

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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

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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-2 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



(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)



being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

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.

THE CANADIAN PROVINCE of Alberta, with current annual government expenditures nearly equal to Alaska, has established the "Alberta Heritage Savings Trust Fund" funded from 30 per cent of all non-renewable resource revenues.

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."

The kind of foresight Alberta has shown is needed in Alaska. Given Alaska's need for a greater degree of financial independence, the establishment of a permanent fund makes good sense in the continuing battle for statehood.

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 per cent.

Under present circumstances, both plans would produce the same amount of money — roughly \$3 billion within 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 per cent 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 shortcoming: 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 per cent 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.

2 plans, 1 fund

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."

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 expect 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



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 be heightened 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 competing 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?

ANNE BRIDG
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P.C.

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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 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.)

State challenges El Paso

7/23/77
A Daily News

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — The State of Alaska may be willing to participate in financing of El Paso Natural Gas's proposed all-American pipeline, but not before industry officials "put their money where their mouth is," a cabinet-level official said Friday.

Revenue Commissioner Sterling Gallagher said the administration of Gov. Jay S. Hammond may propose to the Legislature that the state underwrite loan guarantees of between \$750 million and \$900 million of the debt for construction of El Paso's proposed \$8 billion project, but added that "a lot of stipulations will have to be met first."

GALLAGHER outlined the administration's position in a letter earlier this week to Roger C. Altman, an assistant secretary of the treasury for capital markets and debt management.

In his letter, Gallagher said he "believes the state would be willing to guarantee between \$750 and \$900 million worth of debt for facilities located in Alaska."

Gallagher said the guarantee would be supported by the Permanent Fund, but it would require that 50 per cent of Alaska's oil and gas royalties be placed in the fund as compared to the current level of 25 per cent.

BUT THE INCREASE in the contribution level to the Permanent Fund and authorization for the loan guarantee would have to be approved by the Legislature, Gallagher emphasized.

Gallagher said state loan guarantees "should enhance the quality and reduce the cost of the underlying debt" for construction of El Paso's gasline from Prudhoe Bay to tidewater near Valdez along the route of the trans-Alaska oil pipeline. But he said the prospect for such state participation assumes there will be adequate equity par-

ticipation by the El Paso pipeline consortium of about six gas transmission companies.

"First and foremost," Gallagher said in an interview, "the El Paso consortium has got to be willing to come up with equity capital for construction of the line."

GALLAGHER SAID El Paso and other partners such as Tenneco and Southern Natural Gas are going to have to put up about 25 per cent equity on the estimated \$8 billion cost of the system before the state would consider loan guarantees.

"We're not willing to take more of a risk than the other parties," Gallagher said. "We won't guarantee anything until they put their money where their mouth is."

Until last week, Gallagher said, El Paso and the other firms had balked at taking any of the equity risk, but changed their minds after state officials threatened to end negotiations on state participation.

IN HIS LETTER to Altman, Gallagher said another prerequisite to state participation would be favorable treatment for the state in tariffs on the pipeline and satisfactory resolution of the question of pricing of North Slope gas.

Jim Edenso, deputy revenue commissioner, said state loan guarantees could give the project a "AA or AAA" bond rating and reduce interest rates on borrowed capital from 11.5 per cent to eight per cent.

In return, the state would receive a fee of about three quarters of one per cent on the guarantee. In addition, the guarantee would have to be set aside in a protected account which could earn 15 per cent interest.

BUT BOTH Gallagher and Edenso emphasized a state gas line loan guarantee faced a lot of potential problems as well as months of negotiations before it could be ready for submission to the legislature.

Alaskan Cities Are A Bond Buyer's Delight

Alaska's local governments and state funds are some of the bond market's undervalued credits, in the opinion of John Nuveen and Co., Inc., investment counselors.

"Some investors and analysts have indeed recognized the growing wealth available to the state government," a Nuveen report on Alaska says, "but few appreciate the concurrent growth and development of taxable resources within the boundaries of local governments."

Assessed valuation for Alaska's 31 municipalities has increased between 16 and 30 per cent a year nearly every year since 1970, the study points out. In 1970, the total assessed valuation was \$2.3 billion; in 1975, it was \$5.3 billion. No figures are given for 1976.

Nuveen gives good ratings to bonds issued by nearly all of the state's local governments with the exception of Nome, where bonds are rated as "fair" securities but have "poor" marketability.

Anchorage, with 44 per cent of the state's population, is the state's commercial and financial center, and its future is directly related to this dominant position, Nuveen says. If the state as a whole experiences growth, so will Anchorage.

"All other cities are susceptible to growth irregularities arising from specific local developments," Nuveen said.

Two basic factors will insure the vitality of Anchorage during the late 1970s, according to the report.

"First, the city's support sector is now highly developed, and is now capable of sustaining itself during slowdowns such as the one anticipated following completion of pipeline construction."

This commercial development is extremely important with regard to the city's future economic stability,

says the report. "Once an economy becomes self sustaining, it no longer depends on boom conditions which accompany excessive growth in order to maintain a healthy level of activity."

A second contributing factor is Anchorage's steady expansion as a headquarters for many statewide business operations, including most of the major oil companies.

Atlantic Richfield Co., Union Oil and British Petroleum "would not have erected 10 and 12 story buildings if they did not anticipate future growth in their Alaskan activities," Nuveen points out.

"A \$71 million federal building is also under construction, indicating continuing federal presence in Anchorage and in Alaska."

Anchorage is a "growing, well managed, modern municipality with a sound financial base," says the report. By 1980, Anchorage employment is expected to reach 100,000. By 1985, the population should exceed one quarter million.

The joining of Fairbanks with the North Star Borough "could become the base of better government for both entities," Nuveen says, just as unification of the borough and city of Anchorage in 1975 "was a positive step."

Fairbanks, with the state's second-greatest population, is the gateway to the state's interior and has become a major supply depot for trans-Alaska pipeline construction.

"There is little question that completion of pipeline work will have a negative effect on the Fairbanks-North Star Borough area," Nuveen says. "Although the impact is difficult to assess precisely, it would be incorrect to anticipate a major recession."

"Government work, unrelated to pipeline construction, accounts for

city and borough and this factor alone should lend significant stability to employment in the coming years," the report says. In addition, the University of Alaska with its research activities represents a primary employer in the Fairbanks area.

Nearby Tanana Valley agriculture has future potential because the warm summers accompanied by 24 hours of daylight provide excellent growing conditions. Only 4,000 acres are now under cultivation but the valley has a potential of 350,000 cultivated acres, Nuveen says.

Other stable non-pipeline related projects include continuing construction of the \$120 million Chena River Floor Control project and the first phase of a \$30 million oil refinery at North Pole scheduled to go into operation this fall.

A number of local construction projects, totaling \$400 million through 1980, should also lend economic support to the Fairbanks area. These include a new federal building, Bentley Mall, Hickey Mall, a borough library, city garage and major highway construction. Development of the Fairbanks area has broadened its economic base and the economy is becoming self-sustaining.

Oil and gas related construction and development will continue to lend support to the Fairbanks area economy. A natural gas pipeline will add stimulation if either of the two Alaskan routes are chosen. Continu-

ing oil exploration in National Petroleum Reserve in Alaska (formerly Pet 4) and possible Beaufort sea exploration will be supported from Fairbanks. As northern terminus of the Alaska railroad, the city's position as a major supply point is assured.

Proposed eastward extension of the railroad into Canada also would use Fairbanks as a base and connect the city with the Lower 48.

With the exception of oil, most of Alaska's mineral wealth lies within the interior and Fairbanks is the staging area.

A strong stabilizing factor in the revenue statements of both Fairbanks and the North Star borough is the state aid which accounts for 38 per cent of the borough's revenues and 22 per cent of the city's.

Juneau city and borough has had a stable economy because 59 per cent of the work force is employed by federal, state and local governments.

Plans to construct a new state capital at Willow will have only a modest effect on Juneau, says the Nuveen study.

The gradual nature of such a move would minimize any employment decline because of the trend toward steady expansion in the total number of government employees.

"For the same reason, Juneau has in fact been flourishing over the past five years," Nuveen says, while state government facilities in Anchorage have grown to exceed Ju-

neau's in size and employment. Approximately 4,300 employees work for the state in Anchorage, compared with 3,300 in Juneau.

"Although the existence of a new capital will slow growth of government employment in Juneau, the effect should resemble the slowdown which occurred during the Anchorage expansion rather than a mass exodus," the investment firm predicts. "The state will continue to use its Juneau facilities."

In addition to its commercial prominence in southeastern Alaska, Juneau is a nerve center for the forestry and fishing industries. With expanded efforts by the state to revitalize salmon production and promote bottom fishing, this sector of Juneau's economy should improve.

Juneau Cold Storage Co., which processes 5 million pounds of fish a year, anticipates great potential for frozen fish sales to Japan and Russia.

Juneau's assessed valuation has grown over 32 per cent a year for the past three years, says the Nuveen report, while debt has increased at a much slower rate. Current uncertainty over moving the capital could provide an opportunity to purchase Juneau obligation bonds at reduced prices, the firm suggests.

Ketchikan economy is hard to predict, says Nuveen's study, because of the high degree of cyclicity within the forest products industry and restrictive U. S. regulations.

Currently, Ketchikan is highly dependent on one industry, the Ketchikan Pulp Co., but Nuveen said a combination of the new mining development, the state's efforts to rebuild the fishing industry and the long-term need for forest products could lead to a more stable future economy for the Ketchikan-Gateways Borough area.

Federal, state and local government, as in all of Alaska, is a major contributor to the area's employment stability and is responsible for 25.8 per cent of local employment.

"Now that Ketchikan Pulp has compromised with the Environmental Protection Agency, the employment outlook has normalized. Against this background, one of Alaska's most important mineral discoveries has occurred — the U. S. Borax Co.'s 100 million ton molybdenum discovery. The company plans to employ 500 workers in the construction of a \$250 million open pit mine."

Lawrence Fanning

Editor and Publisher, 1967 to 1971

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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-2lands 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



ALASKA FORUM

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being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

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.

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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.

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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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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? *Legislature*

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 95 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 effect: 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 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.)

vs. Permanent Fund: public extravagance

Field

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 competing 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?

Friedman sees troubles ahead

The U.S. economy has a rosy future for the next year or two, but could hit the skids just in time to hamper any bid for re-election by President Jimmy Carter, Nobel prize-winning economist Milton Friedman told an Anchorage audience Thursday.

Friedman also warned that growing government interference in the national economy could eventually destroy "both our prosperity and our freedom," and he said Alaska's propensity for governmental red tape and ever-growing budgets are symptoms of the national problem.



Friedman

THE CONSERVATIVE, outspoken economist told a blue-ribbon audience which included Gov. Jay S. Hammond, state cabinet officials and legislators as well as state and local businessmen, that Alaska may see its oil-based economy run into trouble soon.

"You will be making a great mistake if you think oil prices will be this high for the indefinite future," Friedman said. "The

(Continued on page 2)

OPEC (Organization of Petroleum Exporting Countries) cartel will break."

Friedman was brought to the state by Alaska Pacific Bank, and he spoke Thursday to the bank's 1977 Conference on Alaska Business Issues. Today, he is scheduled to visit Prudhoe Bay and the trans-Alaska oil pipeline.

In a wide-ranging speech at the conference's luncheon banquet, Friedman said there is "no other state in the country as socialist as Alaska . . . It has been unable to resist the temptation to spend the cornucopia flowing from the North Slope."

DAILY NEWS

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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.

—Instead, the fund would be an effort 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.)

The dictionary defines it better, and doesn't need a law to do the job.

IT IS NOT that the intentions of this ordinance are bad, evil or totally without merit. It is not that those who toiled over its tortured definitions and structured explanations did not have the good of the

freedom that would allow them to be creative or unimaginative, brilliant or foolish, flamboyant or sedate. The public is not so stupid that it cannot read the character of an enterprise by the quality of its advertising designs.

And such judgments require no red tape, rules or permits.

A Truckload Of Sand

WHEN THE STATE supervisors were on strike last month, the Alaska Department of Highways said it was sorry, but that during the walkout there just wouldn't be any possibility that roadwork could be done.

What that mainly meant was that no potholes would be filled for the duration.

Well, that was understandable.

But the strike ended April 15.

In the ensuing three weeks, still

no potholes have been filled, to speak of. At least there are more unfilled than filled.

It's no easy task, we know. There are all sorts of logistical problems to contend with, no doubt.

But a few truckloads of sand and a few men with shovels might at least cut down on the wear and tear on motorists' tires and vehicles until the department is fully geared up for asphalt and paving.

What Others Say

From The Fairbanks News-Miner

THE LEADING possibility for economic stability for Alaska is the creation of a permanent fund which would be used to sock away a percentage of the state's oil receipts much like a savings account. The interest derived from the investment of the fund would be used to sustain certain state programs that would benefit all Alaskans.

If the state saves 25 per cent of its oil receipts for 10 years, the account will total \$3 billion after the first decade. The three billion dollars could produce \$100 million per year for injecting into other economic enterprises in the state.

What sort of enterprises? The fund could help put a viable state agricultural industry on its feet. It could provide loans to Alaskans who want to build their own homes. It could also be utilized in revitaliz-

ing the state's depleted fishing industry.

ANOTHER exciting aspect of the permanent fund would be its effect on state spending. By mandating that a portion of the state's wealth being derived from non-renewable resources be sunk into the permanent fund, Alaskans would avoid careless spending of those revenues, at least. Chances are excellent the constraints of putting regular deposits into a state savings account would have a sobering influence on other state programs as well.

The permanent fund offers Alaska an opportunity to invest in itself, preserving forever the bonanza of our non-renewable resources in a way that will allow permanent improvements in the condition of our renewable resources.

From The News American, Baltimore, Md.

THE ATTACKS on nuclear energy have spawned the wry witticism that electricity itself would still be under attack if the electric chair had been invented ahead of the light bulb. Certainly the number of otherwise rational people who cannot separate in their minds the peaceful atom from the terrible mushroom cloud over Hiroshima is surprisingly large.

It is a little-remembered fact

that electricity was widely assailed as an evil genie by the fearful when it was first introduced as a source of household lighting in the early 1880s. Critics charged that this mysterious and invisible "fluid" carried in copper wires would burn the cities down. Some insurance companies refused to supply fire insurance for any home wired for the outrageous stuff.

about how to minister to deserving Democrats in the event he is elected. The Democrats do have a 50-50 chance of winning the White House this year.

In the wake of last week's tearful wake of Sen. Hubert Humphrey, should not the man with peanut dust on his jeans think about this senior Democrat as a possible secretary of state? Lord, it's best to think something good about old H.H.H., when he's up or down, and now he's just sideways.

Humphrey has not turned his presidential musings all to blackness. There is a sliver of daylight at the end of his seemingly interminable tunnel. But the clock ticks away and Jimmy's smile grows broader, and the Democrats really don't want a family fight this year. Just ask chairman Robert Strauss and he'll tell you how he loves all factions to death.

SO HUMPHREY will very likely be in his fifth campaign for the Senate next fall. He's run plenty since he first competed for public office in 1943 (he lost then). And after he is reelected in Minnesota, a fact as certain as the soybean harvest, H.H.H. will want to become Senate majority leader. And all would wish him well, by golly.

Whether Carter or President Ford wins, there must be a change at the State Department; and if Carter wins, wouldn't Humphrey as the new secretary of state amount to a striking change?

To begin, Humphrey would be an exuberant secretary and the sunshine of America would follow him around the world. Gloom and gallows humor would go out of style at State. H.H.H. would try to bathe the globe with goodwill.

Humphrey would also be less devilous than the present occupant of diplomacy's big chair. The Minnesota Flash would have an awful time being evenhanded in the Middle East, but maybe he'd learn. In any case, Humphrey has always been known for loquaciousness, not ambiguity, and the world's diplomats would get a kick out of his direct manner.

NEXT, NO question that Humphrey would raise morale at State. The present manager has waved his arms in anger, scolded underlings with harsh words and crippled careers. Humphrey might wear people out, but they are carried away laughing.

Then, Humphrey appears to

"Independent in All Things . . . Neutral in None"

FAIRBANKS
DAILY NEWS-REINER

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.

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

New bo

"The Secret Conversations of Henry Kissinger," a book that is banned in Israel but now available in the United States, contains many surprises — including the Kissinger-attributed chit-chat that Soviet Deputy Premier Leonid Sviridov and Defense Minister Andrei Grechko (who died last Monday) are the only Soviet personalities he admires.

Important Israeli journalist Matti Golan, who wrote the extraordinarily authoritative book, accuses Mr. Kissinger of being as elusive as a snowflake and of having convictions just as perishable.

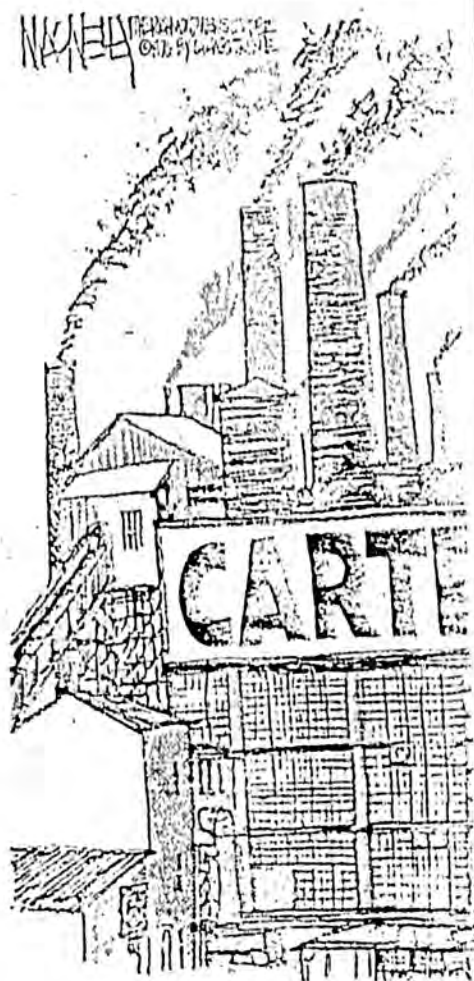
Golan does not question Mr. Kissinger's negotiating ability. He marvels at this and calls it literally astounding. He describes Mr. Kissinger's intelligence and his knowledge of history similarly. But Golan states that apparently Mr. Kissinger has been reading his own fan mail.

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Letters

(continued on page 2)

Page 2
 (Continued from page 1)
 J. L. Lest
 to the Ed

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.

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8 a.m. to 5:30 p.m. Monday - Friday; 8 a.m. to 2:30 p.m. Saturday.

Against rate hike

P.O. Box 8507
 College, Alaska 99701
 April 15, 1976

Golden Valley Electric Assoc.
 753 Illinois
 Fairbanks Alaska 99701
 Dear Sirs:

In examining the proposed rate increase as outlined in your Golden Valley Highlines paper I note that again the benefit of lower rates go to the high consumer.

To me this approach is completely unrealistic. Why should a person using only 100 kw have to pay \$.10 per hour and the over 1200 kw users get their electricity for \$.0375 rate? In other words the more you use the cheaper it gets.

In these days of power shortages it would seem prudent to encourage conservation. What better method than the more you use the more you pay?

The surcharge is a result of nothing more than unplanned for pipeline impact, i.e. hooking up more customers than the system could support and passing the increased costs on to a lot of old and anti-pipeline residents.

I suggest you structure your increased electric rates in the directions of the high consumers, where it belongs, instead of at the small home owner who also is a small consumer.

I would also suggest that GVEA members stop fighting the surcharge as I am sure everyone knows the cost of everything has gone up especially in super inflation Fairbanks. A look into the management structure and a change in rate policy would provide more help for the low consumer.

Thomas J. Classen

Rescue situation

702 24th Ave.
 Fairbanks, AK
 April 1, 1976

Dear Editor:

I am writing this in hopes that someone will do something about the rescue situation in Alaska.

It seems that everyone depends on the Elmendorf helicopters to do the rescuing up here.

In the case of the five snowmobilers, no one else could do a thing. The state police informed us that Elmendorf handled everything and that it was really too bad that there was no other rescue operations here.

Friends of the missing men had to take it upon themselves to try to save these men.

How can this be? Is there so

little training that no snowmobile organization?

One of the before the "find" them. happened if aircraft pilot allowed to helicopter to where three. Instead, this the ground went blindly "looking" for

Pipeline is blamed for e can we blame operations on doubt that ver.

It's up to something. In state police ha each town has squad. Are th here that care are native or li for six months and something save people v trouble.

When you ca and get told "V we can" and hardly anything makes you ma

Just once you a friend that can't find your out there is somewhere". I the faces when ones are brow could have been place.

As Mr. Leste letter to the ed 1976, why can't kind of com people in the t kind of situat again?

