

SCOMM

#9:108

# Alaska Economics

by Robert Richards

*"Despite Alaska's immense geographic size, its economy is tiny..."*

ALASKA IS A FABULOUS economics laboratory. The state's huge size would cover twenty percent of the land area of the "south forty-eight." If you superimposed Alaska on the contiguous United States, placing Point Barrow, Alaska's most northerly point, over International Falls, Minnesota, Ketchikan would be in Florida; Kodiak in southcentral Alaska would be over Oklahoma City; and Adak, out on the Aleutian Chain, would touch San Diego. It takes as long to fly from Anchorage to Juneau as it does to fly from Seattle to San Francisco, or from Houston to Atlanta, or from Chicago to New York. This vast area, which reaches across four time zones, is the storehouse of rich natural resources that underlie Alaska's huge potential for economic growth.

Despite Alaska's immense geographical size, its economy is tiny. Alaska is actually the smallest state in the Union by population. The entire state of Alaska has about as many people as Austin, Texas, or Peoria, Illinois, or Albuquerque, New Mexico. Alaska's major industry is government. Federal, state and local government provide 39 percent of the jobs in Alaska. Government employment has twice the impact in Alaska as in the nation as a whole.

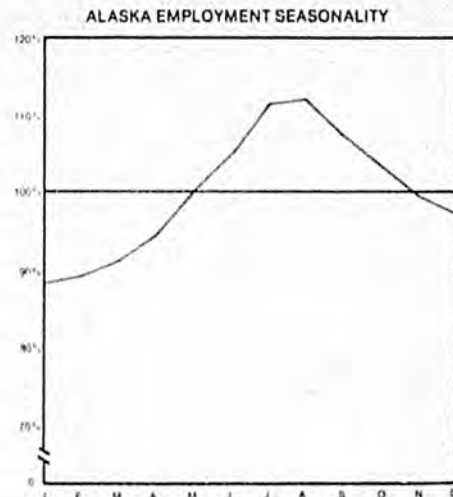
Alaska's major *basic* industries are petroleum, construction, forest products, fishing, tourism, and hardrock mining.

Most of these basic industries, in-

cluding government, are labor-intensive. Two exceptions are construction, which is only moderately labor-intensive, and petroleum production, which is highly capital-intensive.

Three-fourths of the jobs in Alaska are provided by the government and distributive sectors.

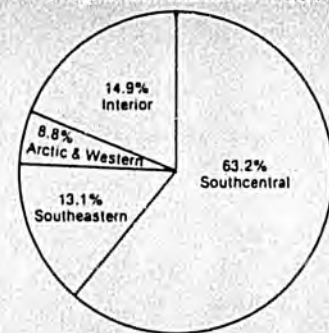
Alaska's economy is also seasonal. The chart below is an index of



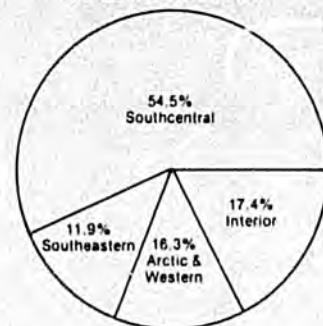
monthly employment levels in Alaska, stating the *average* level of employment during the year as 100 percent. The chart is based on 1972 and 1973 data to avoid distortions that were created by the seasonal employment pattern of the trans-Alaska oil pipeline project. Clearly, from the chart, Alaska's economy is highly seasonal, with employment peaking in August and bottoming in January. The chart implies that May and November tend to be months of "average" employment levels.

Alaska's economy also has significant regional disparity. Nearly half the state's population lives in Anchorage, the state's commercial center. Comparing the two charts below reveals that the Southcentral and Southeastern regions have the

GROSS STATE PRODUCT BY REGION



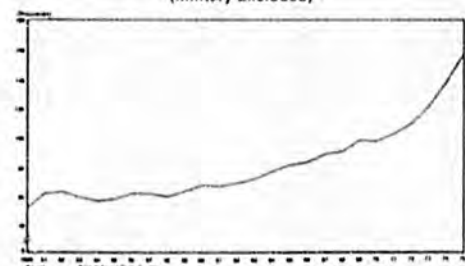
POPULATION BY REGION



higher gross product per capita. The Interior, Arctic and Western regions have the lower gross product per capita.

