and motivated by politics.

In the most spirited testimony in the three-day-old hearings on proposed royalty natural gas contracts, economist Dr. Arlon Tussing told state legislators "there is nothing the state can do to advance a trans-Alaska pipeline within the U.S. political system."

"THERE IS no chance for an El Paso line as long as there is a chance for a trans-Canada line, and there is nothing that any of the purchasers or the state can do in that respect."

Gov. Jay S. Hammond's administration is seeking legislative approval of three contracts which would sell the state's one-eighth share of Prudhoe Bay natural gas to a trio of gas transmission companies in exchange for their support of an all-Alaska gas pipeline. El Paso Natural Gas Co. proposed to build an 800-mile line through the state roughly parallel to the trans-Alaska oil pipeline.

Tussing, who served as chief economist for the U.S. Senate's national fuels and energy policy study, predicted a trans-Canada route proposed by Arctic Natural Gas Co. would win approval from the Federal Power Commission and the President. But Tussing said internal Canadian problems would make an Alaska Highway route similar to one proposed by Northwest Pipeline Corp. the most likely eventual route taken by the Prudhoe Bay gas.

TUSSING characterized state efforts to win support for an all-Alaska gas pipeline as political activity aimed primarily at keeping state residents happy and misinformed.

"Suppose you were the governor of Alaska and were under assault from the Anchorage Times, OMAR, and the Anchorage business community for not giving full support to El Paso, and you were also convinced that El Paso had little chance... it would be an astute political move to go ahead and call



Dr. Arlon Tussing

"The governor could come back to the legislature with contracts that don't mean anything... then where does the political finger point? You guys bear the onus then... if you didn't pass the contracts, you would be characterized as the ones who defeated the trans-Alaska gas pipeline."

"IF THEY DID pass, this hypothetical governor could then show he demonstrated exceptional leadership, that he did everything he could and more than he could have been expected to do, and managed to carry along those legislators who were going off in every direction as well."

Tussing, speaking without a prepared text for more than an hour, pulled no punches in lambasting the

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The Daily News
5/1/76 P. 4

Permanent fund: saving for what?

By JOHN HAVELOCK

The Alaska Constitution prohibits the legislature from automatically allocating a certain portion of the state's revenues to a named purpose for years on end. Each year, all public purpose must complete anew for the public dollar before the legislature and the public. The practice of permanent allocation is called a "dedicated fund."

One would think, from listening to the overwhelming enthusiasm emanating from Juneau for amending the constitution to permit dedicated funds, that the authors of our constitution may have goofed in providing this prohibition.

MAYBE THIS IS so. Perhaps with our greater wisdom we should try to bind future legislatures now by pledging a part of the revenue pie to a single or various worthy purposes. Before doing so, it would be wise to examine the justification of the prohibition and the possible effects of amendment.

Discussion of permanent fund proposals need better justification than "putting a little away for a rainy day." There is a lot of fog in the rainy day concept. The public needs to think about who benefits from such management schemes for public money.

There are two aspects of any long-term proposal for money management. First, what is the money being saved for? And second, who will control the capital accumulated in the meantime and for what purpose?

IF THE FUND is a permanent endowment fund with no near term disbursement of capital, then, as a savings policy, it can hardly be called a "rainy day" plan at all. Even if a plan is designed to liquidate capital after 30 years, on the theory that, because of oil depletion, Alaska will then face a serious economic decline, who has been assisted by the savings policy? Not anyone over 40. Our children? The time of need of our children, if they are here in Alaska, is most likely to be when they are under thirty, so it does little good even to those born yesterday.

Considering mortality tables and mobility, it is unlikely that as much as five per cent of the beneficiary class will consist of people living in Alaska today or their children.

Even assuming our disinterested philanthropy in supporting the people who have survived or moved into Alaska in the 21st century, on what basis is there reason to suppose that their material wealth will be so inferior? There is much to be learned from a review of the quality of life of our forebears. But (allowing for the temporary setbacks of depression) every generation in the history of America can look back thirty years on an average wealth level no better than half of what he enjoys. Has Texas slid over the brink of economic disaster as its oil reserves have declined?

ALASKA FORUM

Today's Alaska Forum was written by John Havelock, a local lawyer who served as state attorney general in the Egan administration.