Why can't the means of r Elmendorf? Jean A. Halla

Doonesbury

613 Front S

Dear Editor:
 Yes! Let's hav 'Doonesbury' in



The Contin chronic gunpe is rapidly bei large shipmen from the West

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Page 4

Wednesday, October 13, 1976

Cause For Concern

WE ARE ADVISED that we conferred too much power on the state's Investment Advisory Board last week when we described its members as key figures in the handling of billions of dollars of public funds, if the voters approve the idea of creating a permanent fund Nov. 2.

We have been told by two state officials that the advisory board will have no such powers. If the permanent fund proposal is approved, the provisions for administering it must be made by the legislators after they convene at Juneau next January.

Consequently, it appears that our concern was misdirected. Instead of the advisory committee, we should be concerned with the agency that is to be created in the next legislature.

GREAT CONCERN is appropriate, whether it involves the Investment Advisory Board or some other agency. The proposal on the ballot is that 25 per cent of the state's oil, gas and mineral revenues be set aside in a permanent fund which the legislature could not use for appropriations. The fund would be for investment in income-producing ventures which are to be specifically designated by law.

Even though this may be the greatest idea in modern times and it is hoped will augur the day when Alaskans have a government supported by the equivalent to an endowment, it might also be a monster with insidious consequences. The fund will be so huge that it could, and probably would, dominate this state. It could even control the destiny of major national enterprises.

A BILLION DOLLARS in oil royalties will start flowing into the state treasury next year when production from Prudhoe Bay begins. This annual revenue is expected to double in a short time. There are indications that the royalties will soar higher as more discoveries are made and Alaska becomes the biggest domestic source for the nation's petroleum supplies.

Such huge numbers mean that the proposed permanent fund would also be huge. Estimates show it would be two

billion dollars in less than 10 years. A fund of that size could control the entire state economy. Whoever controls the money could become the power center of the state.

SOME SUBJECTS that are worthy of public concern include those noted by Thomas Kelly in The Anchorage Times last Sunday. He cited the unanimity among politicians as unusual and suggested that the motivating factors behind that unanimity should be studied.

Kelly mentioned that some politicians see the permanent fund as a way to put big money in a deep freeze so it won't be available for building a new state capital. Others may consider it a means of stopping economic development. Still others may see it as a power center from which they could control the lifestyle of the state, its economy and its politics.

We have heard none of these possibilities discussed publicly. But they should be.

IT MAY BE TRUE that we zeroed in wrongfully on the Investment Advisory Committee as the agency that would handle the fund. But the error is only that of a bowler who rolls the ball down the wrong alley.

It is probably inevitable that the governor will appoint the members of whatever agency the law provides for administering the multi-billion-dollar fund and he could, if he wished, name the same personalities already named for the advisory committee. It would be the governor's choice.

The danger is that the absolute power that would be created in connection with the fund could corrupt the state administration.

Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Andrus Delays Cook Inlet Sale

By MARK PANITCH
Washington Correspondent

WASHINGTON—The Interior Department announced late Monday that an outer continental shelf (OCS) oil and gas lease sale in lower Cook Inlet planned for Feb. 23 has been taken off the OCS leasing schedule.

Postponement was reported today by a coalition of Alaska natives, fishermen and conservationists who had filed suit in U.S. District Court to block the sale.

Interior Secretary Cecil Andrus said he wanted 90 days to "think about" the sale before deciding to reschedule it for 1977 or put it off until next year or indefinitely.

Andrus, Interior officials said, last Friday received a thorough briefing on the environmental and economic aspects of the proposed sale.

Lawyers for the natives and conservation groups challenging the sale were also

reportedly in contact with high Interior officials late last week.

Following the briefing session, Andrus reportedly told an aide he needed more time to consider all the issues before making a decision.

The lawsuit was filed by the village of English Bay south of Homer, the Alaska Conservation Society, Friends of the Earth and Trustees for Alaska.

The proposed sale area, inside the 30 to 60 mile rectangle between Aalgin Island and the Barren Islands, borders the Kachemak Bay area, which the state leased for oil and gas exploration and then bought back last year following a lawsuit and political campaign by local fishermen.

Wholesale fish landings from the proposed sale area were valued at \$11.2 million, according to court papers.

The sale would have included 120 tracts covering 683,000 acres.

Parr's bill would charge the OCS impact to oil industry^{NM} 3/1/77

JUNEAU (AP)—Legislation to force the oil industry to pay the cost of offshore development impact on Alaska coastal communities would save taxpayers millions of dollars, Rep. Charlie Parr said Monday.

"It is my belief that Alaska taxpayers should not bear the impact costs involved in OCS production so that persons in other parts of the country may continue to run their air conditioners, drive their cars 70 miles per hour or waste heating oil because of inadequate insulation in their houses," Parr, D-Fairbanks, told the House Community and Regional Affairs Committee.

Parr's comments came as the committee conducted its first hearing on Parr's bill (HB 219) to allow the state to require oil companies developing OCS territory to purchase building permits for their onshore facilities.

The money from the permits would directly compensate communities and the state for onshore impact costs resulting from OCS development.

The President's Office of Management and Budget has estimated the impact cost on Alaska for offshore development through 1985 at \$680 million, Parr said, while the state's Department of Community and Regional Affairs has set the cost at somewhere over \$400 million.

A study conducted by the state last year concluded that costs associated with the leasing program would mean an additional \$300 tax burden for each Alaska resident annually, Parr said.

"No legislation so far passed by Congress or envisioned, will compensate the state on this order of magnitude," Parr said.

The U.S. Department of Interior has scheduled several lease sales off Alaska's shores during the next few

years, and the Supreme Court has ruled that all of the land beyond the three-mile limit belongs to the federal government.

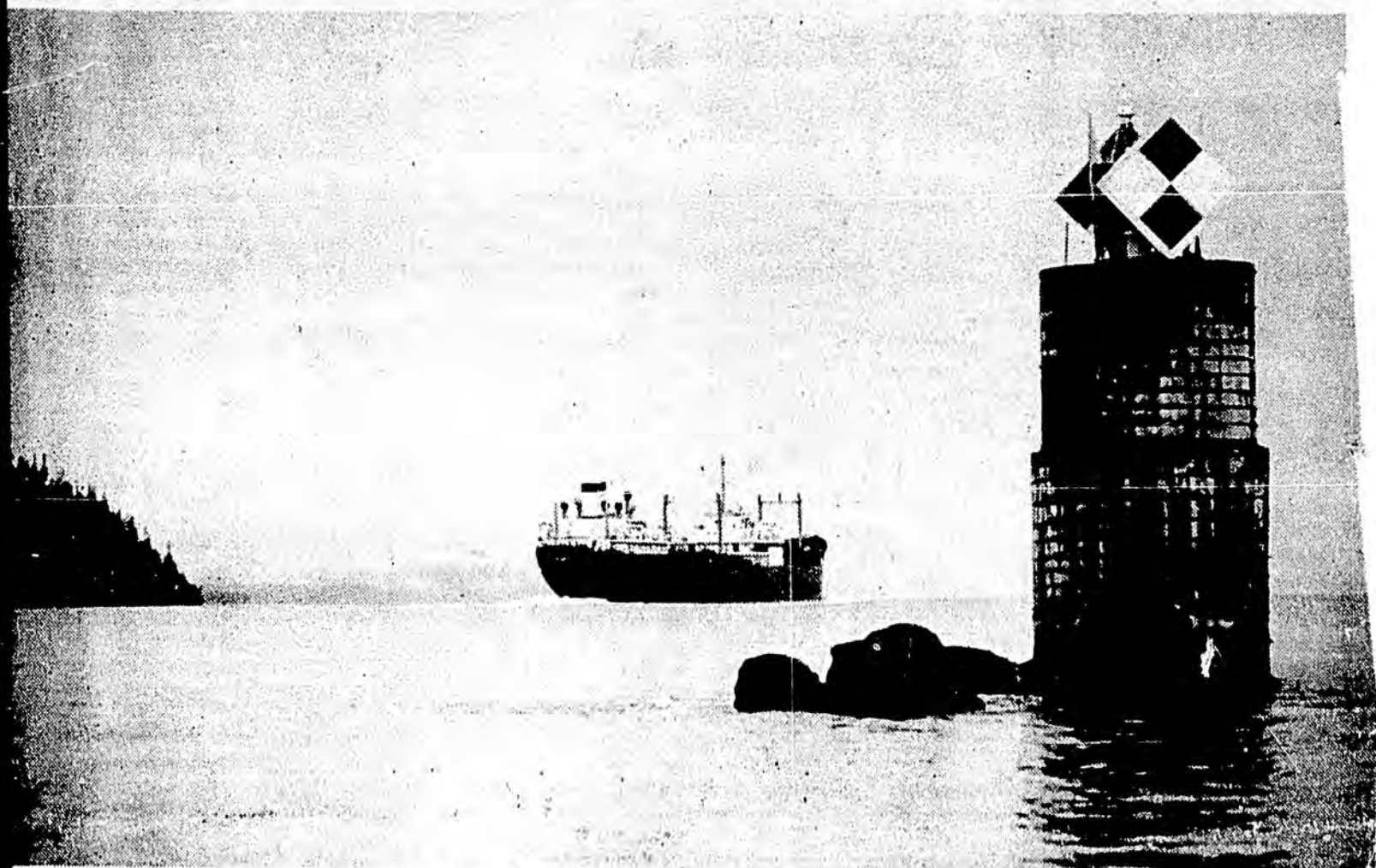
"This means that any revenues—severance taxes, royalties or other—will go to the federal government," Parr said. "There is no provision for the state to collect any revenue from this activity."

Parr's bill would set up a formula where the impact cost is estimated by multiplying the anticipated population increase by the per capita costs of state and local government.

The development revenue, such as property taxes for onshore facilities and income taxes from residents working on development projects, then would be subtracted from the impact cost to get the fee for a shore facility construction project.

Parr said his bill was "not meant as a punitive measure against the oil companies." He said the companies simply will pass on the cost to the consumer.

Oil industry lobbyists did not testify Monday, but committee Chairman Lisa Rudd, D-Anchorage, said additional hearings would be scheduled next week to hear further testimony.



Tanker passes through Valdez Narrows during anchorage test voyage in 1974.

TAPS fleet shapes up

By ROSEMARY SHINOHARA
Daily News Staff Writer
2nd of a series

U.S. Sen. Ted Kennedy has gotten into the act, and one Alaska official jokes, "I'm not worried any more."

But though Congressional leaders, including Kennedy, are looking with renewed vigor into the matter, the Coast Guard has done at setting standards for U.S. tankers, it's already too late to make changes in the rules before the TAPS fleet is into operation.

THE TAPS — for trans-Alaska pipeline — ships are already being assigned, and should be in hauling oil from Valdez south sometime in mid-August of this year.

The 36 tankers destined for the trade include ships in the lower size range that were added when it became obvious that the Panama Canal would be needed because West Coast tankers are not prepared to handle all of Alaska's oil. The canal cannot handle large ships.

Congress and the President decide to allow North Slope crude to go to Japan under some sort of trade arrangement, foreign tankers could be used, some officials believe.

THE ENTIRE "mix" of the fleet could be changed.

But as it presently stands, the projected fleet includes 36 ships, among them two Seatrain



vessels not assigned to any North Slope producers.

Only 10 of the 36 have either double hulls or double bottoms. Less than half meet international standards set in 1973 for separating ballast water from oil cargoes to prevent the discharge of oily water into the oceans.

BUT THE FLEET is newer than the average tanker in U.S. trade. The average age of U.S. tankers is 18 years, while the oldest ship in the TAPS fleet was built 14 years ago, and many of the ships are still not out of the shipyards.

There are supertankers among them, but not super-supertankers. The biggest ship projected for the fleet is 225,000 deadweight tons, less than half the size of the Japanese Globtik Tokyo. The

smallest are 62,000 deadweight tons.

The state administration is vehement in its position that the federal government has failed to promise to provide adequate tanker safety and environmental standards.

YET INDUSTRY spokesmen and the Coast Guard maintain that the benefits of double bottoms, which both protect oil tanks in case of groundings and provide space to separate ballast water from oily cargo, have not been proven.

"It's a highly complex and highly controversial area," Rear Adm. John B. Hayes of Juneau said in an interview. "The answers are not clear cut. Double bottoms provide no protection in the case of collisions, Hayes said. In certain cases, they do prevent oil spills when a tanker bottom hits ground.

"The crux of the problem is that the only way to maximize protection is with a full double hull (covering both sides and bottom)," he said. And to take already-built tankers and fit them with double hulls is a costly proposition.

A REPRESENTATIVE of Gov. Jay S. Hammond said in testimony to a Congressional hearing earlier this month that the state believes double bottom or double hull tankers are required to meet the promise that the Department of Interior Secretary made concerning tanker safety when the Alaska Pipeline Act was before Congress.

(Continued on Page 5)

Many systems available for safe transport of oil

Safety systems proposed for tankers run the gamut of very expensive modifications to the whole tanker, to the addition of a \$40,000 signal receiver.

Here is an explanation of tanker terms:

—"Ballast" is the seawater a tanker takes on after it unloads its oil to ensure that the ship is low enough in the water, among other things. In the past, the practice was to load the seawater into the same tanks that had held oil. The ballast water, mixed with the remains of the oil, was then emptied.

With improved loading methods, most of the oil that mixes with the water is now able to be retained in the tank, and added to the next load of oil.

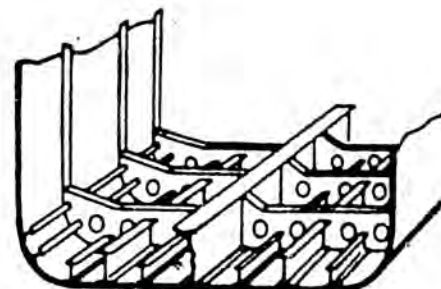
But completely separating the oil from the water by storing them in different areas takes care of the problem altogether. Such an arrangement is called "segregated ballast."

—"Double bottoms" are a form of segregated ballast. The space between the outer and inner shells of a double bottom tanker can be used for the ballast, and the extra bottom also protects the ship when it runs aground.

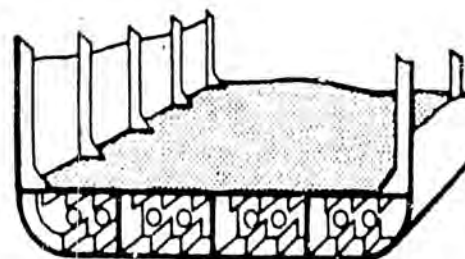
—"Double hulls" also allow space for segregated ballast, with an extra shell on the sides as well as the bottom of the tanker. Double hulls protect against collisions and ramming.

—"Defensive space" requirements call for separate tanks within the cargo area. In case of a collision or grounding, less oil might be spilled.

—"Gas Inerting systems" are designed to make it less likely that flammable cargoes such as crude oil will explode. Inerting systems reduce the oxygen level by displacing oxygen with inert gas, normally exhaust gas from the ship's engines. Without the safeguard, the oil could potentially ignite during such operations as loading and discharging.



Single bottom



Double bottom

—"Collision avoidance systems" are electronic devices to alert ship's officers to the presence of an object with which the vessel may collide.

—"Loran-C" is a sophisticated navigation signal system with transmitting stations ultimately planned for all waters in the U.S. The system is used by fishermen to site their fishing grounds, as well as by oil tankers.

•TAPS fleet takes shape

Lineup of tankers in the Alaska trade

Owner	Dead-weight tons	No. of ships	Year built	IMCO seg. ballast	1976 defensive space rule	Double hull, bottom	Inert gas	Collision avoidance system
ARCO	120,000	3	73-75	No	No	No	No	Yes
	150,000	2	77-79	Yes	Yes	D.B.	Yes	Yes
CHEVRON EXXON	70,000	3	71-72	No	No	No	No	No
	70,000	2	65-66	No	No	No	No	No
	76,000	3	69-70	No	No	No	No	No
	165,000	2	76-79	Yes	No	No	Yes	Yes
MOBIL SHELL SOHIO	100,000	1	62	No	No	No	No	No
	130,000	1	72	No	No	No	Yes	No
	188,500	2	77-78	Yes	Yes	D.B.	Yes	Yes
	80,000	2	70-71	No	No	No	No	No
	120,000	2	76-77	Yes	Yes	D.H.	Yes	Yes
	165,000	4	76-79	Yes	No	No	Yes	Yes
	90,000	4	76-78	Yes	Yes	D.B.	No	Yes
	72,000	1	72	No	No	No	No	No
	62,000	2	70	No	No	No	No	No
Unassigned								
Seatrail								
Vessels	225,000	2	75-77	No	No	No	Yes	Yes
TOTALS	4.25 mil.	36		16	10	10	15	21

(Continued from Page 1)

Realistically, that standard is beyond the reach of the TAPS fleet. But the state officials still hope that within the first couple years of trade, rules requiring all U.S. tankers destined for Alaska to have segregated ballast capacity will be made.

Currently pending is a "proposed Coast Guard rule calling for the "retrofit" of tankers without segregated ballast systems.

WITH CONGRESSIONAL interest at a peak, state officials feel the timing is right.

The newest tankers in the fleet are already required to have segregated ballast tanks under Coast Guard regulations of Jan. 8, 1976. The regulations adopted were proposed by the Inter-Governmental Maritime Consultative Organization in 1973.

Twenty of the 36 tankers escaped those regulations, however, because they were built or under contract before the rules were issued.

All of the ships are now required to have equipment that will enable them to tie into a sophisticated Coast Guard navigation system called Loran-C. The signal system covers the entire U.S. and Canadian West Coast.

So far, 21 of the 36 ships are equipped with collision avoidance systems. The price for installing such a system is about \$100,000, according to a state consultant, and ship owners still have time to comply with the law.

Monday: Enter the Port of Valdez

Conflict-of-interest charges

Rep. Beirne can't be prosecuted

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU (AP)—A state lawmaker cannot be prosecuted under Alaska's conflict of interest law for sponsoring self-serving legislation, the attorney general's office says.

In a legal memorandum released Monday, Atty. Gen. Avrum Gross said the Alaska Constitution "insulates" lawmakers from prosecution in connection with legislative actions despite provisions of the state's conflict of interest law.

The decision ruled out any prospect for charges being brought against Rep. Mike Beirne, R-Anchorage, in connection with two resolutions he is sponsoring to repeal regulations which are causing him financial problems.

But in concluding that Beirne could not be prosecuted, the attorney general's office emphasized it was not ruling on whether Beirne was involved in a conflict of interest, and threw the simmering issue into the lap of the House leadership.

"If the legislature itself were to determine that a member was involved in improper conduct of any nature, it is free to take such action as it deems proper, including the possibility of censure," said the legal memo.

The 11-page memorandum was prepared by Asst. Atty. Gen. Pat Gullfusen at the request of Asst. Atty.

Gen. Dan Hickey, chief of the Department of Law's Criminal Division.

Hickey said he wanted an "assessment of the actions of Representative M.F. Beirne in sponsoring Senate Concurrent Resolutions Nos. 13 and 14 as they relate to possible criminal prosecution under" the state's conflict of interest law.

The resolutions in question would repeal Department of Community and Regional Affairs regulations under which the state has challenged \$312,000 in revenue sharing paid to Beirne for the trouble-plagued Lake Otis Clinic project he is trying to build in Anchorage.

The memorandum said it was clear that the resolutions both originated with Beirne and would benefit him directly.

It said Beirne has "publicly acknowledged that the resolutions are his," and concluded that they "would go a long way, if not all the way, towards resolving the dispute between CRA and Lake Otis Clinic—Beirne in favor of Beirne—and as a consequence entitle Lake Otis Clinic to just about all it wants."

But in researching the case, Gullfusen wrote that the state conflict of interest law, which would appear to prohibit such acts, was in conflict with the state Constitution.

The conflict of interest law provides

that "no public official may use his official position or office for the primary purpose of obtaining financial gain for himself . . . or business with which he is associated or owns stock."

But the memorandum added that "the statute, if applied to acts by legislators including the introduction of bills or resolutions, creates immediate and difficult problems of proof."

"The key phrase in the act is 'primary purpose,'" the memorandum said, noting that many lawmakers rightly introduce legislation in connection with their own fields of business.

The memorandum assumed that term primary purpose was used in the act in "an effort to distinguish the situation where the real purpose of a legislator is purely to benefit himself as opposed to the situation where he will only incidentally benefit from an official action."

Concluding that the issue boiled down to the always difficult to prove question of motive, the memorandum said ap-

plication of the conflict of interest law to the sponsorship of legislation would create "a vast grey area in which legislators are going to be afraid to tread."

"The result will be that, whether prosecution is initiated or not, legislators will be very loath to get involved in areas which may affect them, which is going to mean that out of fear of prosecution the public may lose the benefit of those most knowledgeable in particular legislative fields," the memorandum said.

Probably because of such fears, the memorandum added, the constitution was drafted to include language that "legislators may not be held to answer before any other tribunal for any statement made in the exercise of their duties while the legislature is in session."

The memorandum acknowledged that "arguably, a resolution (like Beirne is sponsoring) would not be a protected statement."