Certain regions of Alaska—particularly Western and Southeastern, which are dependent upon the fishing, forest products, and tourism industries—are somewhat subject to cyclical fluctuations. Contrary to a popular myth, however, Alaska's economy has not been a series of booms and busts. The chart below, which traces employment since 1950, while it does reflect some cyclicity, certainly illustrates an absence of any downturn that could be labeled a "bust."

ALASKA EMPLOYMENT (Military Excluded)



Alaska is an economy which abounds with opportunities, but which also places a unique set of challenges before anybody who is doing business in our forty-ninth state.

Sources of charts: Alaska Business Trends, Alaska Pacific Bank, January, 1977.

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

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

## ASSUMPTIONS

### NATIVE CLAIMS

(millions)

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

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

### PROPERTY TAX

(millions)

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

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

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

### BONUS SALES

No Anticipated Bonus Sale Receipts Included

### RESERVE TAX CREDIT

(millions)

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

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

### INTEREST RATES

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

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

**Permanent Fund Analysis**  
**25% Contribution Rate**  
**(in millions)**

	<u>Revenue subject to contribution</u>	<u>25% contribution</u>	<u>Permanent fund balance</u>
FY 76	\$41.6	10.4	10.4
FY 77	38.8	9.7	20.1
FY 78	448.2	112.1	132.2
FY 79	568.2	142.1	274.3
FY 80	780.0	195.0	469.3
FY 81	881.4	220.4	689.7
FY 82	1001.0	250.3	940.0
FY 83	1172.0	293.0	1233.0
FY 84	1269.5	317.4	1550.4
FY 85	1334.3	333.6	1884.0

**Petroleum Revenue Subject to Permanent Fund**  
(in millions)

	<u>State Oil Royalties</u>	<u>State Gas Royalties</u>	<u>Federal Royalties</u>	<u>Mineral Lease Rentals</u>	<u>Bonus Sales</u>	<u>Total Revenues</u>
FY 76	35.9	3.8	1.9	?	?	41.6
FY 77	32.8	4.2	1.8			38.8
FY 78	443.0	4.2	1.0			448.2
FY 79	563.0	4.2	1.0			568.2
FY 80	774.8	4.2	1.0			780.0
FY 81	876.2	4.2	1.0			881.4
FY 82	995.8	4.2	1.0			1001.0
FY 83	1088.8	82.2	1.0			1172.0
FY 84	1183.3	85.2	1.0			1269.5
FY 85	1245.5	88.8	---			1334.3

### TARIFF RATES

(per barrel)

FY 78 - \$4.88	FY 79 - \$4.83	FY 80 - \$4.05
FY 81 - \$3.80	FY 82 - \$3.55	FY 83 - \$3.34
FY 84 - \$3.22	FY 85 - \$3.18	

### WELLHEAD VALUES

(per barrel)

FY 78 - \$ 9.43	FY 79 - \$ 8.59	FY 80 - \$10.14
FY 81 - \$10.91	FY 82 - \$11.76	FY 83 - \$12.56
FY 84 - \$13.30	FY 85 - \$14.00	

### THRUPUT FORECAST

(000)

FY 78 - 960	FY 79 - 1,360	FY 80 - 1,610
FY 81 - 1,700	FY 82 - 1,800	FY 83 - 1,900
FY 84 - 1,950	FY 85 - 1,950	

### COST FACTORS

Capital	\$7.80 billion
Interest	\$1.55 billion
Working Capital	\$100 million

### INFLATION

6% per annum during FY 76 - FY 78  
5% per annum during FY 79 - FY 80  
4% per annum during FY 81 - FY 90

## OBSERVATIONS ON THE ALASKA PERMANENT FUND

I have enclosed a description of three different "banks" which the Permanent Fund might put capital into. The descriptions are somewhat brief, but they should give some conceptual idea of the types of structures that I feel could evolve from the Fund. It may be that these particular programs would be only a portion of the Permanent Fund's investment portfolio, but I feel it is important that they be considered, as they encourage the types of consumer and community-owned businesses which would pass on the maximum benefits to the public.