WHAT WILL BE the earnings policy for this fund? Generally, public monies are invested in very safe securities, in keeping with the public nature of the trust. The state's recent venture into the stock market aptly illustrated public reaction to venturesome investment policies. Unfortunately, in times of significant inflation, as too many pensioners know, income derived from conservative investment will not keep pace with inflation. Accordingly, without an unusually speculative (and higher risk) investment portfolio, the state's policy of saving for the sake of saving may result in significant depreciation of cash assets, measured by purchasing power.

It seems, then, we must look for the rationale for a permanent fund in its investment policy, not in its savings policy.

A permanent fund serving investment policy is a bank, bigger than any other in Alaska. The Teamsters financial empire, (which also saves and invests, but for a purpose), will be dwarfed by comparison. Who will benefit from the establishment of a big state bank? Those who manage it, those who are in a position to borrow large sums of money. The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power.

News reports say we will be the beneficiaries through "loans to businessmen, builders and fishermen." Is there a severe shortage of investment capital in Alaska? With new banks springing up all over and old banks rapidly building assets? So who is to get all this loan money?

EVEN IF BANKS are not making enough loans, they are making most of the best of them. The investment benefits from soft loans? The privileged few who get them. Why should the 99 per cent of us who are not direct loan beneficiaries want to see our share of the state's income go into soft loans? What are the management problems of government soft loan program? Are there temptations to corruption or political favoritism? You bet! There is no reason to suppose that in the next thirty years the Alaska Economy is going to experience a capital drought. The prospects for decline are both speculative and exaggerated.

IN THE ABSENCE of an economic decline, the pumping of public money into the private sector has much to the inflationary potential of investment in the public sector. Do we really need a massive new injection of capital into business loans, private fishing vessels and construction? The investment benefit philosophy of the dedicated fund would pump up development activity at the very time when a majority of Alaska citizens are concerned about excessive rates of growth.

Reports from the fishermen are that overcapitalization, not undercapitalization is the problem in the private sector. It is in the public sector where investment is needed to build fish stocks.

All this new investment may well have only marginal effects because the "soft" money will push out hard money. Particularly if we disburse loans through the existing banking system, the injection of new capital will tend to drive away outside capital, isolating Alaska from national money markets. That is, people will borrow from the easiest and cheapest source available for the class of risk involved. More conservative private investors will invest elsewhere.

LET US ASSUME that no more oil fields are discovered in Alaska, that the gas line doesn't go, that private investment capital is not emptied by Alaska's other bountiful resources in coal, steel, minerals; in short, that the prophets of economic gloom for Alaska are correct. Is it then a sound public fund investment policy to put our money into loans or development prospects that no one else thinks are economic?

Ordinary experience indicates that capital invested in submarginal economic activity, money invested in risks that a prudent investor would not touch, is money down the rat hole. Only if capital became truly scarce, a phenomenon, should it occur, likely to be national in scope not Alaskan, would state investment in Alaskan capital markets make sense.

There may be merit in encouraging the diversification of Alaska's economy. If it is to be the case, however, it should be through the identification of a solid economic base, not in specious opportunities pumped up by public fund subsidies.

(Monday: Dedicated funds and public extravagance.)

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News
Clips



Out Of Foresight . . . Opportunity

With much of the nation shivering and many workers idle, Victor Alhadeff is busy pursuing opportunity.

LATE LAST MONTH Damson Oil & Gas Drilling Program 74-2 sold out its producing wells to Libbey-Owens-Ford for \$4 million. No, Libbey-Owens was not diversifying; it was looking for sources of fuel to avoid future shut-downs like those that paralyzed its plants during the recent cold crunch.

Libbey-Owens was the third company in the last few months to go this route, and many more will be doing so shortly, according to Victor D. Alhadeff, 30, chairman of ENI Corp. in Seattle, Wash., leading oil and gas tax shelter specialists. In less than six years Alhadeff has become the largest single factor in financing independent oil and gas enterprises in the U.S.; many of the Damson investors were his clients. Says Alhadeff: "We are negotiating with three New York Stock Exchange companies to sell them producing wells, as in the Damson deal.

"That potential," says he, "was set in motion in early January at an ener-

gy conference on acquiring natural gas in the field in Houston, Tex., which was attended by 120 blue-chip companies. The consensus reached then by a majority of the companies was that they should invest in new drilling ventures directly as well as buy existing production of natural gas. As a result, you're going to see several hundreds of millions coming from this source this year and next."

All that won't solve the natural gas shortage by a long shot, but it will provide a bonanza for drilling investors and for people like Alhadeff.