Economist stuns gas line panel

By PAUL NOSSBAUM
Our Juneau Bureau Chief

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 everyone's bluff."



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 administration position that the gas contracts will influence the pipeline route decision. He charged that politicians in Alaska and in Washington "suffer from a political disease endemic to isolated, colonial areas — it's very easy to believe one's own propaganda."

Hammond, told of Tussing's remarks, said, "I will not accept and I doubt that any Alaskan governor would accept the premise that we are simply helpless pawns in a federal decision. The effect of this decision on the environment, social and economic structure, and character of our state is immense and I will not accept a passive or defeatist attitude toward the route decision."

TUSSING predicted the decision on a gas route will follow this scenario:

—The Federal Power Commission will agree with the FPC

(Continued on Page 2)

State gain on Arctic?

JUNEAU (AP) — Alaska could earn substantially more from its royalty share of Prudhoe Bay natural gas under the Arctic Gas pipeline proposal if Congress deregulates the industry, according to a new legislative-financed study.

With deregulation, the study estimated the "netback value" to the state of its royalty gas delivered in Los Angeles at \$1.66 per million BTU's under the Arctic Gas route as compared to \$1.22 per million BTU's under the all-Alaska El Paso route favored by the state.

Sold in Chicago, the study said the "netback value" to the state would be even higher under the Arctic Gas proposal, \$1.66 per million BTU's for Arctic-delivered gas as compared to 94 cents for gas delivered by El Paso.

The projection was included in an economic analysis of administration-negotiated contracts for the sale of the state's share of North Slope gas, currently the sub-

ject of hearings by special legislative committees.

But the estimate contained in the study conducted by Jensen Associates, Inc. of Boston deals only with the price of gas under deregulation and does not take into account the in-state economic impact of the routes which would be much higher for El Paso than Arctic.

The "netback value" comparison also did not mention the Alcan route proposed by Northwest Pipeline Corp.

The projection was based on a formula using the price of alternate fuels minus the cost of transporting the gas to market.

"The theory is that the price of natural gas at the market (e.g. Los Angeles) would tend toward a level related to the price of alternate fuels, and that the field price resulting would be the market price less the cost of transmission," the Jensen study said.

have gone before voters to comply

• Economist stuns panel

(Continued from Page 1)

Administrative Law Judge Nahum Litt and recommend President Carter select the Arctic Gas Co. route, which would go from Prudhoe Bay through northern Canada and then south to the U.S. Midwest. Litt issued his recommendation Tuesday. The decision from the entire FPC must be made by May 1.

—Canadian Justice Thomas Burger, who holds a position in Canada roughly analogous to Litt's will decide at about the same time that the Arctic Gas route is unacceptable to Canada. Burger will base his decision on Native land claims disputes in that country and environmental question.

—This impasse will trigger negotiations between Canada and the U.S. to find the most acceptable route. The route eventually selected will be a compromise, following a path similar to the proposed Alcan route, but with greater capacity than the current Northwest proposal.

The only way an all-Alaska route could be selected, Tussing said, is if Canada refuses to give permission for any overland trans-Canada route to be chosen.

"The U.S. will accept any overland route that Canada is willing to allow," Tussing predicted.

Tussing's comments had legislators scrambling to respond, and several made it clear that they were angered by his predictions. Others said Tussing had aired doubts they had about the proposed contracts.

"I CAN'T HELP but infer from what you're saying that no matter what we do, the decision will be made by two people, and I would suggest that's wrong. I take offense to it," Sen. Mike Colletta, R-Anchorage, told Tussing.

Rep. Clark Gruening, D-Anchorage, who chairs the House special committee reviewing the contracts, said Tussing "capsulized previous questions we had about the contracts, and added further doubts about their effectiveness."

Gruening said he would vote against approval of the contracts if he is convinced that the contracts will have no effect on eventual route selection. If the El Paso route were selected because of internal

Canadian problems, the state would be free to do with its gas as it wished if it had not signed the Hammond contracts, he said.

SEN. CHANCY CROFT, D-Anchorage, said he was leaning to vote against the contracts, and he predicted Tussing's testimony will have a strong impact on the legislature's eventual decision whether to approve the contracts.

Hammond, who issued a statement after being told by reporters of Tussing's remarks, said, "I do not accept Mr. Tussing's alleged characterization of the situation or my motives, nor do I believe his characterization is accepted by our congressional delegation, the legislature, or the people."

"To suggest that the royalty gas sale which has been proposed will have no effect ignores the fact that those who oppose the state position are strenuously resisting the sale proposal. Such resistance is a clear indication of the potential influence the sale can exercise in this decision," the governor said.

Former Lt. Gov. Red Boucher, who has lobbied for the Alcan route, was cheerful after hearing Tussing's analysis.

"That's political reality," he grinned.

The three companies which would be sold the state's royalty gas under the Hammond contracts are Teneeco Alaska Inc., Southern Natural Gas Co. and El Paso Natural Gas Co.

• Pay boost

(Continued from Page 1)

Individual positions or entire classes of jobs, and establishment of an employee-funded business leave bank for APEA contract negotiators.

Gov. Jay S. Hammond expressed pleasure with the agreement saying, "I know there was hard bargaining on both sides and I think the parties have arrived at a fair agreement which protects the state employees and at the same time is fair to the taxpayers of Alaska."

The APEA's Darlene Howard also expressed satisfaction with the agreement.

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State at odds with gas plans

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — Oil industry proposals for the earliest possible delivery of massive amounts of Prudhoe Bay natural gas to the lower 48 states have been quietly but firmly squashed by the State of Alaska.

The dispute, which may place Alaska interests in direct conflict with national energy demands, centers on major differences between state and oil industry officials over how best to manage the North Slope reservoir's 19.5 billion barrels of oil and 26.5 trillion cubic feet of natural gas.

Oil industry officials say their plan "provides for expeditious and economic development of the total energy resources at Prudhoe Bay consistent with good oil and gas conservation practices."

In challenging the proposal, however, state officials say the operators' plan may be motivated more by a "disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

At the center of the intense but unpublicized debate are two conflicting documents obtained by The Associated Press—the industry's "operating plan" for exploiting Prudhoe Bay reserves and a sophisticated state-financed computer "prediction of reser-

voir fluid recovery" from the field.

In its proposed operating plan, the industry has asked the state to guarantee the delivery of at least two billion cubic feet a day of gas by mid-1982, about five years after this summer's planned start-up of the trans-Alaska oil pipeline and the earliest possible date projected by the oilmen for completion of a natural gas pipeline and conditioning plant.

But state officials, who have been involved in confidential negotiations with the Prudhoe Bay producers over the operating plan for more than three months, have steadfastly rejected the industry management scheme on the premise that it violates Alaska's tough conservation statute for the maximum production of both oil and gas.

In its computer projection, the state contends that the delivery of two billion cubic feet a day of natural gas under the industry plan could cause the loss of as much as 1.6 billion barrels of oil, a significant figure in light of the acknowledgement by both sides that under the best of circumstances ultimate oil recovery from the field will total a maximum of only 40 per cent of the oil in place.

In an effort at compromise, the state says it could allow the gas delivery rate proposed by the oilmen if they will commit themselves to a massive water injection plan at the North Slope field.

All-Alaska gas line risks

Page 2

While acknowledging that the injection of water from the Arctic Ocean could help offset the loss of field pressure from early, large-volume production of gas, industry officials say they cannot and will not commit themselves to the \$1 billion-plus cost of a source water injection project without several years of field history.

In contrast, the industry plan says field history is not needed for the state to guarantee early, massive gas offtake rates, an inconsistency noted by the state in rejecting the operating proposal.

The operating plan submitted by majority owners of North Slope reserves, British Petroleum, Atlantic Richfield, Exxon and Sohio, repeatedly emphasizes that "state approval of the gas offtake plan is needed now to insure that FPC (Federal Power Commission) certification, final design, financing and construction of the pipeline can proceed on schedule."

It defends the proposed offtake rates on the grounds that they would "immediately increase current energy to the consumers and

current income to the owners."

State Natural Resources Commissioner Guy Martin says that considering the massive investment the oil industry has in Prudhoe Bay, including \$7 billion in trans-Alaska oil pipeline costs alone, he was not surprised that the industry has balked at financing a massive water injection project or may be willing to sacrifice long term oil production for early gas profits.

"They would love it if the state would give them a guarantee, but we won't," Martin says. "It may be they have a disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

"But I think they know that in order to get the levels of gas production they are talking about under our conservation statute, it is going to be necessary for them to have to have a water injection plan."

Without a commitment for massive water injection, Martin says the state probably will not set an initial gas offtake rate of more than about 1.6 billion cubic feet a day, a figure that is below the threshold of feasibility for two of three competing gas pipeline projects.

And even with water injection, Martin says the state won't give the industry any absolute guarantees in advance for the estimated 20-year life of the field.

GAS LOBBY EFFORTS PROVED

By **CHUCK KLEESCHULTE**
Empire Staff Reporter

Lawmakers Tuesday continued their search to quantify exactly what benefits the state will net from sale of Alaska's North Slope royalty gas. For at least several members of the special House-Senate Joint Gas Review Committee disappointment was one of the main results.

"We keep asking what we're going to get and they just keep saying in effect, go ahead and approve the contracts and then we'll show you," said Sen. Kay Poland, D-Kodiak, head of the Senate's Natural Resources Committee.

Frustration was shown by several members as the heads of Tennessee Gas Transmission Co., Senior Vice President Robert Thomas, and of Southern Natural Gas, President Peter Smith, were grilled by lawmakers for five hours during the second day of three-scheduled days of hearings into the proposed sale of Alaska's one-eighth share of Prudhoe Bay reserves.

The bulk of questions Tuesday attempted to pin down how much money and effort the companies plan to commit to lobbying efforts in behalf of the all-Alaska, El Paso gas route the state supports.

"The whole issue appears to boil down that if we commit our gas now we are taking a chance of losing some benefits in potentially higher prices if we wait and sell later on. We are balancing that against the influence we'll gain from the companies by going with them now."

"So," said Rep. Clark Gruening, D-Anchorage, head of the House review committee, "We need to get a firm idea what we're going to get in return. Right now no one is really sure."

Thomas, speaking for Tennessee, a subsidiary of Tenneco Inc. which will gain 50 per cent of the state's gas, up to 1.3 trillion cubic feet, said his firm has yet to produce even a working budget on how much it will spend to convince President Jimmy Carter and later Congress to select the El Paso land-water route over the two trans-Canadian routes: Arctic's and Northwest's Alcan routes.

The Arctic proposal Monday cleared the first hurdle in the selection process by being tapped as the best line by Federal Power Commission Administrative Law Judge Nahum Litt.

Thomas during his testimony said his firm would "commit all the resources necessary" to fight for the selection of El Paso's route. But he said while Tenneco has yet to commit a sizable workforce to the lobbying effort pending ratification of the royalty pact, Tenneco will not attempt ever to buy "political influence" simply by spending money.

"No amount of so-called political clout or pressure is going to determine the federal decision on this matter. We are convinced that the decision will be made on the merits of the issues. It is essential that all the issues be thoroughly discussed...and that's what we'll be doing," Thomas said.

Smith, likewise, said his firm has yet to commit sizable numbers of its staff to the project awaiting the ratification of the pact. Smith made an estimate, however, that Southern who will receive 650 billion cubic feet of gas under the contract might spend an additional \$100,000 in outside lobbying expenses besides committing its whole public relations staff to backing the El Paso plan.

Smith said his firm would spend most of its time, an effort already underway in part, to convince gas-starved Southeast residents to support the El Paso route. He said the benefits of the project have already been explained to most Southern governors, all members of Southern Congressional delegations and to all the utilities which buy gas from the transmission firm.

Sen. Chaney Croft, D-Anchorage, a critic of the proposed sale negotiated by the Hammond Administration, asked Tenneco to submit data on the amount of money it has spent to lobby the state's legislature to support the gas contract plus all money spent to influence outside parties—especially money spent since the Nov. 12 announcement of the proposed contract.

Questions Tuesday continued to surface over the need for an "escape" clause in the contract, a provision allowing the three firms to keep their gas supply if they support the state, if the state ever switches its support to another line such as the Alcan project.

State Sen. John Huber, D-Fairbanks, asked both firms whether they had asked that the clause be included in the pact and both said they had not—that the clause had been included at the state's request. On Monday Guy Martin, commissioner of the state's Depart-



GASLINE CONSIDERATION—Rep. Charles Parr, D-Fairbanks, (left) glances at his notes, while Rep. Clark Gruening, D-Anchorage, and Senate President John Rader, D-Anchorage, listen to testimony presented Tuesday during the second day of hearings into the proposed state sale of North Slope natural gas. Gruening and Rader are both chairman of respective House and Senate committees looking into terms of the sale of the state's one-eighth share of Prudhoe Bay reserves. The hearings are continuing today and probably will extend into Thursday.

ment of Natural Resources, had said the state wanted the clause to protect its future "flexibility" to the greatest extent possible.

Smith after the hearing, however, said his firm now would object to removal of the clause if proposed by the legislature. Thomas said his firm is opposed to making any adjustment in the proposed contract.

"If we are sent back to renegotiate the contract it would take too long and the state would lose the benefits it could receive. Also, any of the companies might be tempted to raise a number of issues on other points in the contracts," Thomas warned.

The clause has caused some fear among lawmakers that it might limit the incentive of the firms to push totally for the El Paso line. Both companies representatives tried hard, however, to dispel such fears saying their support for the El Paso line is strong.

Tenneco, in fact, questioned whether it

would switch to support any other line even if the state did. The company said such a switch might harm its credibility in Congress, important to the conglomerates other business dealings.

Earlier in the day, representatives of Tenneco had been questioned closely about their lobbying techniques in other gas deals. Thomas in response promised his firm would engage only in practices which are completely legal under all state and federal laws.

Joint committee chairman Sen. John Rader, D-Anchorage, expressed support for the contract and gas purchasers after the session.

"I believe these fellows desperately need the gas and I think they'll do whatever it takes to get it. They have a clear incentive to work hard for us," Rader said, "and after the FPC decision we need all the troops we can get."

The hearings, with 19 witnesses scheduled for today, are being conducted at the Hilton hotel.

SOUTHEAST ALASKA EMPIRE

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Permanent Fund

(Editor's note: the following editorial is reprinted from the April 26 Fairbanks Daily News-Miner.)

What could be more exciting than the prospect of true economic stability for Alaska?

What Alaskan wouldn't like to see the boom-and-bust economic cycle that has plagued the state and the territory since the turn of the century be transformed into a relatively smooth line on the economic chart?

The leading possibility for this kind of economic stability for Alaska is the creation of a permanent fund which would be used to sock away a percentage of the state's oil receipts much like a savings account. The interest derived from the investment of the fund would be used to sustain certain state programs that would benefit all Alaskans.

There are two versions of how the fund would be established. One would take a fourth of all revenues from oil, including bonuses, oil taxes and royalties. The other would ignore oil taxes, but would increase to 50 per cent the portion of bonus and royalty funds that go to the permanent fund.

The legislature passed a bill creating a permanent fund last year, but Gov. Jay Hammond vetoed it, contending that the issue can be decided only by a constitutional amendment.

Only after oil receipts are invested will Alaskans be assured that their money won't be as quickly dispersed as it was following the \$900 million North Slope oil lease sale in 1969.

If the state saves 25 per cent of its oil receipts for 10 years, the account will total \$3 billion after the first decade. The three billion dollars could produce \$100 million per year for injecting into other economic enterprises in the state.

What sort of enterprises? The fund could help put a viable state agricultural industry on its feet. It could provide loans to Alaskans who want to build their own homes, but can't obtain conventional financing. It could also be utilized in revitalizing the state's depleted fishing industry by helping individual fishermen finance and construct new boats. And it could simultaneously encourage the development of aquaculture corporations to rebuild the fish stocks.

Another exciting aspect of the permanent fund would be its effect on state spending. By mandating that a portion of the state's wealth being derived from non-renewable resources be sunk into the permanent fund, Alaskans would avoid careless spending of those revenues, at least. Chances are excellent the constraints of putting regular deposits into a state savings account would have a sobering influence on other state programs as well.

The permanent fund offers Alaska an opportunity to invest in itself, preserving forever the bonanza of our non-renewable resources in a way that will allow permanent improvements in the condition of our renewable resources.

7/26/77

A Times

Judges Get Tariff Appeal In Houston

HOUSTON (AP) — A three-judge panel of the Fifth Circuit Court of Appeals has taken under advisement a case involving interim rates for the trans-Alaska pipeline after hearing charges the Interstate Commerce Commission had incomplete information in setting the rates.

The appellate court, comprised of Chief Judge John Brown and Judges John C. Godbold and Paul C. Roney, was asked yesterday to set aside a June 28 Commission order setting a rate of \$4.20 a barrel. The oil companies had sought tariffs ranging from \$6.04 to \$6.44.

Andrew J. Kilcarr, attorney for Mobil Alaska Pipeline Co., contended the federal commission erred by failing to receive expert testimony during a hearing. "That is the point, they never held a hearing," Kilcarr said.

Kilcarr said the commission acted without benefit of information on the actual cost of construction of the pipeline and without expert testimony on the uniqueness of the risks involved in the \$9 billion pipeline project.

Kilcarr said it is possible the tariffs proposed by the companies could be found to be too low once all factors are considered.

"But all the factors were not considered," he said. "We are losing dollars we'll never recover if they eventually find our rates were correct."

Marvin Schwartz, representing BP Pipelines Inc., said the British Petroleum subsidiary alone would lose \$43 million in revenue during the

first six months of operations.

Charles H. White Jr., associate Commission general counsel, said it was true actual costs of the pipeline were not used but that the commission accepted data provided by the companies.

"There was cause for the finding of probable unjust and unreasonable rates," White said.

Alaska Attorney General Avrum Gross said the tariffs proposed by the companies were outrageous and at least \$2.50 too high.

"The eventual tariff will be substantially lower than the interim rate," Gross said. "The realistic probability is the rate will be substantially lower."

A Times 8/2/77

Pipeline Commission Calls For Exxon Tariff Hearing

The Alaska Pipeline Commission has ruled that no oil will flow through a spur line to the new oil refinery at North Pole, near Fairbanks, until after a public hearing is held on intrastate transportation charges for the trans-Alaska pipeline.

Exxon Pipeline Co. yesterday filed a \$5.10-a-barrel intrastate tariff, which state pipeline commissioner Robert Breeze said "may have the effect of making the North Pole refinery and Golden Valley Electric Association electric generating facilities uneconomic." Exxon was the first trans-Alaska pipeline owner to file an intrastate tariff.

Both Energy Company of Alaska, refinery operators, and Golden Valley plan to protest the transportation charge, Breeze said after a hearing in Fairbanks. Golden Valley said it had anticipated a maximum \$3 a barrel tariff.

The refinery had hoped to receive its first shipment of oil yesterday to test the facility, with regular shipments beginning Aug. 15.

The tariff hearing will be held early next week in Anchorage.

Breeze said if the commission is dissatisfied with the intrastate tariff, it can suspend it and order an interim tariff.

"The commission has never made a determination that the tariff for the entire facility would apply to only a portion," he added.

Golden Valley intends to receive fuel oil for its electric generating plant from the North Pole refinery, and had calculated that it could save 10 to 15 cents a gallon, compared to the price of oil now delivered from Anchorage.

The pipeline commission approved an interim tariff of 8.27 cents a barrel for the spur pipeline, which is owned and operated by Golden Valley. The 2.8-mile pipeline will link the trans-Alaska pipeline with the refinery and elec-

tric plant. A hearing has been set for Oct. 11 on that tariff.

Exxon's \$5.10 interim tariff, and a permanent intrastate tariff of \$6.27, are the same for transportation of oil to any point along the pipeline. The tariffs are the same as those filed with the Interstate Commerce Commission, for movement of oil from Prudhoe Bay to Valdez.

The Alaska Pipeline Commission met yesterday in Fairbanks to decide whether the connecting pipeline, between the trans-Alaska pipeline and the North Pole refinery, should be allowed to begin operation with less than the required 90 days' notice.

The interim tariff was ordered by the Interstate Commerce Commission in late June, when it rejected Exxon's filed tariff of \$6.27, along with all other tariffs filed by pipeline owner oil companies. A federal appeals court Friday upheld the commission's order.

Exxon's intrastate tariff includes provisions for transporting to Valdez unrefined volumes of oil returned to the pipeline. The North Pole refinery will use only a portion of the crude oil in the production of petroleum products.

Exxon spokesman Blu Beathard said his company believes the intrastate rate is reasonable because oil leaving the line at any intermediate point south of Prudhoe Bay reduces the volume that otherwise could be transported from Prudhoe Bay to the Valdez terminal.

"Exxon, as a common carrier, will be required to utilize the same portion of facilities for a barrel of oil moved intrastate to an intermediate point such as Fairbanks," he said, "as will be required for a movement to the Valdez terminal."