During my brief visit, I was able to consult with a number of persons involved in Permanent Fund issues. This included Jamie Love and Lanie Fleischer of the SIAC, Jim Rhode of the House Finance Committee staff, and Jane Angvik from the Growth Policy Council.

As I have advised Lanie and Jamie, I feel that the Committee's biggest chore will be to develop a method of asking the right questions about its investment policies so that clear, concise, and understandable justification of investment decisions can be offered to the public. Issues to be addressed include:

Questions appropriate either for specific investments, or, on a more practical plane, investment guidelines or goals. They can be considered both on the short term and on the long term.

1. What will be the revenue impact on the state, and on local jurisdictions? Factors here include: investment yield; effected tax revenues attributable to the investment from property and income taxes, and fees; effected welfare costs attributable to job creation; effected infrastructure costs borne by public bodies and expended to service the enterprise invested in and the additional job-slots filled; revenue "multiplier" effects; and the like.
2. Who will be the individuals accruing the benefits and bearing the costs of an investment? Factors here include: skill levels; income classes; wealth classes; demographics (locale, age, race, sex); and the like.
3. What will be the effect on wealth distribution? Factors here include: property holdings (real property); enterprise holdings; effected market concentration; and the like.
4. What will be the relationship between the public and the private sectors? Factors here include: leveraging effects of public investments on private capital; public facilitative efforts to increase effect of investment; and the like.
5. Why has an investment been made outside the private market structures? Factors here include: definitions of the "risk/yield" frontiers used by local private investors; "weak points" needing investment within an industry structure; "social need" criterion; and the like.

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I have not addressed these points yet, and I am sure that some work has been done by the committee consultants here (although I have not seen it). I hope to return sometime in January before my contract runs out. Please advise me if I can provide more detailed information on the three proposals I outline here, or on any other subject of interest.

Bill Batko  
19 November, 1976

### A Bank for Community Development Corporations

Community development corporations (CDCs) are financial and enterprise development organizations set up, under federal law, by residents of low-to-moderate income geographic communities. Initial capital is provided by residents; additional capital resources come through bank loans, federal government support, and other sources. With these resources the CDCs provide equity and loan capital to business enterprises and housing projects within their community. Though CDCs are non-profit organizations, they can (and do) fund profit-making ventures. Criteria for making loans, or taking equity positions, are set by the CDC board, which is dominated by community residents. These criteria vary among the different CDCs, but generally include job creation, job training, and community convenience, in addition to financial return.

Investments are made by CDCs into enterprises which produce income enough to amortize the loan or make financially beneficial the equity participation of the CDC. Often, the enterprises funded are relatively labor intensive, as CDC goals include job creation and training for community residents, and as capital is usually a scarcer factor within CDC areas than labor.

A further function of a CDC is to attempt a more comprehensive strategy toward community development than occurs through private business decisions. As a community controlled structure involved

in the economics of the community - rather than just in the success or failure of separate and independent enterprises - a CDC will plan for and coordinate its investments. They can work toward bolstering 'weak links' within the local economy. Grocery stores in a community, for example, may be viable, or may have increased viability, only if a local warehousing operation is initiated to enable bulk purchasing and storage by the stores. As its perspective is the economic health of the area, the CDC might decide to invest in that warehouse based on its effect on the local economy, in addition to its return as a single investment. In this way CDCs can more fully capture for its area long-run economic benefits from a coordinated linkage.

Another function of CDCs is to buy, hold, and assemble land related to their other investments. Land held by a CDC cannot be developed by private interests. To a marginal extent, then, the CDC can prevent enterprise and capital formation, and ownership transfers, contrary to the interests of the community, as represented by the CDC.

The track record of CDCs is somewhat positive. Businesses funded through CDCs have a lower bankruptcy rate than 'normal' small business ventures in the United States, despite CDCs being restricted to operate within lower income neighborhoods. In addition, CDCs attract private capital in a corresponding ratio to their equity as is the norm for U.S. financial structures.

While not being a panacea or a risk-free venture, CDCs are a viable development approach. CDC operations in Alaska would be facilitated by creating a bank for CDCs, as a source of additional and steady capital, and by creating state CDCs. Federal law enables CDCs to draw upon federal agencies for capital. This would not be necessary in Alaska. Alaskan CDCs could be modeled on federal law, but the economic and social conditions of the state and the relationship between CDCs and the Permanent Fund could be factored into the legislation. The income maximums in a community, for example, could be expanded to permit middle income areas to create CDCs.