Since he began in 1971 he has steered some 1,600 clients into \$130 million worth of oil and gas funds. Moreover, Alhadeff has also brought out his own diversified drilling fund. It will put investors into a group of oil and gas drilling ventures with numerous different operators, thus giving them a play in many areas.

While moving fast to take advantage of the gas shortage, Alhadeff has

Alhadeff Of ENI: He expects blue-chip companies to put "hundreds of millions" into energy ventures.

rather harsh words for the policies that produced the shortage. He says: "It is ironic that the two states hardest hit by gas shortages, Pennsylvania and Ohio, are states that are sitting on top of lots of old partially depleted wells. But the price for intrastate oil in those states was set so low by politicians that no one wanted to drill and wind up losing money. If the politicians had set the price at \$2 per thousand cubic feet as they do in Texas, those states wouldn't be in as desperate a situation as they are in now."

Having delivered himself of this blast, Alhadeff picked up the telephone to talk with a prospective investor. Like smart businessmen everywhere, he is, in the end, less interested in past problems than he is in pursuing present opportunities. ■

"Way Up There . . ."

... The question is: How will 400,000 people in Alaska spend over \$7 billion?

BETWEEN NOW and 1985, the state of Alaska's share of North Slope, Prudhoe Bay and Cook Inlet oil and gas production is expected to exceed \$7 billion. Revenues from the state's substantial coal, iron ore and molybdenum reserves could boost Alaska's income by billions more. The question now facing the state's 100,000-odd residents is: What will we do with all that money?

Late last month, Forges obtained a copy of draft legislation detailing part of Governor Jay S. (for Stener) Hammond's answer: Nine neatly typed pages outlining the creation of the "Alaska Permanent Fund," a concept approved overwhelmingly by

Alaskan voters last November. While the language is loose, two things are clear: The Permanent Fund will hold the keys to a good deal of Alaska's future development. And, the Fund will be no free-lunch wagon.

In general, the Permanent Fund will be part savings bank, part development bank. Specifically, the draft bill provides that:

- One-half the revenues derived by Alaska from its mineral resources—expected petroleum revenues alone should bring the Fund's balance to nearly \$1 billion by 1985—must be put into the Permanent Fund.

- At least 40% of the Fund's balances must be put into "investment-

grade securities"—presumably corporate and government debt.

- As much as 30% of the remainder may be used for low-interest loans and other incentives to supplement private capital within the state.

- No more than 30% of the Fund may be used for public works.

- If the Permanent Fund is directed to invest in projects earning less than market rates of return, then the state's general fund must make up the difference and pay it into the Fund.

If the Alaska Permanent Fund sounds fiscally conservative, it is—and by no accident. Last August, Alaska's State Investment Advisory Committee, which drafted the legislation, hired Wall Street investment bankers White, Weld & Co. to aid in the Fund's design. Explains Charles J. Fuhrmann II, the dapper, 32-year-old White, Weld first vice president working behind the scenes on the proposed legislation: "We tried not to be

Harvard Business School-ey and tell the Alaskans what to do. But we have told them the risks in terms of their credit standing if the Fund doesn't get the market rate and become, instead, a little welfare station subsidizing everything in sight."

But Furlmann is the first to stress that the Fund's political hassles are only about to begin: "Everyone is trying to keep things friendly and make this bill look like a consensus. But the real wars are still to come. No one has had a chance to present an alternative. But when this bill goes to the legislators, everyone will."

The problem is that Alaskans are as

diverse as the state is rich. It took voters years to decide whether to keep their state capital in Juneau or move it to Anchorage. (Last November's decision: Build a new capital somewhere in between Anchorage and Fairbanks—a "North Brasilia" as some wags already dub it.) So you can imagine the coming struggle over who will control the Permanent Fund, and how its income should be used. Some groups want to reinvest it all. Others want to spend it all—on "North Brasilia" perhaps. Still others want to divvy the Fund's income among the state's citizens. By 1985 each year's dividend could well exceed \$1,000

for each Alaskan resident.

"The amazing thing in all this," says Furlmann, "is that it's happening just 4,000 miles away, yet no one on Wall Street is aware of it. There's this feeling that, 'Well, it's Way Up There ...' But suddenly the Fund will be there with lots of money in it, and Wall Street will be beating down the Alaskans' doors with lots of investment opportunities and recommendations and so forth. And we hope still to be up there helping the Alaskans evaluate all those proposals."