Beathard said it is common practice in Texas for intrastate tariffs to be the same as interstate tariffs.

Breeze said it may be common practice for pipelines regulated by the Interstate Commerce Commission, but not for gas pipelines regulated by the Federal Power Commission.

9 Times 7/20/77

Miles Heads Energy Panel

State Rep. Bill Miles Monday was named chairman of a newly formed State Energy Policy Committee, representing the state administration, the legislature and the public.

The committee, which was meeting for the first time, was created by the legislature at the last session. Its charge is to draw up guidelines for a continuing energy planning and development program and report to the governor and Legislative Council. A preliminary report is due Jan. 1, 1978, and a final report Jan. 1, 1979.

Members of the committee include Sens. Kay Poland, D-Kodiak; Brad Bradley, R-Anchorage; and Glenn Hackney, R-Fairbanks; Reps. Bill Miles, D-Anchorage; Al Nakak, D-Nome; and Leo Rhode, R-Homer; Commerce Commissioner H. Phillip Hubbard, Natural Resources Commissioner Robert LeResche and four members of the public, to be appointed by the governor.

Substituting for Hubbard at Monday's meeting was Clarissa Quinlan of the state energy office. Jack Roderick, assistant commissioner of natural resources, represented LeResche.

Miles said the work of the new committee may have long-range impact on the state second only to the permanent fund.

Four general areas to be studied in forming a state energy policy, he said, are the use and development of conventional and alternate energy resources, the relationship between various state agencies dealing with segments of the energy situation and an energy conservation policy.

"Today, no state agency has a handle on the broad spectrum of energy-related efforts," Miles said.

New York's Governor Supports El Paso Line

7/26/77 A. Times

New York Gov. Hugh Carey has written President Jimmy Carter urging approval of El Paso's proposed trans-Alaska gas pipeline project.

In the letter, Carey expressed his opposition to the Federal Power Commission's recommended "all-events tariff" for an Alaskan natural gas project.

Carey said the El Paso proposal is preferable to the Arctic Gas and Alcan proposals because only El Paso calls for construction activity exclusively under the control of the U.S.

"The risk of delay and associated cost-overrun involved in either of the two competing trans-Canada routes outweighs other potential benefits," he said.

Also, he said the El Paso plan for construction along the existing Alyeska oil pipeline corridor "materially reduces risks of adverse environmental impacts compared to alternatives."

Recent developments, including the Berger Commission's report in May, "have convinced me that (New York's) past tentative support of the Arctic Gas proposal is no longer jus-

tified," Carey wrote.

John O'Leary, head of the Federal Energy Administration, asked the governors of all the states for comments on tariff options that would impose on consumers some of the risks associated with the construction of any Alaska gas transportation system. Carey said "My overriding concern is that such risks not be borne by consumers but rather by the project sponsors, the gas producers, the State of Alaska and the federal government."

Those who stand to gain the most financially should bear the financial risks related to construction, Carey said. "The all-events tariff recommended by the Federal Power Commission would improperly impose a requirement on future gas consumers to guarantee debt for a project from which they may never receive gas."

Carey suggested that the risk of cost overruns "should be borne by the federal government, since completion of a project to deliver Alaskan gas to U.S. markets will benefit all energy consumers in this country, not just natural gas consumers."

Shipment Requires Tariffs

7/29/77
A Times

By SUSAN ANDREWS
Times Staff Writer

The court fight over trans-Alaska pipeline tariffs should not prevent the first tanker from loading at Valdez Sunday or Monday "if the owner oil companies use their heads," says an Interstate Commerce Commission attorney.

The attorney, Charles White, said by telephone from Washington, D.C., this morning that the Fifth Circuit Court of Appeals in New Orleans has promised to make a ruling on the tariff dispute by noon tomorrow.

The commission has given the pipeline owner companies permission to file a revised tariff on one day's notice, White said.

Tom Brennan, spokesman for Atlantic Richfield Co., said his company is waiting until after the court's ruling to file a tariff.

Alaska Attorney General Avrum Gross said today he is confident the Interstate Commerce Commission will block the shipment of oil from the Valdez terminal if no tariff is filed. But if the federal commission does not act quickly, "We will take legal steps to see that they do," Gross said.

White said he doesn't think legal action

by the federal commission will be necessary.

The circuit court can do three things, he said. "It can say 'ICC, you're right,' or it could say 'ICC, you're almost right' and they could change the commission's order around, or it could say 'ICC, you're wrong.'"

The latter two decisions by the circuit court are "both are ripe for Supreme Court action," which he would file within a week, White said.

But that would not hold up the shipment of oil from Valdez if the owner oil companies filed temporary interim tariffs. "They can do that today," White said.

The court battle stems from the Interstate Commerce Commission's ruling that the tariffs filed last month by the owner companies are too high. The oil companies asked tariffs ranging from \$6.04 to \$6.44 a barrel.

The rates the owner companies charge for transporting oil through the pipeline directly affect Alaska tax revenue from Prudhoe Bay production because transportation costs are subtracted from the selling price of oil to determine wellhead value, on which state taxes and royalties

are based.

The federal commission, in unprecedented action, suspended the tariffs and recommended their own tariffs, from \$4.85 to \$5.10. The owner companies went to court to fight the commission's action.

White said if the court's ruling upholds the commission's action, the owner companies still would have to file tariffs which will be good until Jan. 28, the end of the seven-month suspension period ordered by the commission.

He said if the case goes to the Supreme Court, the owner companies still can file temporary tariffs, good until the Supreme Court acts. There is no reason that oil movement from Valdez should be held up "if they use their heads," he added.

Terry Lenzner, a special counsel to the Alaska Pipeline Commission studying cost overruns on the pipeline project, was the first to raise the specter of oil being halted at Valdez because of the lack of tariffs.

Pipeline commissioner Robert Breeze indicated some irritation with Lenzner's public declaration. "That's a little out of the purview of Lenzner's work for the commission," he said.

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 competing 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?

Anchorage
Daily News
5/3/76
P.F.



COUNCIL MEMBERS LEARN ABOUT GAS

Members of the Council on Environmental Quality hear testimony here on the three gas line proposals. Gus Speth is at left; Mary Edey is at right.

Economist Predicts Need For Subsidy

"If the President and Congress want a gas pipeline delivery system from the North Slope, the federal government is going to have to subsidize it," economist Arlon Tussing told a Council on Environmental Quality hearing here yesterday.

"The problem is how you do that without an invitation to cost overruns," he said.

Tussing predicted that a natural gas transportation system from Alaska's North Slope could cost \$20 billion, with a delivered price of gas between \$6 and \$7 per thousand cubic feet, "higher than the cost of imported oil."

He said his "intuitive" feeling is that the Alcan route down the Alaska Highway involves the least risk, and he would favor that route without the frills, such as a western leg. That could be added later, he said.

Tussing said the Federal Power Commission study of costs showed "naivete" because it took the pipeline sponsors' cost esti-

mates. He said while costs of the trans-Alaska oil pipeline have doubled since 1974, the gas pipeline sponsors' estimates have remained the same.

El Paso's all-Alaska pipeline system has "less risk on the pipeline portion," because it follows the trans-Alaska oil pipeline corridor, Tussing said, but its marine leg is a "big risk."

Overall, he rated Arctic Gas as the highest risk, followed by El Paso and Alcan. New technology and an untested environment contribute to high risks of cost overruns, he pointed out.

Tussing, who advocates a North American energy policy, is a University of Alaska professor and is on the staff of Sen. Henry Jackson, D-Wash.

He repeated his prediction that the cost of transporting North Slope gas to the consumer will give the gas a value of "zero or less" at the wellhead.

The Anchorage Times

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Page A-4

Sunday, June 19, 1977

Magnificent Job

HOW LONG, do you suppose, the time and date of 9 a.m., June 20, 1977, will remain fixed in the minds of Alaskans?

Will that particular moment in history become a milepost along Alaska's trail from territorial pioneer wilderness to the day when the State of Alaska became the modern world's most important energy supplier?

Or will the moment become nothing more than a footnote in history, an item for the lovers of trivia to play with?

No matter, really, the eventual role the memory of this time and date might have in years to come.

What is important is that at 9 o'clock tomorrow morning, if all goes according to plan, oil will begin to flow from the Prudhoe Bay fields on Alaska's Arctic Coast. It will begin an 800-mile journey via pipeline to a tank farm at Valdez, and from there eventually will reach the marketplace. The event and what follows in the years ahead will command attention, historical evaluation and a continued inspection that will insure a place in history for what today is called simply the trans-Alaska pipeline.

THIS 800-MILE-LONG tube of steel may not forever hold its unique classification as the trans-Alaska pipeline. In the years to come there may be others — certainly a natural gas pipeline to begin with, and later more lines to tap the great reserves of northern Alaska outside the confines of Prudhoe Bay.

But at long last, without undue fanfare and hoopla, the first trans-Alaska pipeline goes into operation tomorrow. It will be a moment of enormous consequence for Alaska, the nation and the world.

First announced in 1969, delayed for years, the pipeline has become many things. It has been the target of environmental extremists, a concern of many well-intentioned people who have an unknowing fear of development in the northland, the joy of those who seek economic development in frontier regions, a bonanza for thousands of workers, a blessing and a headache for many communities, the hope of an energy-starved nation and, among many other things, a magnificent accomplishment which is testimony to American technical and engineering skills.

IT HAS BEEN enormously expensive, but it holds the promise of rich rewards to the taxpayers of the state, to the energy needs of the United States, in dollars to its investor companies and their millions and millions of stockholders throughout the nation.

Further, its rewards include a whole treasure house of scientific information about the Arctic, of new techniques and requirements for protecting the environment of the Arctic and sub-Arctic regions, of knowledge about the wildlife of the vast northern areas of Alaska and it has opened the door to anthropological investigations into Alaska's past that otherwise may well have remained forever closed.

There are many things that could be said to find fault with the way the job was done and the fault-finders are many and will not be stilled for years to come.

On the other hand, there are many more factors about this gigantic construction project that should be praised.

MOST OF ALL, on the eve of the start-up of the line, in the hours before the signal is given for "oil in," there is reason to praise the men and women who built the pipeline.

The job was not easy. It was not easy for Ed Patton, Alyeska's president and later chairman, and it was not easy for Peter DeMay, vice president and construction chief. It was not easy in the bitter cold of the Arctic winter for the welders and the pile drivers and the carpenters and the electricians and the truck drivers and the cooks and the guards. Sure, the pay was high. But the hours were long, the toll in human terms was severe.

Those who had a part in this project — no matter how small, no matter how large — can look back in pride at their participation. They can tell their children and their grandchildren what it was like to forge a pipeline through Alaska back in the '70s.

The time and the date when the first gallon of crude flowed into the line may not be memorable in history. But the job these people did has earned a lasting chapter in the history of Alaska.

Alaska Proposes Guarantee

By SUSAN ANDREWS
Times Staff Writer

The state has offered to guarantee \$750 million to \$800 million of the debt for an all-Alaska gas pipeline during construction.

The aim of the Hammond administration's offer is lowering the cost of gas to the consumer, making the El Paso all-Alaska gas line project more attractive to the federal government.

With the guarantee, gas line builders would be able to obtain loans at lower interest rates. The guarantee would be supported by the Alaska permanent fund, according to the state's offer, sent Tuesday night to Roger Altman, assistant U.S. treasury secretary.

A condition of the plan would be that the state increase to 50 per cent its contribution to the permanent fund, state Commissioner of Revenue Sterling Gallagher said in a telephone interview yesterday from Washington, D.C. A constitutional amendment approved by voters last fall stipulates that at least 25 per cent of oil and gas royalties and bonuses must go into the permanent fund. However, the state legislature can set the percentage higher.

Gallagher said the debt guarantee proposal does not mean the state would pay \$750 million, but that the pipeline debt would be guaranteed. Gallagher said the guarantee would be good for the construction phase of the pipeline. After its completion, project revenue would provide the support.

Gallagher met with Altman in Washington this week, and he also met with members of Roger Goldman's staff. Goldman is setting up the Alaska gas line task force for President Carter and is on energy chief James Schlesinger's staff.

Gallagher is urging a top price for North Slope gas so the Lisburne and Kaparuk formations will be economically feasible to produce. Those formations lie near the main producing formation of the Prudhoe Bay field. "After meeting with the Federal Energy Administration (Tuesday), they seem to think no special pricing for Alaskan gas is necessary," he said.

El Paso is delighted with the state's offer to guarantee a portion of the pipeline financing, El Paso Alaska Vice President John Bennett (See Page 2, Col. 2)

State Offers Gas Line Backing

(Continued From Page 1)
said yesterday from Washington.

"It is a very generous offer by the State of Alaska," he said. "No one can predict the outcome of the financing plan. But the state's commitment increases the flexibility" for financing.

Gallagher said it would be inappropriate for the state to be an equity owner in a pipeline because of possible conflicts with the state's role as a regulator of pipelines.

It is "totally uncertain" whether the state's offer could be applied to any project other than the all-Alaska route, he said.

The legislature's resolution authorizing the Department of Revenue to study state participation in financing is limited to the all-Alaska route.

Gallagher is in Los Angeles today to meet with Atlantic Richfield Co. officials about the possibility of Arco — a major Prudhoe Bay gas producer — also guaranteeing a portion of the pipeline debt.

The Justice Department has ruled that it would be illegal for pro-

ducers to own an equity interest in the pipeline, but Gallagher said a debt guarantee is not illegal.

No one, "not even the President of the United States," can predict how the gas pipeline will be privately financed, Bennett said. The ultimate decision lies with a syndicate of investment bankers who will be the interface between the consortium which will build the pipeline and the lenders.

El Paso's proposed all-Alaska project is in competition with two Canadian routes, the Arctic Gas route through northern Canada and the Alcan route down the Alaska Highway.

Bennett said "things look damn good" for his company's project.

"I feel satisfied our project will be approved unless political caprice prevails over the merits of the project."

Bennett added: "In this town, rumors are flying so fast that anyone's ignorance far exceeds what's known for sure."

The President has until Sept. 1 to make a decision on the gas line

route. Bennett said it is clear that in order to make that announcement by Sept. 1, the President will have to make up his mind sooner than that.

"I'm doing everything I can," Bennett said. "I must have handled 100 calls today from all parts of the country and the cabinet and Congress."

Morris Thompson, vice president of Alcan Pipeline Co., is in Salt Lake City this week at a meeting of his company's top officials to discuss the implications of the Canadian National Energy Board's approval of the Alcan project.

The board recommended rerouting the Alcan line so a spur pipeline can be built from Dawson to the Mackenzie Delta to tap Canadian gas reserves. The rerouting left several options open for the Alaska portion of the route.

The 15 member companies of the Arctic Gas consortium met yesterday in Toronto to discuss what their course of action will be following the National Energy Board's rejection of their gas line route.

That decision was a blow to Arc-

tic Gas, which was the first to propose a natural gas pipeline from the North Slope and has spent more than \$100 million on the project.

Gallagher said the U.S. government is anxious to avoid consumer guarantees during construction of a pipeline, the so-called "all events tariff" which all three pipeline proposals have requested.

"Canadians finance pipelines with a cost-of-service contract, which is an all-events tariff, even on the equity portion of the financing," Gallagher said.

He said El Paso might ask for consumer guarantees only on the debt portion and not the equity investment during construction.

But Bennett said, "We cannot responsibly take the position that some risk to the consumer is not required in order to finance the project. We have made a statement that if everything works out well, the risk to the consumer could be reduced."

Gallagher met last weekend in Washington with El Paso Chairman Howard Boyd, Bennett and Earl Trevithick, El Paso's vice president for financing.

In his letter to the Treasury Department, Gallagher said the state's offer assume adequate equity participation in the pipeline and assumes a "satisfactory resolution of the question of pricing of North Slope gas."

Gallagher was hopeful last week that Prudhoe Bay producers could be persuaded to guarantee a portion of the pipeline debt if they could be assured of a good price for the gas.

Exxon, a 40 per cent owner of the gas, has said it is not interested. Arco, which owns another 40 per cent, "is at least willing to discuss it," Gallagher said.

Chuck -

I copied these
clippings so you don't
have to film them in this
format.

Vicki

SCOMM

9:202

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 Alaskan 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.

Permanent Challenge

(Editor's note: the following opinion is reprinted from the Fairbanks Daily News-Miner.)

We could loan the money out to Alaskans. That would give us a greater benefit and could yield the same or better earnings if managed properly, but that's a big "if." Handled in that way, Alaska's Permanent Fund could become something like the Teamsters Union Central States and Western Pension Fund, with political cronies giving out loans at a loss to those with pull while meritorious projects are thrust aside.

Even if the fund is handled honestly we run into serious questions about this use. Should the state loan money out in competition with private banks? Should the Permanent Fund money be risked on ventures the private banks or bond buyers won't touch, simply because the ventures are Alaskan developments?

Most would answer "no" to these two questions, but there may be legitimate areas where the Permanent Fund can fill legitimate needs of Alaskans that banks do not. Many of us have faced problems getting certain types of construction or collateral common in the North, and we should certainly communicate these to the legislature when they ask for suggestions about the Permanent Fund.

After all, Alaskan Natives felt their needs are different enough that they had to create their own bank through a partnership of Native regional corporations, and Anchorage feminists just started their own credit union to handle what they feel are their own special problems. Why can't the Permanent Fund be the special banker for all Alaskans?

Legislation now under consideration would require half the royalties and other applicable revenues to be paid into the fund. This would be twice the minimum payment required by the constitution and would give at least \$2.5 billion to the fund by 1985.

It would break the fund's spending down to at least 40 per cent for high-grade securities, up to 30 per cent for developing private enterprise projects in Alaska and up to 30 per cent for community development projects.

This sounds like a good starting point. The payments into the fund should be as high as possible, to discourage more state government growth and leave the most money left over after the oil revenues dry up. A large block of it should be required to go into secure investments, but at least some should remain available for innovative Alaskan projects and special problems of our state.

We need to participate fully in these decisions and in the governor's appointment of the boards that will oversee the investments. The Permanent Fund can be a second \$900 million fiasco in greater proportions, or it can be the key to the stable economy of which all Alaskans dream. Only we can decide.

A permanent challenge. The only thing really permanent about the Permanent Fund is the challenge for Alaskans to make the policy decisions and oversee its management.

The fund was created by a vote of the people last year, and is already collecting oil royalties while the state government works in various directions to decide its longterm organization. It has already collected \$4 million and earned about \$45,000 in interest from a savings account and U.S. Treasury notes.

If only the minimum payment of one-quarter of our oil lease royalties is put into the fund it will reach \$1.3 billion in the next seven years. If more money is earned through new oil lease sales or if the legislature puts more than the minimum proportion into the fund, it could grow to several times that in the same time.

But once all this cash is in the bank, what do we do with it? That's what two interim legislative committees are working on this summer, and they will be asking for guidance soon from the general public.

We could just take all that cash and invest it in some safe venture, if safe ventures exist anymore with some of the banking practices we've heard about of late. That would keep the Permanent Fund intact and give us a sizable income, but it would not give us the maximum benefit from our oil earnings.

When the state received \$900 million from the 1969 North Slope oil lease sale, this path was taken. Much of the money went into municipal bonds on the West Coast while Alaskans were trying for loans to develop pipeline-related businesses. Finally the investments were liquidated over about five years to increase the size of our state government, and a \$6 million loss was realized on the investments.

Aug 30 1977

House and senate split on permanent fund

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By G. MICHAEL HARRISON
Associated Press Writer

ANCHORAGE (AP) — Sharp differences in philosophy surfaced here Monday 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 announced 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 ever 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 Rohman, D-Bethel, has conducted its business without any public notice.

The philosophical differences were graphically illustrated during the Legislative Council meeting as Rohman 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 lead-

ers 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 per-

manent 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.

In another report, Robert Merritt, a consultant to the legislature's telecommunications committee, complained about the reliability of earth stations provided by California Microwave Inc. for the state's satellite demonstration project.

Merritt reported that the earth stations are failing after about 1,000 hours.

"This is totally unacceptable

and I have suggested that we may have to consider legal action if dramatic improvement is not immediately forthcoming," Merritt said in his report. "At the present rate of failure every piece will be recycled in six months."

Merritt said the Governor's Office of Telecommunications wants to place instruments in several bush earth stations to provide a continuing measure of performance, but has run into problems with RCA Alascom.

"At this time RCA management has not agreed to support the testing program," Merritt said. "In fact, they have not replied to letters asking for their position concerning the program."

Alaska Inc. unconstitutional?

Alaska, Inc., Gov. Jay Hammond's plan to pay oil-wealth dividends to Alaskans based on length of residency, is probably unconstitutional, Legislative Counsel Richard Bradley says in a recent opinion. His analysis, prepared at the request of Sen. Chancy Croft, D-Anchorage, strikes at the heart of Hammond's plan: durational residency. As outlined in legislation submitted by his office, Hammond's plan would issue shares in "Alaska, Inc." on the basis of five-year residency periods.