The enterprises funded by a bank for CDCs - through the CDC itself - would be determined after careful appraisal, at the local level by the CDCs and when necessary at the state level by the bank, of their relative and absolute viability. Many variables would go into this appraisal: location of raw materials; storage costs; transportation costs; labor skills available; etc. The enterprises chosen, however, would probably be those serving a mature consumer market, have low start-up costs, be relatively labor intensive, and be able to effectively compete with existing suppliers (if any) on a small scale. Most of these enterprises would serve a state or local market; some would primarily be for the export market. A short list of these enterprises might include housing construction, housing rehabilitation, retail and wholesale

grocery operations, seafood canneries, cellulose fabrication facilities, furniture manufacture, and energy production through alternative technologies.

A bank for community development corporations would operate much as a World Bank, but on a far different scale. The bank would provide loans to the CDCs, which would use the money to invest in local enterprise. In many ways there are parallels in the World Bank providing loans to development finance companies located in many of the underdeveloped countries, in the twelve Native Regional Corporations, and in the Community Development Finance Corporation, a bank for CDCs recently signed into law in Massachusetts. Loans to the CDC bank from the Fund would be amortized, or only interest returned to the Fund with the capital remaining in the Bank, through repayments to the CDC of its investments.

The CDCs could manage their portfolios, and differentially apportion enterprise repayment schedules, subject only to the constraint of returning a fixed yield to the CDC bank. Similarly, the bank could have different risk/return appraisals in financing different CDCs, subject to the constraint of returning a fixed yield to the Permanent Fund. In effect, then, one enterprise could support another, or a weak CDC be given support by stronger regions, without deviating from an agreed upon return to the Fund. It would be expected, though, that most risk-taking behavior would

be subsumed by the CDCs, rather than the bank, owing to the small number and large average loan size of the CDC bank assets.

Under this model of a bank for community development corporations the Permanent Fund would not create CDCs. It would, however, facilitate their operations through a steady source of capital. The initiative of communities would be required to start and expand CDCs. Communities would have to organize equity capital, and formulate concrete and sound development options. The bank could assist in this process (making some of the initial capital available in poorer regions, assisting in planning, etc.), but ultimately the burden of proof would rest with the locality.

#### A Bank for Consumer Cooperatives

Consumer cooperatives are enterprises jointly owned and controlled by their consumers. Existing examples include housing cooperatives, retail food store cooperatives, and credit unions (discussed in the next section). They differ from similar types of enterprises which have different ownership (such as private, public, or community) as well as cooperatives of producing enterprises. Cooperative enterprise, both producer and consumer, has had a long history within the United States, and remains viable throughout the country.

The advantages of cooperative ownership of consumer enterprise lie in having consumers, in effect, purchase goods from themselves.

The users of an enterprise thus set policy (which goods are sold, and at what prices) and accrue any firm surplus (profit) through a reduction in prices, an expansion of service, or a cash rebate. The ownership of profits is one clearcut economic advantage to the consumers. Another is that decisions to invest in cooperatives would not be based on reasoning external to the economics of the community being served (such as tax considerations, especially depreciation allowances, as a variable in housing investment). A third is that consumer cooperatives (as well as CDCs and credit unions) have a federal tax status favored over like institutions which are privately owned.

There are definite costs associated with cooperative enterprise. Consumers would have to learn (or know) enough entrepreneurial skills and devote enough time (or know enough to hire effective management) to make their enterprise a success. True cooperatives thus are not 'forced down the throats' of unwilling or ignorant consumers. On the contrary, a necessary precondition for cooperative enterprise is consumer initiative and energy.

A necessary precondition, but not sufficient. Capital is needed to open the doors of the enterprise, either through ownership transfer to a cooperative or by creating a new enterprise. Loans are often needed by cooperatives, as by most businesses, to

repair the building, stock the shelves, or weather an emergency. The usual private avenues of financing - underwriters, venture capitalists, commercial banks, and the like - are generally closed to smaller cooperatives, and often to larger ones. In recognition of this, national banks for producing farm cooperatives were organized decades ago. These banks have long since repaid the original capital borrowed from the U. S. Treasury, and have maintained a successful operation. With a similar rationale, legislation for a national bank for consumer cooperatives has recently been introduced in Congress.