Moral: However cold it may be, get your foot in the door. It seems White, Weld has already done so. ■

Alaska May Offer Gas Delivery Funds

Considers Financing All-American System to Transport North-Slope Fuel

BY DAN FISHER
Times Staff Writer

Alaska is considering a plan to guarantee all or part of the financing necessary to build an all-American system for delivering North Slope natural gas to California and the lower 48 states, a top state official testified here Wednesday.

The plan, outlined by Alaska Lt. Gov. Lowell Thomas Jr. at a hearing of the California Commission for Economic Development, could bear importantly on an upcoming Carter Administration decision on which of three competitive Alaskan gas plans should be approved.

The all-American system, proposed by El Paso Natural Gas Co, has generally been considered a long shot in the competition, especially since the U.S. Federal Power Commission recommended to President Carter on Monday that he select one of two trans-Canada pipeline alternatives. Both of those routes are conditional upon the consent of the Canadian government.

El Paso's proposal is for a new gas pipeline roughly paralleling the oil line currently being completed from Alaska's North Slope to the ice-free port of Valdez on the Pacific Coast. The gas would be liquefied at Gravina Point, Alaska, and shipped by special cryogenic tankers to a proposed terminal and regasification facility at Point Conception on the Southern California coast. From there the gas would be distributed throughout the country in existing pipelines.

Alaska favors the El Paso plan because it will mean far more tax dollars and jobs in the state than either of the trans-Canada lines. The state's economy has been buoyed since 1974 by construction of the trans-Alaska oil line, but that job is expected to be done this summer, and officials are concerned that without the gas line project, the state's economy might go into a tailspin.

Among criticisms of the El Paso plan has been the charge that it will be the most expensive of the three alternatives. However, Alaska may change all that, Thomas testified Wednesday.

"The state of Alaska is currently considering a finance plan to guaran-

Please Turn to Page 20, Col. 3

Continued from Page 1

tee bonds or debentures needed to construct the trans-Alaska LNG facility," he told the commission.

The liquefaction facility at Gravina Point accounts for nearly one-third of the estimated cost of the El Paso system, and if the state guaranteed the bonds necessary to finance it, the company presumably would be able to borrow the money at a lower interest rate.

"If this plan is put into effect the price to consumers in the lower 48 would be lowered by 3%," Thomas said. The state is also considering backing the pipeline portion of the project as well, the Alaska official said. If it backed both the pipeline and liquefaction facility, the savings could be nearly 14% over currently projected costs. That could make consumer prices under the El Paso plan less than under either of the competitive, trans-Canada proposals, Thomas added.

Thomas said in a subsequent interview that Alaska officials have been "kicking it (the finance plan) around very informally for a couple months. But now it's gaining a real head of steam." The state intends to reach a decision within two months. Carter is scheduled to make his decision on an Alaskan gas route by Sept. 1, so Alaska's verdict will come in time for its impact to be felt by the White House.

Perhaps even more important than its impact on the White House would be the effect of Alaska's financing plan on the Congress. Under legislation passed last year, Congress will have 60 days to review the President's decision once it is made. And many insiders feel that it will ultimately be the Congress which selects an Alaskan gas route. Proponents of all three competing routes are lobbying heavily in Washington and elsewhere.

Thomas said the financial wherewithal to back El Paso's plan could come from a permanent fund which the state created last year to set aside a portion of its Prudhoe Bay oil revenues. Or, Thomas said, it could be backed by our general fund. We feel that with a company like El Paso, the chances of it going belly up are almost nil."

PF: News clips

L.A. Times

Urien Says House Erred

The Democratic House leadership, and not the Senate coalition, was to blame for the 141-day legislative session, contends House Minority Leader Rick Urien.

"The long session was caused by House members who insisted on waiting as long as they could to force through some of their personal legislation, and the mood of the Senate was not to pass any of this useless personal legislation sponsored by those who believe the only way they could get re-elected is to pass bills with their name on them," Urien said.

"When they finally realized the Senate was not acting on that type of legislation, the session ultimately adjourned," he said.

The Anchorage Republican called the session "a total standoff, a philosophical standoff which, in my opinion, was good. It's just unfortunate we had to spend 141 days doing it."

The permanent fund is one area where the legislature should have taken substantive action, but did not, the third-term representative said, although he noted it did pass an interim measure to give Revenue Commissioner Sterling Gallagher powers to invest money until action is taken.