That's the same approach the state tried with Alaska hire, Bradley says, and the Supreme Court of Alaska slapped that down resoundingly just two months ago.

But it's not quite the same, says Atty. Gen. Avrum Gross. Although he concedes the question is "extremely close," and likely will require a lawsuit to settle, Gross says there is a distinction between a fundamental right such as employment and the "accustomed benefit" of a state dividend check. That difference might negate the apparent restriction imposed by the Alaska Hire decision, Gross says.

Applying these principles (of the Alaska Hire decision) to Alaska, Inc., it seems that Alaska, Inc. fails the test, Bradley, a former assistant attorney general, wrote Aug. 5. "It seems clear that Alaska, Inc. violates the equal protection clauses of federal and state constitutions."

Gross, however, said that while the U.S. Supreme Court has knocked down durational residency restrictions for such "fundamental and expected rights" as welfare or employment opportunity, it is not clear that a benefit such as Alaska, Inc. payments would be treated the same.

Restrictions based on residency generally have been disallowed by courts because they are a barrier to free travel between the states, Gross said. "The question then

would be whether a person in Washington State would be inhibited from moving to Alaska because he would not get a dividend for five years. I think not, since he hadn't been getting a dividend in Washington anyhow," Gross said.

The debate probably is an opening round in the developing battle between Croft and Hammond. Croft, who served as president of the Senate in the Ninth Alaska Legislature, is an all-but-announced candidate for governor. If he won the Democratic nomination, there is a good chance he would face Hammond in the general election, and Alaska, Inc. likely would be a campaign issue.

The plan submitted by Hammond (it is actually House Bill 525, and doesn't call itself "Alaska, Inc.") would mandate that one-half the earnings of the mineral royalties, bonuses and lease payments which are earmarked for the Permanent Fund be divided among eligible Alaskans.

Under that proposal, Alaskans would receive a share of Alaska, Inc. for each qualifying five years of residency beginning Jan. 1, 1974. The first payments would then be made Dec. 31, 1979. Each share would pay an annual dividend equal to one-half the Permanent Fund earnings, divided by the number of qualified shareholders.

The bill provides several tests of residency including:

The individual must be registered to vote in Alaska.

The individual (or parent) must have filed an income tax return for the year preceding application; and,

The individual must have been physically present in Alaska for more than one-half the year preceding application, with exceptions for post-secondary education, military service and the like.

Hammond lists the goals of Alaska, Inc. in HB525 as being the use of natural

resources for the maximum benefit of citizens; promotion of a stable residential population; and involvement of citizens in state budgeting by providing them a direct, personal interest in how the money is spent.

To be constitutional under the Alaska Supreme Court ruling in the Alaska Hire case, Bradley says, the plan must show it is "the least drastic" program which can meet those goals. Because it disfavors those who have not been in the state for five years, he said, the plan must conform to that "least

drastic" doctrine. Since the operation of Alaska, Inc. will substantially disfavor individuals who have only paid taxes or resided in Alaska for shorter terms, without being the drastic means available to the state in order for citizen participation in the Permanent Fund, it seems clear that Alaska, Inc. fails the Alaska Hire test and violates the equal protection clauses of the federal and state constitutions," Bradley wrote.

— Howard Weaver

ALASKA CLIPPING SERVICE

Chugiak-eagle
River Star
Eagle River, Ak

SEP 8 1977

Permanent Fund Symposium Set 31

Area residents are invited to attend a symposium on the goals of the Permanent Fund to be held Saturday at 9 a.m. in the Alaska Room of the Anchorage-Westward Hilton.

The symposium will discuss potential uses for permanent fund moneys and will feature evaluations of two economists, Dr. Don Gordon of the University in Vancouver, and Dr. Barbara Bergman from the University of Maryland.

Members of a citizen's panel will question the two economists, who represent divergent conservative-liberal viewpoints. The public is also invited to question the economists during the discussion.

LASKA CLIPPING SERVICE

Ketchikan Daily
News
Ketchikan, Ak

AUG 11 1977

Legislative control threat
ANCHORAGE (AP) — An agreement to pay a Juneau consultant \$115,000 to recommend how to set up the Alaska Permanent Fund may not give the Legislature sufficient control over the matter, says Sen. at Rodey, D-Anchorage.

ALASKA CLIPPING SERVICE

Southeast Alaska
Empire
Juneau, Alaska

SEP 12 1977 31

Permanent Fund

ANCHORAGE (AP) — In the first of a series of public discussions about the future of the permanent fund, two economists and a five-person citizens panel agreed the fund should be administered to help all Alaskans. Dr. Barbara Bergman of the University of Maryland, one of two consultants asked by the House Permanent Fund Committee to evaluate possible uses of the fund, said there are three courses of action.

She said the courses include the "spend it as fast as you get it" approach and then searching for other sources of revenue as oil income runs out. The "gill edge" approach would call for investment of the fund in markets in the lower 48 and then using revenue from these investments for projects in Alaska.

A third approach would be to use the fund for development, which would broaden the state's tax base and provide caution in attempting this kind of use of the fund.

ALASKA CLIPPING
SERVICE

Anchorage Daily
News
Anchorage, Ak

AUG 29 1977

ALASKA CLIPPING
SERVICE

Anchorage Daily
News
Anchorage, Ak

AUG 12 1977

Rader quits permanent fund seat

JUNEAU (AP) — Senate President John Rader has resigned his seat on the Senate Permanent Fund Committee, capitol sources said today.

Rader, D-Anchorage, has appointed Sen. Frank Ferguson, D-Kotzebue, to replace him on the committee, the sources added.

The sources said Rader, who suffers from a rare bladder ulcer, resigned because of a planned out-of-state hospital appointment

which probably would interfere with his committee duties.

Neither Rader, Ferguson nor Sen. George Hohman, D-Bethel and chairman of the Senate committee, could be reached for comment.

Along with a like House committee, the Senate panel has been given the responsibility to draft legislation for submission to the 1978 session on management of the Alaska Permanent Fund.

Created by voters last year, the

Permanent Fund is composed of at least 25 per cent of state oil and gas royalties and is expected to total \$5 billion by 1985.

Debate over who will control the fund and what the money will be used for will be one of the major issues in 1978 election-year Legislature.

Rader's resignation and Ferguson's appointment gives rural interests a one-vote majority on the five-member Senate panel.

Permanent fund in search of answers

By PAUL NUSSBAUM
Daily News Staff Writer

Remember the Alaska Permanent Fund?

You know, the golden goose that is to lay golden eggs as long as the oil and gas hold out. The savings account to take the bust out of boom. The magic wand that will turn disappearing petroleum into everlasting renewable resources.

ALL THINGS TO all people, the brand new permanent fund has more than \$4 million in it, with about \$45,000 generated in interest in its first five months of existence.

And nobody knows what to do with it.

The fund created by Alaska voters last year to lock up at least 25 per cent of oil and gas royalties and bonuses is one of the hottest items to come along since statehood, and the legislature in 1978 will spend much of its time debating where the money should go and who should handle it. In the four months left before the opening of the legislative session, the shadowy suggestions for the multi-billion dollar fund are to solidify into a bill — or a handful of bills — that the lawmakers can mold into a final permanent fund.

BECAUSE OF THE vast amounts of money involved (by 1985 the fund will have about \$2 billion if the amount placed in it remains at the minimum 25 per cent), the future of the permanent fund has come in for a lot of high-level political attention, both in the administration and the legislature.

Two legislative committees, with about \$360,000 between them, are going their separate ways to bring proposals to the legislature. Gov. Jay S. Hammond's administration is being tugged two ways as the Department of Revenue and the Division of Policy Development and Planning each want the lead role in handling the executive's permanent fund strategy.

Contracts have been signed, consultants hired, and reports filed. Big-name economists, ranging from liberal John Kenneth Galbraith to conservative Milton Friedman have been wooed.

BUT FOR ALL THAT, a year after the August, 1976, election which created the fund, most people in Alaska know little more about the growing treasure chest than they did when they voted almost 9-1 for it.

Should the money, which by law must be income-producing, be socked away in high-yield, low-risk securities in traditional money markets Outside? Should the money be doled out to residents as loans for businesses or homes? Should the money go to hard-pressed municipalities, either as loans or as guarantees on conventional bonds, to give the cities low-interest money for new buildings, parks and streets? Should the money be spent on loans to build dams, solar energy projects or other sources of energy against the day when oil and gas are gone? Should the money be loaned to develop new industry in the state, with an emphasis on renewable resources?

The questions are easy; it's the answers that are hard to come by.

IN ITS HUNT FOR SOLUTIONS, the Senate Perma-

nent Fund Committee has hired a Juneau consulting firm for \$115,000 to provide basic research and recommendations, and two smaller contracts for a total of about \$20,000 have been prepared to provide information about needs of rural Alaska and the need for money to rehabilitate state fisheries.

The House Permanent Fund Committee paid about \$11,000 for early reports from Massachusetts financier Belden Daniels and Arlon Tussing of the University of Alaska's Institute of Social and Economic Research (ISER). The committee has since signed a new contract with Daniels, with a maximum price tag of \$19,500, and struck a deal with Department of Revenue to have the administration pay for another study by ISER. The administration will also pay about \$90,000 for a "sectoral analysis" of Alaska's economy.

The disagreements and overlapping jurisdiction "shouldn't break down into petty problems ... but that doesn't mean they won't," House committee chairman Rep. Clark Gruening, D-Anchorage, said. "It could break down into kind of a power struggle, but it would be far better that differences revolve around philosophical differences rather than (personal) attacks, and I don't see any of that now. If debate surfaces, that's good ... these issues should be out in public."

APPARENTLY, THE PUBLIC is about to get its shot at the permanent fund. On Sept. 10, two economists will lead a discussion in Anchorage on the goals of the fund, and public hearings on the fund's use will be held in Fairbanks Sept. 14, in Anchorage Sept. 15, in Kotzebue Sept. 16

(Continued on page 2)



Legislative panels busy in interim

By PAUL NUSSBAUM
Daily News Staff Writer

The myriad committees charged with conducting legislative business and preparing legislation for the 1978 state legislature have submitted initial reports outlining summer activities and plans for the fall.

The legislature gave its interim arm, the Legislative Council, \$1.5 million, primarily for interim activities. This is how some of the interim committees are spending their money:

—PERMANENT FUND. The House and Senate each have an interim committee to study proposals for the future of the fund which is expected to total at least \$2 billion by 1985. The two committees are the stars of the interim panels, with about \$370,000 between them.

The Senate committee has contracted with Dupere and Associates Inc., a Juneau consulting firm, for \$115,000, to conduct a comprehensive examination of existing capital needs in Alaska and what traditional financial institutions are doing to meet the needs. Questionnaires have been sent or are to be sent to 15 banks and financial institutions, 87 village councils, 200 village corporations, 12 regional corporations, 10 agricultural policy task force members, 138 miners and mining companies, 44 fishing associations, 176 Alaska business license holders, and 750 Chamber of Commerce members. The committee is also seeking mortgage information from the Governmental National Mortgage Association, cost of living and construction tables from the state Department of Labor, and general loan information from the other 49 states. In addition, the consultant and the committee will study existing loan programs within the state, with an eye toward streamlining the programs through the permanent fund.

Two other contracts, for a total of about \$20,000, have been granted to

examine the implications of increasing foreign investment in the bottomfish industry off Alaska's shores and the potential for using permanent fund money to aid Alaska fishermen and cooperatives, as well as for assistance from the Alaska Native Foundation in conducting research.

The House committee has mailed 1,500 brochures to residents, outlining possible uses for the permanent fund and asking for suggestions. The committee will conduct a symposium in Anchorage on Sept. 10, and hearings on goals of the fund in Anchorage, Fairbanks, Kotzebue and Juneau.

Contracts with two consultants for a maximum of \$13,000 produced preliminary reports from Dr. Arlon Tussing of the University of Alaska's Institute for Social and Economic Research and Dr. Belden Daniels of Harvard University's Department of City and Regional Planning.

Daniels has been given a second contract for a maximum of \$19,500 to examine the structure of existing development banks, to study ways of regionalizing the permanent fund, and to examine options for insuring public accountability of the fund.

The House committee and the Department of Revenue are in the final stages of two other contracts, with consultant Arthur D. Little of San Francisco for a sectoral analysis of the Alaska economy, and with the Institute for Social and Economic Research for projections of what might happen to the permanent fund money under several possible uses of the principal and interest of the fund.

And the House committee with the legislative Finance Committees are contracting with two other consulting firms for management and financial advice. The firms, Price Waterhouse and Co., and White Weld and Co., are the same consultants which worked closely with the state Investment Advisory Committee,

the panel which did most of the work that resulted in an Alaska Permanent Fund bill introduced in the legislature late last session.

Under the House committee, a subcommittee on renewable resources has been formed under Rep. Terry Gardiner, D-Ketchikan, to study what should be done with a different permanent fund that was adopted by the 1974 legislature—the renewable resources fund. That committee has \$30,000 earmarked for its use.

—CORRECTIONS. Designed to study the need for a pre-sentencing jail in Anchorage, the committee chaired by Rep. Russ Meekins, D-Anchorage, has expanded its focus to include examination of current facilities. Additional proposed jails that will be studied by the committee include a juvenile center in Fairbanks for long-term offenders, or the expansion of the McLaughlin Youth Center in Anchorage, a juvenile detention center in Fairbanks for short-term care of up to 20 youths, jails for adults and juveniles in Juneau, an adult pre-sentence jail in Ketchikan, and a women's prison in Anchorage.

The committee is also planning to examine broader corrections issues such as co-ed jails, restitution of victims by inmates, and employment of inmates to perform services or produce products for state government or private industry.

RESOURCES. The committee chaired by Rep. Alvin Osterback, D-Sand Point, will devote most of its time before the opening of the legislature next January to examining the potential for increased participation by Alaska fishermen in the bottom fish industry.

In September, the committee will conduct hearings in Sand Point, Dutch Harbor and Kodiak on the bottom fish issue, and in October will carry its hearings to Ketchikan, Petersburg, Juneau and Cordova.

The committee was given an additional \$7,000 Monday by the Legislative Council to pay for increased travel and staff costs.

—INSURANCE. Chaired by Rep. Joe McKinnon, D-Anchorage, the interim insurance committee has spent most of its time studying potential legislation on no-fault automobile insurance. The committee is also charged with examining

Permanent Fund Plans In Works

By JON MATTHEWS
Times Staff Writer

Every Alaskan would be all of eight cents richer today under Gov. Hammond's Alaska Inc. proposal to share income from the state permanent fund, members of the House special committee on the fund quipped yesterday.

The legislators met Friday and yesterday in Anchorage as part of their preliminary planning of the fund, which now contains about \$4 million from Cook Inlet oil and gas royalties and has earned \$43,000 in interest.

That interest, if divided up, amounts to just pennies for each Alaskan.

But the permanent fund — authorized by voters to hold at least 25 per cent of oil and gas royalties and bonus payments — will eventually swell into the billions with the flow of North Slope crude.

How the income from the fund will be used and its structure are big issues to be weighed by the legislature and the administration in the coming months.

Flexibility and security should be two key words for the state permanent fund, said Rep. Clark Gruening, D-Anchorage and chairman of the House special committee.

Gruening said yesterday he has learned that the fund should be liquid enough so as not to hamper specific uses of the state money, and that its investment in and out of the state could avoid an "all the eggs in one basket" dilemma should Alaska's economy take a downturn.

Gruening said the committee, which heard the advice of two economic consultants Friday, has seen the vulnerability of the fund to pipeline problems and fluctuations in oil pricing.

He said while certain large investments from the fund in Alaska might just be replacing what banks already do, there appear to be excellent opportunities for smaller investments in the state.

Cooperation between the legislature and the administration would give the state "the best of all possible worlds" in setting up the fund, said Jim Edenso, deputy commissioner of revenue for treasury.

Edenso yesterday urged the legislators to examine all the alternatives in evaluating directions for the fund.

Committee member Russ Meekins, D-Anchorage, said he was concerned that the information used in mapping out the course of the fund be highly organized, so that the state doesn't "build the airport, then the road and then the dock."

4—Anchorage Daily News, Monday, July 25, 1977

Policy profiles

Spending the 900-mile cookie jar

By JOHN HAVELOCK

The permanent fund is established, so the theory goes, to put capital behind the formation of a new, renewable resource-based economy so that when the oil and gas run out, the state will have a permanent renewable economy to support the people.

A pipeline route through Alaska from Prudhoe Bay to Prince William Sound is sought so an economy of petrochemicals and cheap energy industry can be built on what? Cheap gas of course.

THOUGH THE THEORETICAL foundations of these state policies are at war with one another, they bear a common thread: that public wealth should be used to fuel big time, private enterprise.

No day goes by on the Last Frontier that some Alaska political or economic notable does not blast "government giveaways" or "handouts." The Great Land is acclaimed as a last bastion of free enterprise and rugged individualism. Milton Friedman (surely the least helpful economist to visit Alaska since statehood), warns us of our advanced state of creeping socialism, knowing he is in one of the last ballrooms in America where such politico-economics will be greeted with heartfelt enthusiasm.

These same good folk who cheer for Milton have had much to say about pipeline routings, the disposition of state owned oil and gas coming through the lines and policies to be followed in investing the state's tax revenue from the privately owned portion.

ABHORRENCE OF government spending runs high in a state whose economic backbone has always been government spending. There isn't a substantial fortune in Alaska not indebted to it. As those who contemplate the dollar can plainly see, the next round of fortune building will also depend on government spending. The profits to be made from diverting the state's return from oil and gas sales and taxes into private capital are only exceeded by the gain to be had by getting a hand on the state's oil and gas resources themselves.

A decade ago we used to hear a lot of talk about investing in human resources: better health care, recreational opportunity, education, housing, public transportation, crime prevention, special aid to the handicapped: the old, the poor, the black.

Remember the two Alaskas? One rich, urban, well educated, white, the other poor, rural and brown? The second one is still there and still poor.



personal government getting involved is much more questionable.

THE STATE IS NOW urged by the defenders of capitalism that its principle business is not meeting public sector needs but guaranteeing a hundred years of broad economic prosperity. The state, as the provider to the public sector, has a special point of view and goal that is something more particular and not as broad as general economic prosperity. The institutional perspective of state government on the general state economy is one of maximum state revenue from resource revenue to meet social needs for minimum population growth. Yet the push for state leadership in a general economic policy has forced it into quite a different attitude.

For instance, the state government has been dragged into the gas pipeline route issue by private enterprise in support of a proposal with effects opposed to the state's institutional interests.

In the dedicated fund, the state is nurturing a pretty little baby monkey that can grow up to be a state-run gorilla with a fat finger in every economic enterprise in the state.

With a policy development effort no thicker than an oil slick, the state is marching off to sell (or has sold) its royalty oil and gas through negotiated deals to obtain general economic effects, such as "local processing" and political influence on routing decisions, effects which do not necessarily reflect a thoughtful consensus of state opinion.

NOW SOME WILL welcome the embrace of such interested state intervention in the economy. Those who have a knack for obtaining government loans and subsidies and negotiated purchases will no doubt become very wealthy. For others, the natural free enterprise growth of Alaska is fast enough without subsidizing it from the public treasury by spending beyond that necessary incident to meeting public sector needs.

In the public debate of the past few years we have heard little about those needs. Public sector spending has been decried almost as a loathsome activity, at least as a necessary evil. The scene has been set to switch the flow of state revenue directly to private sector while public needs stagnate.

There is a cycle to such trends in public favor. We will come back to traditional priorities of governmental activity. But in the meantime, the traditional beneficiaries of government activity are losing out.

Pair Of Consultants To Give Reports On Permanent Fund

Two consultants are scheduled to present reports on varying aspects of the permanent fund when the House Special Committee on the Alaska Permanent Fund meets next week in Anchorage.

The reports will be given by Arlon Tussing, a University of Alaska economist, and Belden Daniels, a development specialist from Boston.

Tussing's report, done through the university's Institute of Social and Economic Research, will concentrate on several areas:

- The efficiency of capital markets in Alaska today.

- The extent to which permanent fund outlays would expand the state's tax base and diversify the economy.

- The investment and growth implications would be under four or five alternative management approaches for the fund.

- The impacts of out-of-state permanent fund investments compared to in-state investments.

- The implications of using the fund for social purposes.

- The use of the permanent fund to stabilize the state's economy, to increase rural employment through cottage industries.

- The analytical or policy issues which the committee should investigate in depth.

According to the contract, Daniels's work will address areas in-

cluding suggested methods for managing the permanent fund which will assist community and rural economic development, regionalization of permanent fund capital investments and stable regional economies, refinements which would be made in the fund, problems which have occurred with such funds elsewhere and suggested methods for fund management which could stimulate development in small communities without major distortions in the state or local economy.

Tussing's contract is for \$6,000, while Daniels's is for \$5,000, plus up to \$2,000 for expenses and an appearance before the committee.