Using a portion of the Permanent Fund as initial capital, Alaska could create its own bank for consumer cooperatives. As with the bank for CDCs, this bank would provide initiating, operating and expansion capital to cooperatives. As with the CDC bank, it would fund viable enterprises. As with the CDC bank, the Fund loan would either be amortized, along with the interest, or the capital would remain in the bank with only interest returned to the Fund. The primary distinction between the two banks is that the bank for CDCs would fund finance and development corporations, while the bank for consumer cooperatives would directly fund enterprises. The latter bank would carry a larger number of loans in its portfolio, with a smaller average size, than the bank for CDCs. The bank for consumer cooperatives would be expected, then, to manage its assets differently than the bank for CDCs, with somewhat lessened constraints on risk-

taking and liquidity. In dealing with less sophisticated customers, the cooperative bank would also probably use simplified financing instruments, and demand less stringent accounting procedures from its debtors, than the CDC bank. The similar characteristics listed in the introduction would otherwise hold.

The most obvious examples of how such a bank could benefit Alaskans are in the areas of urban housing and rural retailing. Once purchased cooperatively, urban housing units could, in effect, drop out of the market, and not respond to many of the inflationary pressures in a city such as Anchorage. This would mean no further price rise through speculative activities, or simply through normal ownership transfers. Perhaps as important as the actual cost savings would be the certainty consumers would have about their future housing costs.

Cooperative rural retailing would be beneficial for a different set of reasons. A grocery/general store with so much convenience to bush consumers is critically important to their subsistence lifestyle. Removal of that store would cause unneeded social disruption: the consumers would move to another area, or they would devote more time and/or cash getting to another store (making their existence somewhat more marginal). Cooperative ownership would mitigate the potential of disruption.

Other enterprises could easily benefit from cooperative ownership: urban retail stores, medical clinics, housing construction,

alternative energy production, etc. The enterprises funded by the bank for cooperatives, though, would ultimately rest upon the decisions by consumers. Conceivably, no cooperative enterprises would be funded. Conceivably, all of the multi-family housing in Anchorage and Fairbanks would be owned cooperatively. As for CDCs, the burden of proof would rest on the consumers, and the development plans they formulated.

#### A Bank for Credit Unions

Credit unions, which are financial cooperatives, a specific type of consumer cooperative, exist throughout the United States, Canada and Europe. In this country credit unions operate under either federal or state law. Membership in these cooperatives is limited to members possessing some common bond: workplace, religion, area of residence, etc. Most credit unions are restricted to taking savings deposits (called share drafts) and to giving consumer loans. Despite these market restrictions (commercial banks, by way of contrast, have minimal restrictions on the population they can serve, can accept checking and time deposits as well as savings, and can make commercial, agricultural, and mortgage loans, as well as loans to consumers, governments, and non-profit organizations) credit unions in the U. S. are the fastest growing type of depository institution. The benefits of cooperative ownership translate in credit unions into a generally higher savings interest rate, and a

lower loan interest rate. In addition, loans are made only to members, leaving credit generally more available to credit union members than others.

While the U. S. credit unions are viable, expanding enterprises, they are experiencing the need for additional capital sources. They are currently limited in raising funds, as well as in using their funds. The Credit Union National Administration has proposed a national bank for credit unions which would provide additional resources on a normal basis, and liquidity help on an emergency basis to credit unions. Such devices already exist for commercial banks (through the capital market, Federal Funds, and the Federal Reserve banks) and for savings and loan associations (through Fannie Mae, Ginnie Mae, Freddie Mac, and the Federal Home Loan Bank), and has been proposed for local credit unions in Washington, D. C.

Providing an additional source of capital would make credit unions a more influential force than they are now, and would improve the opportunities for consumers in Alaska to obtain credit. While credit unions generally give consumer loans, this money can often be used for small business purposes. Simply put, additional resources available to credit unions would lead to expanded purchase in Alaska of consumer durables, higher educations, home improvements, and small business goods. A bank for credit unions would also provide an incentive for the initiation of new credit