"The real issue of the permanent fund ... has remained on the back shelf because it's going to be used as a campaigning tool for some of our members who wish to run for higher office," he alleged.



Slim's Column

Keep 'em out

It was an act of the most intense cruelty building that fence. He didn't build the fence to keep out neighbors, or their dogs. He didn't build the fence to protect his garden from moose. He, whoever he is, built that fence just to rub salt in the wounded consciences of bush dwellers.

The guy's house sits within 100 feet of the Glenn Highway, in plain sight of the passersby, and there is that fence, taunting, teasing, and crushing the guilt complexes of those of us who care.

YOU SEE, this dude built his entire half-acre fence of firewood, about six feet high, extending clear around his property, with no nibbles to show that he occasionally got cold.

It was criminal. You see, his house is one of those big modern things, built in the Early Alaskan Housing Development Period, with a full daylight basement, and aluminum siding in pastel shades on the top floor. He probably has natural gas heat, electric baseboards, two oil furnaces, and a heating pad to keep him warm. His solitary chimney showed what all that wood was intended to be used for.

ALL OF US WHO HAVE TO CUT WOOD for a living (it is a living, I've tried to live in the winter with no heat, I would drive my) shake your fists at this abomination, and loudly speculate on his family tree.

During this time, the wife, generally, just stares at that immense woodpile encircling the grounds, and says quietly, "I'll just bet HIS wife doesn't have to get up at 4 a.m. and tramp through the woods with a Swede saw looking for dead snags. No-o-o, I'll bet she just slips on something dainty and reaching out the window pries loose a log from that beautiful fence, then cozily nudges up to the fire and dreams about spring."

The only appropriate rejoinder left to us is to mention that the fence man, as he is now known, has to pay a whopping big light bill to keep his place warm, and the fire is just on looks.

HOW WOULD YOU like to pay his electric bill? we snarl, seeming to rise beautifully to the occasion.

Then the "Little Lady" looks demurely at her roughened fingernails and replies, "If I had a fence like that, I wouldn't have to pay an electric bill."

Then, just week, we were driving by and noticed a tremendous hole in the fence. At last! The speculation is running wild. Did he become unemployed, and the utilities company cut off his alternate supply of heat? Has he been entertaining a lot lately, and need the mood (fireplace gives)? Did a truck lose control, and...

BUT NO, the truth is probably that the guy just isn't gotten around to cutting more for that fence yet.

Someday we say, we're going to drop by casually, and get acquainted. It is our fervent hope that this guy turns out to be the chairman of the board of some huge corporation, or a millionaire of some sort or other, and has a whole stable of chain-saw slaves to cut that wood for him. It is the only way we could ever save face. For no matter how sincere we get every spring about how monstrous that firewood pile is going to be, come freeze-up, it's always about four chunks that still need to be split.

OUR FEAR is that he is just a hard-working man, and our hope is that he gets termites.

ed school space

the Lathrop Building may also plans are being made on the
 on a monthly lease. The presumption that the space will
 farzin said that at this point it not be available.
 doesn't look like we will have to This is being done, he said, so
 ve into schools, although there will be no problems.
 some things don't work out.

What others say

Permanent fund provisions

The legislature approved the establishment of a permanent fund derived from state oil revenues last year, but the governor vetoed it.

According to the Hammond administration, which supported the idea of a permanent fund, the Alaska Constitution is clear on what is supposed to happen to revenues that the state collects: they go into the general fund for annual legislative appropriations.

The administration's conclusion before a permanent fund can be established (one which future legislatures wouldn't be allowed to deplete) a constitutional amendment is in order.

This session, the permanent fund legislation calls for just that: a constitutional amendment, a question that would go before the voters as a ballot issue. If two-thirds of the legislature approve.

In broad, conceptual terms, a constitutional amendment should be required because the idea is both a guarantee to all

Alaskans—present and future—and a long-range, built-in economic safeguard.

In practical terms, the permanent fund would collect a portion of oil revenues and divert it into a lasting investment fund, growing each year that oil flows and collecting interest.

A percentage of the permanent fund would go for direct use by Alaskans—loans to businessmen, fishermen and builders. It could lend a significant boost when oil revenues stop and the economy threatens to lag. It also would give the state an important alternative: Instead of spending oil revenues automatically for more bureaucracy, the state would be allowed to open a sound "savings account."