The committee also will hear Revenue Commissioner Sterling Gallagher give a report on current permanent fund investments, state Rep. Clark Gruening, D-Anchorage, said. Gruening is chairman of the House permanent fund committee.

Also on the agenda are a discussion of permanent fund proposals and the committee's interim budget.

ALASKA CLIPPING SERVICE

Anchorage Daily Times
Anchorage, Ak.

AUG 10 1977

Rader Quits Fund Panel

JUNEAU (AP) — Senate President John Rader has resigned his seat on the Senate Permanent Fund Committee, capitol sources said today.

Rader, D-Anchorage, has appointed Sen. Frank Ferguson, D-Kotzebue, to replace him on the committee, the sources added.

The sources said Rader, who suffers from a rare bladder ulcer, resigned because of a planned out-of-state hospital appointment which probably would interfere with his committee duties.

Neither Rader, Ferguson nor Sen. George Hohman, D-Bethel and chairman of the Senate committee, could be reached for comment.

Rader is out of state now.

Along with a like House committee, the Senate panel has been given the responsibility to draft legislation for submission to the 1978 session on management of the Alaska Permanent Fund.

Created by voters last year, the permanent fund is composed of at least 25 per cent of state oil and gas royalties and is expected to total \$5 billion by 1985.

Debate over who will control the fund and what the money will be used for will be one of the major issues in 1978 election-year legislature.

Rader's resignation and Ferguson's appointment gives rural interests a one-vote majority on the five-member Senate panel. In addition to Hohman and Ferguson, the committee also includes Senate Finance Chairman John Sackett, R-Galena. The other two members are Sens. Patrick Rodey, D-Anchorage, and Bill Sumner, R-Anchorage.

Permanent fund should help Alaskan residents

ANCHORAGE (AP) — In the first of a series of public discussions about the future of the permanent fund, two economists and a five-person citizens panel agreed the fund should be administered to help all Alaskans.

Dr. Barbara Bergman of the University of Maryland, one of two consultants asked by the House Permanent Fund Committee to evaluate possible uses of the fund, said there are three courses of action.

She said the courses include the "spend it as fast as you get it" approach and then searching for other sources of revenue as oil income runs out. The "gilt edge" approach would call for investment of the fund in markets in the lower 48 and then using revenue from these investments for projects in Alaska.

A third approach would be to use the fund for development, which would broaden the state's tax base. She urged caution in attempting this kind of use of the fund.

"The idea of the permanent fund is to preserve resources for future generations. You

have to make sure the grandchildren are taken care of." She said it's a lot like managing a family. "The real guts of the thing is the benefits and costs to groups of individuals ... They all have different values."

Dr. Donald Gordon of Simon Fraser University, the second consulting economist, said he was intrigued by Gov. Hammond's "Alaska Inc." proposal "to pass out the income to the people."

He added, "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."

Gordon noted, "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. I think it's a very tricky problem and largely a legal one."

The permanent fund committee has scheduled a second hearing Thursday in Anchorage with hearings to follow in Juneau, Fairbanks and Kotzebue.

Ketchikan Daily News
Ketchikan, AK

SEP 10 1977

Lack of control in Senate 'fund' study?

By PAUL NUSSBAUM
Daily News Staff Writer

An agreement to pay a Juneau consulting firm \$115,000 this year to give the state Senate recommendations on how to set up the new Alaska Permanent Fund has raised eyebrows of some state politicians who say the arrangement takes away legislative control.

The Senate's special committee on the permanent fund will pay Dupere and Associates Inc. \$115,000 to "provide the committee with the basic research and policy recommendations to be presented to the Senate," the contract with the consulting firm says.

THREE assistants to committee chairman Sen. George Hohman, D-Bethel, will work for Dupere in putting together the recommendations. Rob Kocsis, who served as Hohman's administrative assistant to the Senate Judiciary Committee; Ward Sattler, who was Hohman's permanent fund assistant, and Don Burleson, who was Hohman's assistant for the Legislative Budget and Audit Committee, are to fill the three

consultant-researcher positions called for in the contract with Dupere.

Each of the three will be paid about \$15 per hour, which Hohman said was "roughly comparable" to the salaries they drew as top legislative aides.

The contract was unanimously approved by the five members of the Senate committee at a recent unpublicized meeting of the panel. The only member of the committee who is not part of the ruling coalition of conservative Democrats and Republicans in the Senate, Anchorage Democrat Sen. Pat Rodey, said he was worried about "contracting work that should be done with a great deal of legislative control to a contractor without direct control by the legislature.

"IT'S TOO easy to allow special interest groups to formulate state policy if you use this approach," Rodey said.

Asked why he didn't oppose the contract at the committee meeting, Rodey said it was clear to him the necessary three votes had been rounded up to approve the contract. The other committee

members are Senate president John Roder, D-Anchorage; Bill Sumner, R-Anchorage, and John Sackett, R-Galena.

Hohman, one of three Democrats in the Senate coalition and one of the most powerful leaders in the organizational hierarchy, said the contract with Dupere will not prevent personal involvement by the committee.

"OUR intention is to hold hearings. The contract does not exclude that kind of contract," Hohman said from his Juneau office Friday. "The reason we went with Dupere is that state government has been criticized in the past for going Outside for expertise. Dupere has been involved with local governments in Alaska for 16 years."

Robert J. Dupere, president of the consulting firm, is the financial consultant for the North Slope Borough and was the main mover in a recent bond sale of about \$50 million for the borough.

A separate \$11,700 contract with the Alaska Native Foundation has been approved by the committee, and a third pact for less than \$10,000

(Continued on Page 2)



Sen. George Hohman

● Lack of control

(Continued from Page 1)

to study how state fisheries could be helped by the permanent fund is in the works. The three separate contracts, along with incidental committee expenses for staff and travel costs, will eat up most of the \$185,000 budgeted for the Senate committee.

THE CONTRACT with the Native Foundation is designed to give the

committee access to a study being made with the federal government to determine financial needs of rural areas of the state.

A separate House committee on the permanent fund, with an identical \$185,000 budget, is still studying ways to spend most of the money, but much of it is likely to be earmarked for hearings around the

state on proposed uses of the permanent fund.

The fund was authorized by Alaska voters last year to set aside at least 25 per cent of oil and gas royalties and bonuses into a savings account for the state.

All-Alaska
Weekly
Fairbanks, Ak
AUG 19 1977

Facing Up to the Future

By Gov Jay Hammond 31

In Defense of "Alaska, Inc."

Of course, there have been objections raised to the "Alaska, Inc." concept. I was reluctant to float it out because I knew it would be vulnerable politically. Yet, the more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to "pay our way."

Among the main objections I have heard raised is the suggestion that to pay dividends directly to Alaskan shareholders would pander to the public's "greed." But even if such would be the case, would it not be refreshing to have the public's so-called "greed" working to suppress the growth of government and state budgets to counter special interest "greed?" Of course, one man's presumed "need" becomes the other fellow's "greed." Regardless of the terminology, it would be interesting to have the modifying influence of the public's "greed" or "need" countering that of special interests or the pork barrel process. Another objection has been that such a program would create pressure from the public to exploit our resources at a less than prudent pace. But those pressures could not be worse than the pressures we are faced with now. It would be much easier to resist public pressures to lease out all our oil lands as quickly as possible simply to achieve a larger dividend than it is under the present circumstances to resist putting up new oil leases each time the growth of government demands an increase in revenues. Such was the case when I took over this administration. Faced with a \$200 million shortfall, I had little choice but to cast around for some immediate revenues. Obviously, I could not double the income tax. The only thing I could assuredly do was to find another oil province to lease and hope we could raise enough money. Thus, I was almost compelled to put up the Beaufort Sea leases simply to meet the state's payroll, despite the fact the time was not the most auspicious nor the price potentially top dollar. That's a lousy way to be forced to do business. However, unless we shift to funding government from appropriate tax dollars it's only a matter of time before this governor or the next will be forced to start selling lands to pay off the help.

Some have suggested that if you believe that all Alaskans should share equally in our non-renewable resource wealth, perhaps we should simply sell it all and disperse shares directly to Alaskans rather than placing that wealth into a permanent fund. I disagree most emphatically. That wealth does not belong to simply those of this generation. It belongs to Alaskans now and in the future.

Some have said the program would be difficult to administer and would lead to fraud and litigation. By using an affidavit attached to one's income tax return, we not only will increase the number of income tax filings but simplify the process of application. Moreover, it is unlikely that many will be inclined to cheat if they are made aware that if by so doing they would foreclose the opportunity to ever again participate in the program. Since initially all who qualified would receive but one modest share, it is unlikely there'd be much inducement for an individual to jeopardize his potential long-term earnings by perjuring himself. An additional safeguard could be structured into the act by simply requiring that applicants must submit, upon demand, evidence supporting their contended qualifications. Such evidence might consist of affidavits from two prospective shareholders who, if found to have perjured themselves, would also lose forevermore prospective benefits. Procedures such as these would certainly cut down on the potential for abuse.

While dispensing dividend checks to Alaskans may seem unusual, if one thinks about it, no matter how we use state monies, they are dispersed in "dividends" from a gigantic people's owned business corporation we could call "Alaska, Inc." If we use the money to cut taxes, a "dividend" is granted taxpayers. Use it to expand services; recipients of these services receive a "dividend." If we use it for municipal revenue sharing, "dividends" are conveyed to municipal dwellers.

While some investment earnings from "nest egg" wealth in the Permanent Fund could and will no doubt be used for the above purposes, all such "dividends" are selectively dispersed. What about the individual who lives outside a municipality? Or who makes too little income to pay taxes? Or who receives no welfare benefits and few, if any, state services? Does not he also deserve a "dividend" from that wealth which belongs to all Alaskans? Perhaps the only way he can ever expect to see a share of that wealth is if he actually receives a dividend check. Perhaps we should take a page from the Native Land Claims Act. The Natives foresaw that the only way some of their corporate shareholders might see any part of their wealth was to distribute a portion in the form of a direct dividend check. However, they are distributing a portion of their capital nest egg wealth. I propose something far more modest: a distribution not of the "nest egg" wealth itself but a part of its earnings.

It seems to me that no matter how we use the income from our "nest egg" wealth, a major objective should be to see that at least a portion of it is distributed equitably. Should someone come forth with a more equitable means of assuring that all Alaskans can have a "piece of the action" than direct dividend checks, I welcome that information. To date nobody has.

Some say municipal revenue sharing's the way we should go. I don't think most Alaskans agree. However, there's an easy way to find out. Let people exercise local option. Should they elect to have all dividends go to the municipality rather than to themselves, so be it. However, I suspect most would like to have a chance to decide for themselves how they would spend at least a small part of their wealth rather than leave all of such decisions up to elected officials.

Polls have shown that confidence in the way public monies are spent is inversely proportionate to the distance you remove those monies from the public's control. Thus, the public has least confidence that the federal government spends their money wisely. Somewhat more confidence in state government; and far more in local government since they at least have those who will spend it within their arms length. "However, if you really want my dollars spent wisely," says the average citizen, "let me say where they are spent." I think it's high time we listened.

House Panel To Seek Views On Use Of Permanent Fund

The House Permanent Fund Committee plans to go all out in the next few months to find out what Alaskans want their new permanent fund to accomplish. The panel's aim is to come up with proposed legislation by December.

The state administration has introduced a bill for setting up the fund, which followed months of meetings and hearings by the Permanent Fund Advisory Committee.

But the legislature intends to do its own research and both the House and the Senate have \$185,000 to spend on consultants to help them. By January, it is likely that in addition to the administration's bill, there will be a House bill and a Senate bill.

The House committee this week intends to mail out 2,000 brochures to Alaskans giving the background of the permanent fund and its objectives. The brochures include a series of seven questions, which the committee is asking people to answer and mail in.

The questionnaires ask suggestions for types of investments and ask what would be the objectives of those investments — as well as what objectives would be avoided.

Other questions ask which groups would benefit from those suggested investments and what groups are likely to oppose it.

In addition, the questionnaire asks suggestions for management of the fund.

Three other questions concerning the permanent fund have been proposed to be included in the Alaska Public Forum, at meetings to be held throughout the state this fall.

These questions ask how much money should go into the fund, whether investments should be emphasized within the state or Outside and which renewable resources

should the fund be used to encourage.

The Growth Policy Council, which oversees the public forum, is to consider the questions, as well as proposed forum questions on other topics, at meetings today and tomorrow at the Captain Cook Hotel.

The House committee doesn't intend to leave the public hearings to the state administration, however. It is planning its own series of public meetings this fall, beginning with a proposed symposium in early September.

Economist John Kenneth Galbraith was invited to speak at the symposium, but yesterday he declined. House committee staffer Mike Doogan said Galbraith indicated he would like to testify at a legislative hearing in Juneau on permanent fund legislation.

Public discussions on the permanent fund are set for Sept. 14 in Fairbanks, Sept. 15 in Anchorage, Sept. 16 in Kotzebue and Oct. 21 in Juneau.

The House committee plans work sessions Nov. 11 and 12 and Dec. 8 and 9, and by the last meeting, "We hope to have whatever bill or bills will be introduced in January," Doogan said.

The committee has signed a \$19,500 contract with Harvard Professor Belden Daniels to prepare a series of reports on other public development corporations, such as the Canada Development Corp. and Connecticut Development Authority, among others.

In addition, Daniels is to report on ways to regionalize the permanent fund and options "for insuring public accountability."

Another contract is being worked out with the University of Alaska's Institute for Social and Economic Research to come up with computer models of what the impact of various permanent fund investments would be on Alaska, in terms of employment and other factors.

Balance Is Nearly \$4 Million

The Alaska Permanent Fund, which came into being Feb. 22, now has a balance of nearly \$4 million, and has earned \$43,000 in interest, according to Deputy Commissioner of Revenue Jim Edenso. That income is solely from Cook Inlet oil and gas production.

Edenso reported on the permanent fund yesterday at a meeting of the House Permanent Fund Committee. He said a little over \$3 million has been invested in U. S. treasury notes, and another \$928,259.21 is in a savings account at the Bank of America, earning 5 per cent interest compounded daily.

The money is kept in a savings account until \$1 to \$1.5 million has accumulated to buy securities.

The legislature is considering bills to establish the structure and management of the Permanent Fund, which was authorized by the voters in a constitutional amendment. Until the decision is made, 25 per cent of the state's income from oil and gas royalties and bonuses will go into the fund and will be invested by the Department of Revenue.

Edenso said legislators had agreed to cooperate with the state administration in setting up the fund, "but they haven't been."

The House committee heard reports Friday from two consultants — University of Alaska economist Arlon Tussing and Harvard University professor Belden Daniels. Edenso said he had not been informed of either contract until he read about them in the newspaper.

The contract with Tussing, through the University of Alaska's Institute of Social and Economic Research, is for \$6,000. Daniels' contract is for \$7,000, including travel and expenses.

The Governor's Permanent Fund Advisory Committee spent several months last fall studying the structure and management of the fund and hired consultants from Price Waterhouse auditing firm and White Weld Co., international investment bankers, as well as local economist Robert Richards, before coming up with proposed legislation. Edenso said the legislature apparently wanted to "do their own thing" by hiring their own consultants.

Consultants See Aid To Small Business

By SUSAN ANDREWS
Times Staff Writer

The worldwide problem of financing for small and medium-sized businesses, especially in small and rural communities, is an area where Alaska's permanent fund could be useful, according to two consultants to the House Permanent Fund Committee.

Harvard University professor Belden Daniels said at a meeting here Friday that Alaska's regional native corporations are a unique resource, and he suggested that the permanent fund be regionalized to deal with the native corporations.

University of Alaska economist Arlon Tussing said "there is no need and no useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless there are grounds to subsidize that enterprise."

He said he has been able to identify only one function in which a new public financing source might function better than the private capital market, and that is in providing commercial credit and financing of small and medium scale industrial and commercial enterprises, in small communities and rural areas.

Tussing's report appears to recommend investing the permanent fund outside Alaska. He says that making capital more readily avail-

able at lower rates to Alaska enterprise generally could increase investment in all sectors of the state's economy, but there is no reason to believe it would lead to economic diversification or geographic dispersion, if that is a desirable objective.

"Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event," he said.

Daniels agreed there is private money available for large scale enterprises, and he said the state should ask why it is asked to provide equity or debt guarantees that could be handled by the marketplace. On the other hand, he said the state may want to intervene to change ownership in large ventures already in operation. That has happened in Canada, he said, where the Canada Development Corporation, created in 1971, now has assets of \$1 billion and owns a number of formerly foreign-owned, large-scale enterprises.

Daniels said he is "overwhelmed by the size and scope" of Alaska's permanent fund.

The permanent fund is potentially one of the largest development banks in the world, Daniels said, and will be one of the largest investment banks. "It has got to have the best management money can buy."

"You are faced with an absolutely unique situation," Daniels said. "There is nothing comparable

in Asia, Europe or the U. S. You have an extraordinary combination of resources in such a vast area with a low population."

Daniels urged caution on the part of Alaska policymakers.

"It is important to recognize the very real limits of the capacity of any state government to influence economic development within its boundaries," he said.

And he told them not to anticipate too much impact from the Permanent Fund. The state's general fund is more important to the overall economic development of the state than the permanent fund. By providing docks, for example, the general fund makes a fish processing industry possible.

"The punchline," he said, "is that you have the opportunity of enormous scale, either to waste or husband economic resources."

Daniels said he recommends no less than 40 per cent of the fund be invested in securities, and no more than 30 per cent in community development loans and loans to private businesses.

Daniels, who teaches development financing at Harvard, has been active in putting together both foreign and U. S. development banks.

No development bank, or financial intermediary, can create economic activity that isn't there origi-

nally, Daniels said. Such banks only operate on the supply side. "If there is no market, if costs are too high, the permanent fund won't help."

As an example, he cited the petrochemical industry. He said costs are too high in Alaska for products to be competitive on the worldwide market. "That may change," he added, "but there is nothing the permanent fund can do to lower costs to compete."

Subsidies are not the issue, Daniels declared. "Start by not subsidizing. Insist on market returns."

The only exception he recommended is for joint ventures with regional native corporations, where he recommends "differential costs to compensate for opportunity costs which would rightly lead them to invest outside the corporation."

Daniels recommended "regionalizing" part of the fund, with regional subsidiaries "operating under very strong direction from the fund's central management."

Daniels said planning is important to the success of the permanent fund, and there must be coordination between the permanent fund and the general fund. A fine start has been made, in House Bills 298 and 300, and

the issue now is to build on that start, with some method of coordinating the private market, the executive and legislative branches of government and the users.

Tussing told the committee that the permanent fund should not be used to finance a gas pipeline to tidewater.

Tussing, who advocates a gas pipeline through Canada, said a trans-Alaska gas line is "an idea — a vision which has become a religious thing in this state."

"North Slope gas should not go to tidewater," he said. "There is a lot of exploration to be done in Lower Cook Inlet and the Gulf of Alaska, and there are present uncommitted reserves in Cook Inlet."

A tidewater to Fairbanks gas line is more likely to carry gas north than south, he said.

He does not anticipate petrochemical industry as a result of a pipeline to tidewater. "There is no evidence that major gas using industries are waiting to be established in southern Alaska. Any sacrifice the state makes now in revenues or permanent fund earnings has to be assured of an awfully big reward in 25 years."

Policies will determine how much money made

The payoff that Alaska's Permanent Fund will provide for the state will come in the form of earnings from the fund's investments.

How large those earnings will be depends on the investment policies chosen by the legislature. The legislature could select high-yield investments to maximize profits or it could concentrate on investments that don't yield as high a profit, but provide other benefits, such as more jobs, a stronger economy or a cheaper source of fuel.

According to the constitutional amendment approved by the voters last fall, earnings from the fund's investments can be used for any purpose designated by the legislature, unlike the money that accumulates in the Permanent Fund itself, which must be placed in income-producing investments.

At meetings of the Alaska Public Forum this year and in late 1976, participants said the three top priorities for Permanent Fund earnings should be to reduce taxes, to make loans to develop renewable resource industries and to return it to the Permanent Fund for reinvestment.

Gov. Jay Hammond has proposed that half of the fund's earnings be distributed directly to Alaskan residents as dividend checks. According to Hammond, such a system would make the public more aware of how the state is spending its money and whether wise decisions are being made. Under Hammond's plan, residents who have been in the state for a minimum of five years would be made "shareholders" in the program he calls "Alaska, Inc."

The dividends "could more than offset the additional costs to most Alaskans now here of appropriate taxes to which we must begin to shift if we ever hope to start paying as we go," Hammond said.

The governor said the proposal is just a "blueprint," and adds that he would support other methods of equitably disbursing part of the fund's earnings.

The concept of Alaska, Inc. "is to permit us to do something that doesn't obligate us to give everybody and his brother who might want to come up here, an immediate piece of that pie."

Some legislators have said the fund could be used to reduce or even

eliminate taxes and have called Alaska, Inc. "a complicated way to reduce taxes or give a tax rebate."

