SCOMM

#9:137

IMPORTANT MESSAGE

FOR Brian Rogers

DATE ______ TIME ______ A.M. P.M.

BARKER

PHONE NO. ______

TELEPHONED		PLEASE CALL	
CALLED TO SEE YOU		WILL CALL AGAIN	
WANTS TO SEE YOU		RUSH	

MESSAGE

Here's Jim Rhodes ms.
he asked me to forward
to you - Please advise me
of your next meeting.

SIGNED Milt

LAA 30

A Short History of the Alaska Permanent Fund

This recent amendment of the state constitution had its origins in a proposal made in 1970, several months after the famous $900 million sale of North Slope leases. Governor Keith Miller urged that the money money be set aside in U.S. Treasury bills and other high grade securities to provide a perpetual stream of earnings to help bear the costs of state government. Although the Legislature accepted the separate investment of the funds (by the Bank of America, the world's largest), some $36.4 million was taken for "one time" capital improvements, chiefly roads, ferries, docks, and airports. The Governor suffered this reverse in part because he was a sudden, relatively unknown successor to Walter Hickel (who became Secretary of the Interior) and was believed to have limited prospects for winning a term in his own right. But far more important was the widely felt need to "catch up" with the other states after the meager revenues during Federal rule and the first decade of Statehood.

By 1974, regular and new programs of the state government were cutting deeply into the principle and earnings of the "North Slope Account". As the result of growing concern over the lack of lasting benefits from oil revenues and, in particular, because of the severe decline of the fisheries, the Legislature created the Renewable Resources Revolving Loan Fund. Beginning in 1978, ~~2%~~ 5% of royalty and related non-tax revenues from minerals were to be used for loans, ~~and~~ grants, and operating expenses to [redacted] industries that [redacted] could be sustained indefinitely. Judging from the record, some legislators expected this fund to be administered through a number of state agencies (and to include park acquisitions and the like) while others saw it as being under one new entity.

Any money not committed in the year received was to be placed in a "permanent fund" from which only earnings could be spent. When this fund reached $200 million, it and the parent fund would receive no further revenue. Observors have noted that this shutdown feature of the legislation may bring irresistible pressures to obligate all revenues every year. The inner permanent fund may never exist.

A further legislative initiative was taken in 1975 with the creation by statute of a "Permanent Fund" derived from 50% of royalties and other non-tax revenues from minerals. The Legislature would decide what programs were eligible under the fund, the record indicating that some grants, such as those for roads, ports, and other "infrastructure", could be deemed "investments". The lack of a strict requirement that investments produce direct income was offset somewhat by a provision that loan losses be made up fully before more loans could be made. In a similar vein, all earnings were to be retained by the fund. Governor Jay Hammond vetoed the measure on the grounds that it was a dedication of revenues prohibited by Alaska's constitution.

At the opening of the 1976 session, estimates revealed that the

\$900 million and some \$300 million in earnings would be exhausted by mid-year. (Admittedly, some \$ 88 million was at rest in veterans' loans, but these could only be turned into cash by discounting them at considerable loss.) State budget growth had been rising at the compound rate of 26% annually or, when adjusted for new population and higher prices, spending was twice ~~times~~ the level in 1969. Moreover, there were rising doubts about the effectiveness, if not wisdom, of many programs. Yet even before these facts were generally known, the Administration and legislators close to the issue had agreed to offer the voters a constitutional amendment.

The desire to slow the expansion of state government and to save a part of future revenues for the end of the oil era, the housing problems, crime, and other side-effects of the pipeline boom, and the national questioning of the size and conduct of government were the greatest forces leading to the Alaska Permanent Fund. Another significant factor was the hope of altering the structure of the economy, as distinct from simply enlarging it. This meant reducing unemployment and seasonality, improving incomes, and even changing the timing and placing of investments. How far this can or should be done was a matter of minimal discussion.

Specifically, the amendment ACHIEVES ~~reflects~~ the desire to slow government and save oil revenues by adopting or avoiding various aspects of earlier proposals. This was not always conscious, of course. "At least 25%" of non-tax mineral revenues are to be put aside, thus rejecting the fixed ceilings used before. Actually, the House version of the amendment called for tax as well as non-tax mineral revenues to be set aside. The Senate argued, however, that only revenue arising from the state's role as resource owner belonged in the fund. Revenues from the power to tax were for current expenses. The House accepted the change, though upon the different premise that mention of tax revenues was unnecessary because the Legislature always has the power to appropriate for any valid public purpose. Regardless of how this point is resolved, the Senate approach reflects the skepticism in that body about "tying up revenues" and diverting them from "unmet needs" for public services.

By stating that investments were to be "income producing", the framers removed the narrow focus on renewable resources. This allowed pure savings, business development, or loans to communities and non-profit groups. Or any combination of them. It also insured that projects would be subject to some of the tests of private finance. Clearly, the absence of grants, let alone money for operating expenses, tends to reduce added state employment. Still, certain investments may impact on state programs or require special programs.

[redacted].

Further, rejection of a two-part fund, as in the Renewable Resources Revolving Loan Fund, favors better loan review.

Placing the Permanent Fund in the constitution was a sharp departure, heightening its chances for political survival and prolonging the period its assets could not be put into regular government. Perhaps the most important break with the past may HAVE BEEN the language dispersing the earnings of the fund to the general fund "unless otherwise provided by law". This opens numerous possibilities, including the pledging of earnings as security for state and local debt (or debt of the fund itself), increased municipal revenue sharing, and cash payments to specified Alaskan residents (the seed of the Alaska, Inc. proposals).

Our political and economic history have produced a Permanent Fund that combines restraints and flexibility in a unique way. There is no evidence that investment funds elsewhere, including the Alberta Heritage Trust Fund of oil revenues, were an inspiration for our fund, and later study has found no close parallels anywhere in the world. The goals and management of the fund are open today, but the idea that has evolved so far has been described as a second, perhaps last, chance, to use public money to meet the challenges facing Alaska.