Exactly how the permanent fund is set up would be the job of future legislatures. Our elected representatives, by law, would prescribe how the money is to be invested. That may demand a different application of the fund from one year to the next, but flexibility to meet changing demands is guaranteed by

current legislation.

Likewise, future legislators would be able to decide what to do with the considerable earnings of the fund. Perhaps that extra dividend will be needed sometimes for general operating expense; at other times, perhaps the dividends could be simply reinvested in the fund itself. The freedom to choose must be built into the fund.

Two legislative plans on the permanent fund are being considered in Juneau.

The first would take one-quarter of all revenues from oil and place them into the permanent fund. This would include revenues from oil taxes, bonuses, royalties and other producers.

The second proposal would exclude revenue from oil taxes, but hike the amount from bonuses and royalties to 50 percent.

Under present circumstances, both plans would produce the same amount of money—roughly \$3 billion in 10 years, and earn some \$100 million annually in interest.

Which plan, however, might work better. For a number of reasons, the first plan has greater merit. By collecting 25 percent of all revenues—including oil taxes—it provides a broader base for the fund and allows greater flexibility for future lease sales.

The second plan has a short coming, because its revenues are collected only on bonuses and royalties. It appears to be predicated on future oil lease sales—something the state may not wish to do.

The State House on March 25 approved the plan for 25 percent of all revenues by an overwhelming, 36-1 majority, providing a clear mandate for careful consideration in the State Senate. So far, it has been passed in amended version by one Senate committee, and has two more committees to go before consideration by the full body.

The permanent fund indeed is one of the most pressing priorities before the legislature. The Senate should act promptly to pass the bill.

The Anchorage Daily News

Alaska 'Most Socialist State,' Nobel Economist Says Here

Alaska, like states in the Lower 48, is following policies of increased government spending and taxes that are suicidal to the residents' prosperity and freedom, Dr. Milton Friedman from the University of Chicago said yesterday at a business conference here.

The 64-year-old professor, who received a Nobel Prize last December for his work in economics, said the role of government in the private sector has been steadily increasing for the past 40 years, and that it is time to put a limit on state and federal spending.

Friedman addressed approximately 400 top state officials, legislators and businessmen during a conference sponsored by Alaska Pacific Bank at the Captain Cook Hotel yesterday.

He said Alaska is the most social-

ist state in the country, and pointed out that 39 per cent of the working force here is government-employed. Friedman, who is originally from New Jersey and still has his accent although he has spent the past 30 years in Chicago, said Alaska hasn't been able to resist spending the cornucopia from the North Slope oil fields.

Gov. Jay Hammond, who stopped in Anchorage yesterday on his way home from Washington, D.C., to speak to the group, concurred with Friedman's observation about increased state spending and the wasteful use of \$900 million in bonuses from oil and gas lease sales in 1980.

"Many think Alaska has money to burn... but we are either going to have to turn down the heat on state spending or use different money to

pay our way," Hammond said.

The state was better off in the 1960's than it is today because expanded services and rising costs were matched with increased taxes, Hammond said. That situation no longer exists and state expenditures outstrip per capita taxes by \$300.

Instead of spending "nest egg wealth" from the sale of oil leases to operate state programs and services, government has to become self-sufficient, Hammond, who took office in 1974, said.

The governor elaborated on his idea of Alaska Inc., a concept to share the wealth of the state with its residents through dividend payments. He said his proposal would be a big step forward in curbing state spending and it would allow the residents to determine how part of the state's money is spent.

Alaska's other economic mainstays, mining, timber, fishing, tourism and agriculture, are not the near-bottomless tax resource that the oil industry is. Some will need massive infusions of state funds to get them to the point where they will contribute substantially to our state's economy.

A recent economic forecast by the University of Alaska's Institute of Social, Economic and Government Research (ISEGR) predicts Alaska's non-oil resource industries will not reach great levels by even 1990.

"The real output of Alaska's fishing industry is projected to expand at just one per cent a year," the ISEGR report states. "Agriculture and nonpetroleum mining... may be of local importance, but their impact on the total state economy is likely to be quite minor."

The report says the timber industry may nearly double its output by 1990, but its growth rate will drop to 2.5 per cent per year after that, and "by 1990, the industry is expected to be approaching its maximum long-run sustainable yield."

The permanent fund was to have been established by a bill adopted by the legislature last year, but the governor vetoed the bill when advised by the attorney general that the state constitution forbids a permanent fund.

That legal opinion is widely debated, but the governor introduced a joint resolution this year for a constitutional amendment creating the permanent fund, with the voters approving it in this year's elections.