Clark Gruening, D-Anchorage, chairman of the House Special Committee on the Permanent Fund, said the use of earnings from the fund is not the most important subject being discussed now. More attention should be given to what the fund's investment policies should be, he said.

It won't be until the 1980s that the Permanent Fund's investments start to produce a large amount of income for the state, he said.

Gruening also said the fund will never be large enough to eliminate personal taxes, but it could be used to produce a tax break. To replace the amount the state now collects in taxes from individuals, the fund would have to contain \$10 billion and earn 10 per cent interest, he said.

Other members of the House committee have taken the same position on uses of Permanent Fund earnings, choosing instead to concentrate on how the money should be invested to produce income for the state.

Legislative Hearings Bypass Capital City

House lawmakers have planned dozens of legislative hearings, meetings and symposiums this fall to gain citizen reaction on pending legislation. Few of the sessions, however, have been scheduled in the state's capital.

Lawmakers, who will be returning to Juneau Jan. 10 to open the second session of the tenth legislature, are skirting the capital this fall as the solicit comments from Ketchikan to Barrow and Sand Point to Fort Yukon on topics ranging from subsistence hunting to time zone changes.

The interim's most active committee, the House panel on the Alaska Permanent Fund, will be meeting in Juneau Oct. 21-22 to discuss the goals for the fund. The House committee, chaired by Rep. Clark Gruening, D-Anchorage, will hold the two-day hearings designed to gain citizen comments about the workings of the fund established by a constitutional amendment passed by voters last November.

Gruening, who will be chairing a permanent fund symposium this weekend in Anchorage, plans to draft his own version of a permanent fund bill late this fall for submission to lawmakers in January. The bill will compete with permanent fund legislation introduced by Gov. Jay Hammond earlier this year.

On Sept. 15, the Legislative Board of Retirement Benefits will meet in Juneau for a 9:30 a.m. meeting and Rep. Al Osterback, D-Sand Point, has scheduled one of seven planned symposiums on bottom fishing for Juneau Oct. 6. Rep. Lisa Rudd, D-Anchorage, will move her interim committee on taxation in unorganized boroughs to Juneau Nov. 2 for a

hearing on a bill requiring building permits for shore facilities.

Rep. Nels Anderson, D-Dillingham, also will visit Juneau Dec. 9 gathering testimony on subsistence hunting and fishing regulations for potential changes in legislation next session.

The state's Steering Council for Alaska Lands, chaired by Rep. Steve Cowper, D-Fairbanks, will skip Juneau with its meetings on the d-2 lands issue. That joint House-Senate committee is holding most of its meetings in Anchorage.

Rep. Charles Parr, D-Fairbanks, also will be waiting until January to get local reaction on a packet of bills calling for the reorganization of the University of Alaska. He will be holding hearings on the bills in Fairbanks, Kodiak and Anchorage in early October.

House State Affairs Committee Chairman Bob Bradley, D-Anchorage, will conduct hearings on his bill to limit the number of state employees and on resolutions calling for a unicameral legislature and on a bill calling for Southeast to move into the Yukon time zone. The hearings are scheduled for Ketchikan and Fairbanks next month.

Lawmakers also are scheduled to journey to Kodiak for a telecommunication hearing chaired by Rep. Fred Brown, D-Fairbanks; slated to go to northern parts of the state for hearings on bilingual education programs, chaired by Rep. Thelma Buchholdt, D-Anchorage; to Sitka for hydroelectric power hearings, chaired by Gruening; and to Delta Junction for hearings on a property tax bill for unorganized boroughs, chaired by Rudd.

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AUG 10 1977

Rader leaves Permanent Fund board

JUNEAU (AP) — Senate President John Rader has resigned his seat on the Senate Permanent Fund Committee, capital sources said today.

Rader, D-Anchorage, has appointed Sen. Frank Ferguson, D-Kotzebue, to replace him on the committee, the sources added.

The sources said Rader, who

suffers from a rare bladder ulcer, resigned because of a planned out-of-state hospital appointment which probably would interfere with his committee duties.

Neither Rader, Ferguson nor Sen. George Hohman, D-Bethel and chairman of the Senate committee, could be reached for comment.

Along with a like House committee, the Senate panel has been given the responsibility to draft legislation for submission to the 1978 session on management of the Alaska Permanent Fund.

Created by voters last year, the Permanent Fund is composed of at least 25 per cent of state oil and gas royalties and is expected to total \$5 billion by 1985.

Debate over who will control the fund and what the money will be used for will be one of the major issues in 1978 election-year Legislature.

Rader's resignation and Ferguson's appointment give rural interests a one-vote majority on the five-member Senate panel. In addition to Hohman and Ferguson, the committee also includes Senate Finance Chairman John Sackett, R-Galena. The other two members are Sens. Patrick Rodey, D-Anchorage, and Sumner, R-Anchorage.

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AUG 11 1977

Rader Resigns Seat On Senate Fund Panel

By The Associated Press

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ALASKA CLIPPING SERVICE

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News Miner
Fairbanks, Ak

AUG 30 1977

Permanent Fund committees diverge

By G. MICHAEL HARMON
Associated Press Writer

ANCHORAGE—Sharp differences in philosophy surfaced here Monday 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 announced 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 ever 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 Hohnman,

D-Ethel, has conducted its business without any public notice.

The philosophical differences were graphically illustrated during the Legislative Council meeting as Hohnman 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. 19 and public hearings in

(See, PERMANENT, page 5)

ALASKA CLIPPING SERVICE

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AUG 1 1977

Legislator Upset With Fund³¹ Advisor

ANCHORAGE (AP) — An agreement to pay a Juneau consultant \$115,000 to recommend how to set up the Alaska Permanent Fund may not give the Legislature sufficient control over the matter, says Sen. Pat Rodey, D-Anchorage.

Rodey, a member of the Senate's special committee on the permanent fund, said it's "too easy to allow special interest groups to formulate state policy if you use this approach."

But the committee's chairman, Sen. George Hohnman, D-Ethel, says Rodey's concerns

are not justified.

The committee will pay Dupere and Associates, Inc., to provide the committee with the basic research and policy recommendations to be presented to the Senate.

Three Hohnman assistants will work with Dupere, Hohnman said.

He said the contract will not prevent personal involvement by the committee.

"Our intention is to hold hearings," Hohnman said.

He said the Dupere firm was chosen for the study because it has 18 years of Alaskan experience.

SEP 12 1977

Suggestions vary for state's nest egg plans

By PAUL NUSSBAUM
Daily News Staff Writer

If Saturday's blue-ribbon symposium on the Alaska Permanent Fund proved anything, it is that there is precious little agreement on what should be done with the state's nest egg.

Four legislators, two prominent economists, and five specially selected panelists from around the state led a discussion on what the permanent fund should or shouldn't do, and by the time everyone had said his piece, conflicting suggestions ranging from abolition of the fund to state-owned oil companies to fund-operated development banks had been aired.

THE PERMANENT FUND, created last year by an overwhelming majority of state voters, now has about \$7 million in it from oil revenues, and it has generated about \$70,000 in interest. If the fund continued to be fueled with 25 percent of petroleum leases and royalties, as it is now, the state savings account will have about \$2 billion in it by 1995, according to current projections. In its efforts to come up with a workable plan for managing and investing the money, the state legislature set up two committees to find out what the public wants and needs and to report back to the Legislature in January with proposed legislation.

The House Committee on the Permanent Fund Saturday kicked off its poll of public opinion with a symposium that attracted about 40 persons — including a number of legislators and representatives of the federal administration — to the Anchorage Wardman-Hilton.

By the time the session was over, it was clear that the permanent

fund, popular though the concept of a savings account is, means many different things to Alaskans.

"THIS THING is driving a wedge between people," one committee staff member said after listening to hours of debate over the amount of money that should be placed in the fund, where it should be invested, and how it should be spread among residents. "It is splitting the state into armed camps."

Dr. Don Gordon, a professor of economics at Simon Fraser University in British Columbia and one of two Outside economists brought to the state for the symposium, told the gathering, "If you regard these resources as morally belonging to Alaskans, you should find some way to distribute the benefits to the people you consider Alaskans; otherwise, you might as well write a check for the full \$3 billion and send it to Jimmy Carter, because that's where it's going to go." The \$3 billion is the amount projected to be in the permanent fund by 1995 if all oil and gas royalties and leases were committed to the fund, rather than the current 25 percent.

And University of Maryland economist Dr. Barbara Bergman warned that the state cannot expect to use the permanent fund to generate the highest possible interest returns if it also expected to use the fund for economy — diversifying investments in Alaska.

"YOU'RE GIVING up something in either case," she said. "You have to ask who gets the benefits and who pays the costs."

Rep. Clark Gruening, chairman of the House Permanent Fund Committee, also noted problems built into subsidizing business or individual loans in Alaska with the permanent fund.

"To the extent to which the permanent fund becomes involved in the Alaska economy, the problem of distributing the subsidy equitably becomes greater," Gruening said. The Anchorage Democrat said using the state's general fund to set up special loan programs to meet special needs — as is done with a number of state loan programs now — might be wiser than using permanent fund money for that purpose.

UNIVERSITY OF Alaska

Anchorage chancellor John Lindauer, a member of the five-man panel, recommended giving Permanent Fund money to existing banks and financial institutions in Alaska at low interest rates for the banks to use in making low-interest loans to state residents "in special areas, such as housing."

Lindauer argued against making direct loans from the permanent fund, saying such loans would be too likely to attract bad risks, while good loan prospects would continue to go to traditional lenders.

Fellow panelist Tim Bradner, representing British Petroleum, warned that rural residents of the state are leary of the permanent fund, and he shared the fear that the fund which was designed to protect money for all state residents may end up dividing Alaska citizens, instead.

"The permanent fund will divide the state politically. There are differences of direction between urban Alaskans and rural Alaskans," Bradner said. "Rural Alaskans see the permanent fund as more of an urban benefit — they are worried that the fund may shortchange current programs for the rural areas."

Bradner and Lindauer were joined on the panel by Juneau economist Dr. George Rogers, former Atty. Gen. John Havelock, and Alaska Public Interest Research Group director James Love. Legislators on the program with Gruening were fellow House Democrats Russ Meekins and Bill Miles and Anchorage Democratic Sen. Pat Roddy, vice chairman of the Senate Permanent Fund Committee.

House and Senate of Alaska fund management

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

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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. 11, Anchorage Sept. 15 and Kotzebue Sept. 16. A formal committee meeting was scheduled for Sept. 17 in Anchorage.

Mike Daogen, 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 1993.

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. Arlen Tunsing of the University of Alaska and Dr. Deldon Daniels of Harvard University for about \$50,000.

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 1993.

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

Others, however, have recommended that the per-

manent fund should be loaned to Alaska for business ventures or to municipalities in the state.

In another report, Robert Merritt, a consultant to the legislature's telecommunications committee, complained about the reliability of earth stations provided by California Microwave Inc. for the state's satellite demonstration project.

Merritt reported that the earth stations are failing after about 1,200 hours.

"This is totally unacceptable

and I have suggested that we may have to consider legal action if dramatic improvement is not immediately forthcoming," Merritt said in his report. "At the present rate of failure every piece will be recycled in six months."

Merritt said the Governor's Office of Telecommunications wants to place instruments at several bush earth stations to provide a continuing measure of performance, but has run into problems with RCA Alascom.

"At this time RCA management

has not agreed to support the testing program," Merritt said. "In fact, they have not replied to letters requesting a reply to letters asking for their position concerning the program."

In council votes, lawmakers boosted the budget of the Interim Resources Committee by \$7,000 for increased travel requirements and appropriated \$10,000 for an emergency study of the tourist impact on Skagway from completion of the Carcross-Skagway highway.

ALASKA
SENATE
RODIAK VIKING
KODIAK, ALASKA

Interim conference committees

Planners for fund meet today

A special legislative committee charged with drawing up a plan for the future of Alaska's permanent fund opens two days of meetings today, ready to examine proposals which differ sharply from those introduced during the 1977 legislative session.

The House Special Committee on the Permanent Fund will meet for the first time since the legislature ended at 1:30 p.m. in the jury room of the Alaska Court Building.

A 22-PAGE booklet prepared for public distribution outlines a cautious willingness to junk earlier proposals for a management body in favor of giving more control of the nest egg directly to the legislature.

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

A plan introduced by Gov. Jay S. Hammond during the legislative session would have set up a sort of development bank to manage the permanent fund, with members appointed by the governor and confirmed by the legislature.

ALREADY, much of the debate seems certain to revolve around whether the governor or the legislature should have more control of the investment of the billions that will flow into the fund as a constitutionally mandated portion from oil and gas royalties and bonus sales.

Two consultants hired by the House committee will present studies during the two-day session. Alaska economist Dr. Arlon Tussing of the Institute of Social and Economic Research at the University of Alaska will unveil a 36-page study which concludes that permanent fund loans to business in the state will not diversify the economy unless subsidies are provided.

And Belden Daniels, a Massachusetts finance and development specialist, will warn the committee to be careful about setting up a development bank approach to the permanent fund.

7-16-77 Daily Permanent fund uses explored

The new Alaska Permanent Fund, which is expected to house at least \$1.8 billion by 1985, should not be used to supplant traditional banking institutions in the state and should be considered as one arm of a comprehensive, coordinated state financial plan, two economic consultants told legislators Friday.

In the first meeting of the legislative committees designed to put together a plan for structuring the permanent fund and its use, legislators were warned not to expect the permanent fund to solve Alaska's economic future by itself.

"THE EYE OF the legislature ought to be much more on how much money goes into the permanent fund and a little less on what kind of investment portfolio it has," University of Alaska economist Arlon Tussing told the House Special Committee on the Permanent Fund Friday. "The most effective use of the permanent fund is to control what is available in the general fund."

And Massachusetts banking expert Belden Daniels said in a prepared report the permanent fund "represents a unique and bold opportunity to rethink not only the function of a state government as a stimulator of overall economic activity, but also the very structure of state government as a public enterprise."

Daniels, like Tussing, urged that the permanent fund not be viewed by itself, but be examined as part of the overall financial picture for Alaska.

STATE VOTERS last year authorized the establishment of a permanent fund which will hold at least 25 per cent of oil and gas royalties and bonus payments. The money is to be invested in money-making projects, with the interest to be funneled back into the general fund or used in any other manner eventually chosen by the legislature.

How to set up the permanent fund, and what uses to make of the money in the fund will be major issues in the 1978 legislature, as well as in the remaining 5½ months before the legislators return to Juneau.

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2 permanent funds?

31

Legislators mull plan to split state's nest egg

By PAUL NUSSBAUM
Daily News Staff Writer

The Alaska Permanent Fund, faced with demands to loan money for state development while at the same time earning the highest possible return, may be split into separate funds to satisfy both goals.

One proposal being considered by a special House committee on the permanent fund would set up a trust fund and a development fund. The trust fund would be designed to make high-return, safe investments with its chief goal high income for the state savings account. The development fund, on the other hand, would concentrate on investments in Alaska — such as home loans or major local improvements.

BRAINSTORMING after a public hearing in

Anchorage Thursday, members of the House Committee on the Permanent Fund and committee consultant Belden Daniels refined the split fund notion into a proposal that is likely to be the basis for legislation presented to state lawmakers early next year.

Demands on Alaska's Permanent Fund, expected to hold at least \$2 billion from oil royalties and bonuses by 1993, could turn the state nest egg into a huge pork barrel for pet projects if legislation for its management is not carefully drawn, legislators fear. Testimony Wednesday in Fairbanks, and Thursday in Anchorage showed little consensus among state residents, and the House committee is likely to hear a similarly wide range of suggestions when it travels to Kotzebue Friday for more public hearings.

"I think the pit is bottomless," committee chairman Rep. Clark Gruening, D - Anchorage, said after Thursday's hearing. Gruening has consistently stressed that many of the demands on the permanent fund would more properly be met by the state's general fund and existing loan programs.

A DEVELOPMENT bank — to meet these kinds of demands — could be set up with an initial grant from the trust fund, the committee decided. A portion of the permanent fund could be dedicated each year to the development fund until the development fund had \$100 million in it. It would not go into the money-losing business until it had that much cash, according to the proposal considered Thursday by committee members.

(Continued on Page 7)

ALASKA CLIPPING
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Anchorage Daily
News
Anchorage, Ak

SEP 16 1977

State's nest egg may be split

(Continued from Page 1)

bers. One of the key worries of legislators is that the two funds be separated so that money from the proposed trust fund is not siphoned directly into the development fund.

"We're talking about building this house with a thick wall in the middle. If we're not satisfied with that, we can build two different houses," committee aide Mike Deegan said.

GRUENING SAID the committee hopes to have draft legislation prepared by October 20, when the panel holds its final public hearing in Juneau.

Under the split-fund proposal under consideration by the committee the trust fund could be managed by three separate professional investment companies. After a given period, say five years, the per-

formance of the investors would be assessed, and the company with the poorest record of managing the state's trust fund would be replaced.

The question of who watches the investors, though, is a worrisome one for the lawmakers preparing permanent fund legislation. Legislators are leery of placing all control in the hands of the executive branch, and the outcome may be a new standing committee in the legislature to share review responsibilities with the administration.

WHAT HAPPENS to the income

produced by investment of the Permanent Fund — either by the proposed trust fund or the proposed development fund?

Legislators face at least three possible answers: Put the interest the fund earns back into the Permanent Fund; put the interest into the state general fund, or distribute the interest among state residents. Gov. Jay S. Hammond is pushing for distribution of "dividends" from a so-called Alaska, Inc., with residents who meet as-yet-unspecified residency requirements eligible for payments every year from the fund.

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Anchorage Daily

Times

Anchorage, Ak.

SEP 1 0 1977

State Fund Could Invest In Utilities

The possibility of state permanent fund investment in private utilities within Alaska was discussed here Thursday at a meeting of state revenue officials and representatives of private utility associations.

Also present was Dave Rose, Anchorage assemblyman and head of the Anchorage municipal bond bank.

Jim Edenso, deputy commissioner of revenue, who called the meeting, said he anticipates one more such meeting early in October. The Revenue Department is preparing a report on utilities as possible investment opportunities, to be presented at a Southeastern Hydro Power Conference at Sitka Oct. 13 and 14.

Edenso said the utilities have been asked to give the state an outline of their estimated capital requirements over the next 10 years.

Dams are a separate issue, Edenso said. "We will be meeting with the Alaska Power Authority on that subject."

Edenso said he is trying to meet with many different interest groups to come up with suggested goals of the permanent fund, which had a balance of \$7 million at the end of August. The fund now is derived from 25 per cent of the state's income

from oil and gas royalties and bonuses. The legislature can increase the percentage of contribution.

"We will look at community-type, local investments as well as private sector investments," Edenso said.

Rep. Clark Gruening's House Permanent Fund Committee is holding a series of public discussions on the fund, beginning with one today at the Anchorage Westward Hilton. Edenso said his department now has a good relationship with the legislative committee. "We are exchanging ideas and information very well," he added.

Sen. George Hohman's Permanent Fund Committee has hired Bob DuPere as its consultant. Lombard and Wall, a New York firm, is a subcontractor reviewing the state treasury division's operations and how the division now is managing the state's investment program, including interim management of the permanent fund.

Several state departments are

contributing to the study of objectives of the permanent fund, Edenso said, including Commerce and Economic Development, Labor and the division of policy development and planning.

The administration already has introduced a permanent fund bill, and bills will probably be introduced in both the House and Senate next session.

Southwest Alaska
Empire
Juneau, Alaska

AUG 30 1977

Split Personalities

By G. MICHAEL HARMON
Associated Press Writer

ANCHORAGE (AP) — Sharp differences in philosophy surfaced here Monday 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 announced 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 ever 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 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

a Permanent Fund?

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 inven-

tory 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 percent 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.

In another report, Robert Merritt, a consultant to the legislature's telecommunications committee, complained about the reliability of earth stations provided by California Microwave Inc. for the state's satellite demonstration project.

Merritt reported that the earth stations are failing after about 1,200 hours.

"This is totally unacceptable and I have suggested that we may have to consider legal action if dramatic improvement is not immediately forthcoming," Merritt said in his report. "At the present rate of failure every piece will be recycled in six months."

Merritt said the Governor's Office of Telecommunications wants to place instruments at several bush earth stations to provide a continuing measure of performance, but has run into problems with RCA Alascom.

"At this time RCA management has not agreed to support the testing program," Merritt said. "In fact, they have not replied to letters requesting a reply to letters asking for their position concerning the program."

Readers write...

DAILY NEWS 9/21/71

Permanent trust

Dear Editor:

An idea originating in the House Committee on the Permanent Fund to have a "trust fund" and a "development fund" makes good sense. The discussion of this idea among committee members last Thursday after hearing testimony in Fairbanks and Anchorage seems to me to be more significant than all the ideas proposed for use of permanent fund money—even though I testified, too, and thought what I said was pretty good.

The committee idea honors the core concept of the permanent fund: to handle funds available from transforming wealth in barrels of oil into dollars so as to produce the effect of a perpetual non-diminished renewable resource.

The wording of the constitutional provision that no less than a quarter of certain petroleum revenues shall be saved states only that "... the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments" It is a question of interpretation as to how far we can go below handling the money to produce the highest possible return and still be consistent with the basic economic intent of the permanent fund.

I have been engaged in vigorous debate over a public policy to foster individual independence. A key feature of

this seems to be to make low interest easy term loans to the "little people" such as homesteader-farmers, dad and mom sawmills, or one family seafood canneries, for example. Assuming a strong favorable public sentiment in this direction, should one per cent interest loans be available if this is what it would take to permit making "a decent living" in the face of the economic handicaps of smallness? Whatever might be said in support of the social purpose intended, I suggest it could reasonably be contended that such a program would violate the intent of the permanent fund.

If the foregoing view is not essentially sound, the Legislature could decide to lend communities one-tenth of one per cent interest money to build havens for battered wives. It can be said that this is a good social purpose. So is art.

The basis for the permanent fund is essentially economic, i.e., to help strengthen the viability of the society. In the absence of language in the law indicating that the productivity of the fund can be watered down at will to serve an endless variety of social purposes we certainly shouldn't leave the doors wide open in this direction.

There are undoubtedly some investments to be made at less than maximum return that will be good risks to produce favorable economic results over the life of a loan. A hydro-electric power project may be an example. To illustrate: Assume the Prudhoe Bay oil at the current \$14.60 a barrel means that diesel fuel to generate electricity is 4 cents per KWH. If the price of oil goes up an average of 6 per cent a year, the price per barrel in 12 years is \$29.20 and the diesel fuel cost is 8 cents per KWH. If the hydro project needs a low interest rate on money to build now and compete with diesel generated power, the interest rate can be escalated 100 per cent in 12 years and the hydroelectric production can still be on a par with diesel power. This is an oversimplification but it indicates a basis of reasoning as to economic justification.

If an enterprise needs money value concessions permanently in order to stay in business, it would appear that the balance sheet with the state is in the red, that is, the enterprise can't pay its bill toward the cost of public services for the people that its operation accounts for. It is difficult to see any justification for investment of permanent fund money at a low interest rate, or for any other money value concession in such a situation. This is, of course, a generalization that won't fit every case as there are so many calculations involved in determining whether there is an overall economic balance.

We can be grateful to the Permanent Fund Committee members for their common sense efforts to insulate Permanent Fund monies committed to the basic economic purpose of producing the best return possible from a "development fund." There might be \$100 million set aside in the development fund out of about \$2 billion in the "trust fund" part of permanent fund money in 1985. This figure is being discussed by the committee.

I think the \$2 billion is far less than the overall permanent fund saving can and should total by 1985. There will be ample revenues beyond current normal needs to accomplish this. I suggest that the people with all sorts of proposals for permanent fund investments should make a concerted effort to persuade the Legislature to increase the amount set aside from certain petroleum revenues far above the 25 per cent required by law. This can be more productive in the long run than just advocating favorite purposes, which may be high risk and the returns very low.

The "development fund" idea will permit a manageable departure from strict adherence to economic purity in permanent fund policy. Operating within a cautiously established limit for the development fund we can, in four or five years, measure how well the overall public good is being served by various investments.

Harold E. Pomeroy

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FRONTIERSMAN
Palmer, Alaska

SEP 8 1977

Symposium to discuss Permanent Fund goals

A symposium on the goals of the Permanent Fund will be held in Anchorage on Saturday, Sept. 10. The symposium is a joint effort of the Alaska Humanities Forum and the House Permanent Fund Committee, and will begin at 9 a.m. in the Alaska room of the Anchorage Westward Hilton.

Permanent Fund Committee Chairman Clark Gruening says the purpose of the symposium is to discuss the various potential uses for the Permanent Fund money and the implications of those used.

Taking part in the symposium will be two renowned economists who have been evaluating the issues involved with the Permanent Fund.

Presenting the conservative economic viewpoint will be Dr. Don Gordon, a U.S. and Canadian legislative advisor and professor of economics at Simon Fraser University, in Vancouver, British Columbia. On the liberal side, economist Dr. Barbara Borgman from the University of Maryland will give her evaluation of the Permanent Fund's prospects.

On hand to question the two economists will be a citizens' panel of local residents already involved in shaping the future of the Permanent Fund.

The public will be invited to make comments and ask questions during the discussion.

Outside Economists To Lead Permanent Fund Discussion

Two Outside economists will discuss possible uses of Alaska's permanent fund at a symposium here Saturday in the Alaska Room of the Anchorage Westward Hilton Hotel.

The day-long session, open to the public, is co-sponsored by the House Permanent Fund Committee and the

Alaska Humanities Forum.

Coming from the University of Maryland will be economist Barbara Bergman, and here from Simon Fraser University in British Columbia will be economist Donald Gordon.

Following their presentations, a

citizens' panel will give its comments on the suggestions for the permanent fund.

Panel members will include John Havelock, former state attorney general; Dr. John Lindauer, an economist and chancellor of the University of Alaska, Anchorage; Jamie Love, executive director of the Alaska Public Interest Research Group, and George Rogers, economist formerly with the University of Alaska's Institute for Social and Economic Research and now retired. A fifth member is still to be named.

The speakers also will answer questions from the audience. Mike Doogan, committee staff member, said the aim is to have "as little formal structure and as much discussion as possible."

The symposium is the first in a series of House committee-sponsored public discussions on alternative uses of the permanent fund. Additional public meetings are set for Sept. 14 in Fairbanks and Sept. 15 in Anchorage.

The Anchorage meeting will begin at 10 a.m. in Room 402 of the Boney Memorial Court Building.

On Sept. 16, the House committee plans a public hearing in Kotzebue, with a committee meeting to follow on Sept. 17.

State Net Of Slope \$9 Billion

The state is likely to earn nearly \$9 billion from North Slope oil and gas production over the next seven years, with total revenues of \$14.6 billion, under a "medium income-medium expense" model prepared by the state Legislative Affairs Agency.

The study shows that if 100 per cent of oil and gas royalties and bonuses collected between 1978 and 1985 went into the new Permanent Fund, the general fund would still have a surplus of \$1.5 billion by the end of fiscal year 1985.

Estimates of state revenues based on low, medium and high income and expense models were presented yesterday to the House Permanent Fund Committee, which is considering what percentage of royalties and bonuses should go into the permanent fund.

Under the low income-high cost model, North Slope income would be \$5.7 billion between 1978 and 1985. A third model, with high income-low expenditures, shows income from the North Slope at \$11.7 billion during the seven-year period.

The income estimates are conservative estimates because they are based on Prudhoe Bay production of 1.2 million barrels a day from 1978 through 1985.

Suggestions vary for state's nest egg plans

By PAUL NUSSEBAUM
Daily News Staff Writer

If Saturday's blue-ribbon symposium on the Alaska Permanent Fund proved anything, it is that there is precious little agreement on what should be done with the state's nest egg.

Four legislators, two prominent economists, and five specially selected panelists from around the state led a discussion on what the permanent fund should or shouldn't do, and by the time everyone had said his piece, conflicting suggestions ranging from abolition of the fund to state-owned oil companies to fund-operated development banks had been aired.

THE PERMANENT FUND, created last year by an overwhelming majority of state voters, now has about \$7 million in it from oil revenues, and it has generated about \$60,000 in interest. If the fund continued to be fueled with 25 percent of petroleum leases and royalties, as it is now, the state savings account will have about \$2 billion in it by 1985, according to current projections. In its efforts to come up with a workable plan for managing and investing the money, the state legislature set up two committees to find out what the public wants and needs and to report back to the lawmakers in January with proposed legislation.

The House Committee on the Permanent Fund Saturday kicked off its poll of public opinion with a symposium that attracted about 40 persons — including a number of legislators and representatives of the Hammond administration — to the Anchorage Westward-Hilton.

By the time the session was over, it was clear that the permanent

fund, popular though the concept of a savings account is, means many different things to Alaskans.

"THIS THING is driving a wedge between people," one committee staff member said after listening to hours of debate over the amount of money that should be placed in the fund, where it should be invested, and how it should be spread among residents. "It is splitting the state into armed camps."

Dr. Don Gordon, a professor of economics at Simon Fraser University in British Columbia and one of two Outside economists brought to the state for the symposium, told the gathering, "If you regard these resources as morally belonging to Alaskans, you should find some way to distribute the benefits to the people you consider Alaskans; otherwise, you might as well write a check for the full \$8 billion and send it to Jimmy Carter, because that's where it's going to go." The \$8 billion is the amount projected to be in the permanent fund by 1985 if all oil and gas royalties and leases were committed to the fund, rather than the current 25 percent.

And University of Maryland economist Dr. Barbara Bergman warned that the state cannot expect to use the permanent fund to generate the highest possible interest revenue if it also expected to use the fund for economy-diversifying investments in Alaska.

"YOU'RE GIVING up something in either case," she said. "You have to see who gets the benefits and who pays the costs."

Rep. Clark Gruening, chairman of the House Permanent Fund Committee, also noted problems built into subsidizing business or individual loans in Alaska with the permanent fund.

"To the extent to which the permanent fund becomes involved in the Alaska economy, the problem of distributing the subsidy equitably becomes greater," Gruening said. The Anchorage Democrat said using the state's general fund to set up special loan programs to meet special needs — as is done with a number of state loan programs now — might be wiser than using permanent fund money for that purpose.

UNIVERSITY OF Alaska

Anchorage chancellor John Lindauer, a member of the five-man panel, recommended giving Permanent Fund money to existing banks and financial institutions in Alaska at low interest rates for the banks to use in making low-interest loans to state residents "in special areas, such as housing."

Lindauer argued against making direct loans from the permanent fund, saying such loans would be too likely to attract bad risks, while good loan prospects would continue to go to traditional lenders.

Fellow panelist Tim Bradner, representing British Petroleum, warned that rural residents of the state are leery of the permanent fund, and he shared the fear that the fund which was designed to protect money for all state residents may end up dividing Alaska citizens, instead.

"The permanent fund will divide the state politically. There are differences of direction between urban Alaskans and rural Alaskans," Bradner said. "Rural Alaskans see the permanent fund as more of an urban benefit — they are worried that the fund may shortchange current programs for the rural areas."

Bradner and Lindauer were joined on the panel by Juneau economist Dr. George Rogers, former Atty. Gen. John Havelock, and Alaska Public Interest Research Group director James Love. Legislators on the program with Gruening were fellow House Democrats Russ Meekins and Bill Miles and Anchorage Democratic Sen. Pat Rodey, vice chairman of the Senate Permanent Fund Committee.

PF news clips

Development options are topic of symposium

Both the opportunities and the problems associated with future economic development in Anchorage will be discussed at a symposium at the University of Alaska Performing Arts Center Tuesday.

Sponsored by the Anchorage Economic Development Commission, the symposium on "Economic Development Options for Anchorage" will feature such speakers as former Commissioner of Commerce and Economic Development Tony Motley, former Gov. Walter Hickel, and President of the Alaska Federation of Natives Byron Mallot. Economist Bob Richards and Dr. Howard Slack, vice-president and resident

manager of Atlantic Richfield Co., will also participate in the event.

Sessions will begin at 8:30 a.m. and last all day. The public is invited.

The agenda for the symposium, which will be moderated by Dr. Hayden Green of the university, includes:

—8:30 a.m. Opening remarks by Mayor George Sullivan;

—9:30 to noon. A panel discussion on the future of the major sectors of the Alaska economy featuring Slack, Motley and Mallot;

—1:30 p.m. An Outside view of Anchorage development options and potentials, featuring Dr. Charles Leven, director of the Institute of

Urban and Regional Studies at Washington University;

—2:15 p.m. The response of the business sector to the future growth potential, featuring Hickel;

—3 p.m. A panel discussion on policy suggestions for the future growth of Anchorage. Participants will include Dr. Garth Jones of the university's division of business, Dr. Will Jacobs, a historian at the university, Dr. Kerry Feldman, an urban anthropologist at the university, Peg Tileston of the Alaska Center for the Environment, Mike Meehan, Planning Director for the Municipality of Anchorage, Dick Eakins, director of the Division of Economic Enterprise, and Dr. Charles Leven.

A public discussion at 4:30 p.m. will conclude the all-day event.

ALASKA CLIPPING SERVICE

Ketchikan Daily
News
Ketchikan, Ak

AUG 11 1977

Rader resigns seat

JUNEAU (AP) — Senate pointed Sen. Frank Ferguson, President John Rader has resigned his seat on the Senate Permanent Fund Committee, the sources said today.

Rader, D-Anchorage, has ap-

The sources said Rader, who suffers from a rare bladder ulcer, resigned because of a planned out-of-state hospital appointment which probably would interfere with his committee duties.

Neither Rader, Ferguson nor Sen. George Hohman, D-Bethel and chairman of the Senate committee, could be reached for comment.

Along with a like House committee, the Senate panel has been given the responsibility to draft legislation for submission to the 1978 session on management of the Alaska Permanent Fund.

ALASKA CLIPPI

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Anchorage Dai
Times

Anchorage, Ak

AUG 18 1977

House Panel To Seek Views On Use Of Permanent Fund

The House Permanent Fund Committee plans to go all out in the next few months to find out what Alaskans want their new permanent fund to accomplish. The panel's aim is to come up with proposed legislation by December.

The state administration has introduced a bill for setting up the fund, which followed months of meetings and hearings by the Permanent Fund Advisory Committee.

But the legislature intends to do its own research and both the House and the Senate have \$185,000 to spend on consultants to help them. By January, it is likely that in addition to the administration's bill, there will be a House bill and a Senate bill.

The House committee this week intends to mail out 2,000 brochures to Alaskans giving the background of the permanent fund and its objectives. The brochures include a series of seven questions, which the committee is asking people to answer and mail in.

The questionnaires ask suggestions for types of investments and ask what would be the objectives of those investments — as well as what objectives would be avoided.

Other questions ask which groups would benefit from those suggested investments and what groups are likely to oppose it.

In addition, the questionnaire asks suggestions for management of the fund.

Three other questions concerning the permanent fund have been proposed to be included in the Alaska Public Forum, at meetings to be held throughout the state this fall.

These questions ask how much money should go into the fund, whether investments should be emphasized within the state or Outside and which renewable resour-

ces should the fund be used to encourage.

The Growth Policy Council, which oversees the public forum, is to consider the questions, as well as proposed forum questions on other topics, at meetings today and tomorrow at the Captain Cook Hotel.

The House committee doesn't intend to leave the public hearings to the state administration, however. It is planning its own series of public meetings this fall, beginning with a proposed symposium in early September.

Economist John Kenneth Galbraith was invited to speak at the symposium, but yesterday he declined. House committee staffer Mike Doogan said Galbraith indicated he would like to testify at a legislative hearing in Juneau on permanent fund legislation.

Public discussions on the permanent fund are set for Sept. 14 in Fairbanks, Sept. 15 in Anchorage, Sept. 16 in Kotzebue and Oct. 21 in Juneau.

The House committee plans work sessions Nov. 11 and 12 and Dec. 8 and 9, and by the last meeting, "We hope to have whatever bill or bills will be introduced in January," Doogan said.

The committee has signed a \$19,500 contract with Harvard Professor Benden Daniels to prepare a series of reports on other public development corporations, such as the Canada Development Corp. and Connecticut Development Authority, among others.

In addition, Daniels is to report on ways to regionalize the permanent fund and options "for insuring public accountability."

Another contract is being worked out with the University of Alaska's Institute for Social and Economic Research to come up with computer models of what the impact of various permanent fund investments would be on Alaska, in terms of employment and other factors.

Local Residents Offer Permanent Fund Ideas

Anchorage residents yesterday urged the House Permanent Fund Committee to consider investing the new fund in power projects, agriculture, cultural facilities and the arts.

People in Fairbanks, testifying at a hearing Wednesday, suggested projects ranging from collecting artifacts to studying the bowhead whale.

Only Harold E. Pomeroy from Kenai presented ideas that appear to agree with several committee members' thinking: that the permanent fund should not become another general fund, and the emphasis should be on conservation of the principle and earning the highest possible earnings from investments.

As oil wealth declines, Pomeroy said, the permanent fund will bear the responsibility of supplementing the general fund through income from its investments, "barring some unpredictable windfall."

Based on his observation since the organization of the Kenai Peninsula Borough, Pomeroy told the committee, it is "pure illusion" to think that economic expansion will cure unemployment.

"The pressure newcomers just never lets up. New enterprises and

increased economic activity seem to offer enough attraction to keep the pressure on."

Whatever policy the state may pursue that stimulates economic development, Pomeroy said, it should be done without the expectation that it will lead to full employment or even reduce unemployment.

Pomeroy said probably the most important statement in the House committee's preliminary report is, "If no in-state opportunities exist, the permanent fund cannot create them."

In other words, he said, "If the requisite conditions for economic viability are not present, the state cannot buy them. Further, as a general proposition, if requisite conditions are present, money is available and the state need not go into the financing business separately.

"This of course excludes some social purpose which might be deemed worthy," he added. "Any action in this direction should be based on a clearcut identification of the results to be produced and the costs involved."

Petroleum revenues are a "central reality" to which the state must relate thinking and projections for

the future, Pomeroy said. "The significance is in the sheer magnitude of money."

"At the present rate of oil production from the giant (by Outside standards) Cook Inlet-Kenai Peninsula field, it would take 150 years to produce as much oil and gas as will flow from Prudhoe Bay in about 20 years."

The state is now disbursing close to \$1,000 per person per year more than it takes in, exclusive of petroleum revenues, he said.

State Rep. Joe Orsini, R-Anchorage, who was concerned about accountability for management of the permanent fund, suggested here yesterday morning that the fund's managers be elected. That suggestion was greeted with less than enthusiasm by other legislators. "Do we need a second legislature?" state Rep. Clark Gruening, the committee chairman, asked.

Betzi Woodman suggested that the income from the permanent fund be used to construct cultural facilities, and Paul Brown wanted the fund to be used for the arts and to encourage private businesses to beautify the cities.

Marjorie Wooster said she hopes the state will stress the development

of agriculture over the next 10 to 15 years. "Alaska is in a delicate position, with nearly all its food shipped it," she said. The permanent fund could help establish processing and marketing facilities.

Gruening asked her if she believes that Matanuska Valley products could compete with products shipped in, given adequate capital.

"We may be forced into feeding ourselves by the energy crisis," she replied.

Rep. Kuss Meekins D-Anchorage, said according to testimony presented in Fairbanks, Alaska agriculture now could feed 4 percent of the state's population. Ms. Wooster said that could be increased to 15 to 20 percent, "with stimulation."

Meekins pointed out that the state's already-existing Renewable Resources Development Fund might be more appropriate for providing loans to agriculture.

Gruening said 12 of 31 state loan programs on the books are active, and last year they loaned \$115 million.

"People voted intuitively for something different," the Anchorage Democrat said, when they voted to establish the permanent fund.

The House committee is moving toward a trust approach to the fund, Gruening said, and its proposed legislation is to be ready by December.

The administration's bill, by contrast, is "more liberal," Meekins said, and would make the permanent fund a development bank.

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House, Senate panels differ on fund plans³¹

By The Associated Press

Sharp differences in philosophy surfaced here Monday 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 announced 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 ever 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 Lehman, D-Etchell, has conducted its business without any public notice.

The philosophical differences were graphically illustrated during the Legislative Council session.

House committee members clipped out the term for an "unannounced" meeting.

A committee member suggested the panel should have a "public hearing" and "not a closed-door session" from which the public is excluded.

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.

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. Arlen Tussing of the University of Alaska and Dr. Gordon Daniels of Harvard University for about \$30,000.

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Symposium today in Anchorage on fund

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ANCHORAGE (AP) — A symposium on the goals of Alaska's Permanent Fund is scheduled Saturday by the Alaska Humanities Forum and the House Permanent Fund Committee, officials said.

Committee chairman Clark Gruening said the symposium will examine various potential uses for the state funds and the implications of those uses.

Two economists who have been evaluating the issues will take part in the discussion Saturday. Dr. Don Gordon, a U.S. and Canadian legislative advisor and a professor of economics at Simon Fraser University in British Columbia, will present the conservative viewpoint, a release from the committee stated. Dr. Barbara Bergman of the University of Maryland will present the liberal side of the issue.

A panel of local citizens will question the two economists. Panel members will include Dr. George Rogers, former economist from the Institute of Social and Economic Research; director John Havelock of the University of Alaska's Criminal

Justice Center; Chancellor Dr. John Lindauer of the UA-Anchorage; director Jamie Love of the Alaska Public Interest Research Group, and a member of the State Investment Advisory Committee.

The public is invited to join that discussion.

A series of public meetings is scheduled by the committee after the symposium. Sessions

are scheduled in Fairbanks on Sept. 14, in Anchorage on Sept. 15, and in Kotzebue on Sept. 13 and 17. A hearing in Juneau is scheduled on Oct. 21.