The resolution easily passed the House, as the bill did last year, but in the Senate it was assigned to three committees and has been progressing rather slowly. With the final days of the legislative session coming, it has been greatly amended by one committee and appears to be headed toward a bitter free conference fight if it ever emerges from the Senate at all. House leaders say the resolution is a top priority item in their strategy this year.

We hope the legislature, in its annual end-of-session tussle, can find something else to fight over and will approve Governor Hammond's resolution in essence.

Independent in All Things, Neutral in None

FAIRBANKS Daily News-Miner

Monday, May 3, 1976

Editorials... Comment

Permanent fund?

Every year a number of good ideas get lost in the final days of legislative battle in Juneau. The permanent fund bill is one of the more important of these innocent bystanders that appear threatened this year.

Supporters of the permanent fund seek to force a certain percentage of the state's one-time financial windfalls, such as oil development income, into a place where it will be free from the hands of shortsighted politicians looking to fill annual budget holes, and where it can earn more income to develop the state's more stable resources.

The \$900 million the state received for its 1969 Prudhoe Bay oil lease sale was put to this use at first, but it became too great a temptation for politicians scraping by on the state's regular income.

State leaders began dipping into the \$900 million with an eye to gradually expanding the government to the level it would attain when oil production began pumping hundreds of millions of dollars a year into the state treasury. Soon the oil lease bankroll was paying nearly half the state's annual operating costs, and the Trans-Alaska pipeline delays combined with the rapid expansion to run the \$900 million dry long before the oil money began to come in, forcing the state last year to adopt the special oil reserves tax which is basically an advance on our future oil earnings.

On an even longer scale, our more far-sighted state leaders realize that the huge Prudhoe Bay field won't pump oil forever, and at least some of its earnings should be retained after the rest is gone. Chances are slim that another Prudhoe Bay will be discovered on state land; oil companies drilled almost three times as many North Slope exploratory wells last year alone as were drilled in all the years before the Prudhoe Bay discovery, with little to show for them.

Instead, the fund would be used to redirect the manner in which public revenues are used to satisfy public needs. It would allow Alaskans to directly share from the oil revenues because the permanent fund would offer loans to businessmen, builders and fishermen. This would pump money to Alaskans who, in turn, would pump it back into the state's economic mainstream. The state would be investing in itself.

—Most importantly, the permanent fund addresses that day when the oil runs out. To be sure, oil is a non-renewable resource; it won't last forever. Even Prudhoe Bay's profitability, for example, is projected to have a life of only about 30 years. Since the state's economy cannot always be geared to oil, the alternative clearly is diversification, building an economic base which spans numerous renewable resources and less wasteful industries.

The permanent fund holds a lasting promise of tomorrow. With money available when the oil rush has ended, the state's service industries, contractors and merchants won't be overly strapped.

The goal of Alaska's proposed permanent fund may be better understood by borrowing from the thinking which went into naming a similar program in Alberta, B.C. There, such a program is called the Alberta Heritage Trust Fund.

The permanent fund indeed would be a trust, held inviolate for prescribed uses. It also would have much to offer the state's heritage for it would preserve for future Alaskans some of the benefits of oil wealth.

(Wednesday: A closer look at the politics of the permanent fund.)

Our views:

A future fund

As lawmakers enter the traditional end-of-the-session crunch in Juneau with major legislation still to be finalized, one measure deserves priority treatment: the permanent fund.

The legislation proposes, by constitutional amendment, that a lasting fund be established from some portion of the state's oil revenues. It would be a fund for the future, a permanent fund.

How would it work?

The terms are still being debated and the precise guidelines yet to be drawn, but under one bill endorsed by the State House and the Hammond administration, 25 per cent of all oil revenues collected by the state would go into a permanent fund. This includes 25 per cent of all oil taxes, bonuses and royalties.

Such a fund would total roughly \$3 billion in 10 years, earning more than \$100 million annually in interest and return on interest.

This kind of permanent fund would do three important things.

—By building a permanent fund from looming oil revenues, a check could be placed on state spending. No longer would every new dollar in the state treasury automatically be earmarked for social programs, capital projects and new state payrolls.

4—Anchorage Daily News, Tuesday, April 20, 1976

ANCHORAGE DAILY NEWS

Lawrence Fanning

Editor and Publisher, 1967 to 1971

Katherine Fanning
Editor and Publisher

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