

SCOMM

9:161

ERIC E. WOHLFORTH
ROBERT B. FLINT
TIMOTHY G. MIDDLETON

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
645 G STREET
ANCHORAGE, ALASKA 99501

COMM
Hohman
Sackett 2-8
TELEPHONE
AREA CODE 907
274-2519
272-9489

M E M O R A N D U M

TO: Hon. Sterling J. Gallagher
Commissioner of Revenue

Hon. Clark Gruening, Chairman
Special Committee on the Alaska
Permanent Fund

FROM: Eric E. Wohlforth *Eric E. Wohlforth*

DATE: February 1, 1978

SUBJECT: Brief Comments on House Bill 595 Relating to
Income of the Alaska Permanent Fund, House Bill
596 Relating to Non-renewable Resources, and
House Bill 682 Relating to Non-renewable Resources.

Section 1 of HB 596 provides for an investment oversight committee apparently with the purpose of overseeing the activities of all agencies of the State performing lending, borrowing or investment functions, including the corporations established by the bill itself.

Section 3 of the bill establishes, by adding a new chapter to AS 37, the Alaska Permanent Fund from which is allocated 5/6 of mineral rents and royalties to the Alaska Permanent Fund Corporation. AS 37.13.020 contains legislative findings with respect to the Alaska Permanent Fund Corporation and its primary goal which is to maximize total return while maintaining safety of principal and states that it is a savings device to allow the maximum use of disposable income as needed for the purposes as provided by law. Under 37.13.130 the prudent man rule is established to govern the investment activities of the corporation with the provision that assets may be used only for income producing investments and that the board maintain reasonable diversification. Subsection (g) of Section 130 limits investments to direct obligations of the United States, mortgage loans and stock and "corporate obligations freely marketable under the Securities Act of 1933". It is submitted that the limitation to direct obligations to the United States may be too limiting now and that investment permission should be extended to government agencies and instrumentalities currently the subject of investment of monies in the State general fund.

Hon. Sterling J. Gallagher
Hon. Clark Gruening
February 1, 1978
Page Two

The Alaska Enterprise Investment Corporation is created by Section 4 and is funded with an allocation from the Permanent Fund of one-sixth of all of the receipts thereof up to \$100,000,000. The corporation is permitted to invest its capital in loans or stock of projects, with stock investment limited to 25% of the capital stock of a project and loans up to 90% of cost except where additional amounts are necessary to protect the interest of the fund.

AS 44.55.125 imposes a prudent man rule on the investment policy of the corporation requiring at least 150% of all guarantees by the corporation to be invested in investment grade securities with not more than 50% invested in "financing the establishment, improvement, and expansion of productive private enterprise which will benefit Alaskans, and for which sufficient capital is not available from other sources or unreasonable terms" in the form of equity, debt or guarantees and 50% "for financing the longer-term investment capital needs for financially sound small and medium scale community development projects of municipalities and public corporate entities and private dwellings for which sufficient financing is not available from other sources or unreasonable terms". The right to guarantee obligations in addition to the right to invest in the stock or purchase the debt of a corporation is referred to in AS 44.55.080 and AS 44.55.120 and provides that the corporation has power to guarantee obligations of another corporation or legal entity to facilitate their sale. In general, guarantees are made in connection with corporate financings by a parent of a subsidiary in which there is already an investment. There would be some question as to whether a guarantee of debt not incident to an investment of monies would qualify under the constitutional limitation that money to the Permanent Fund may only be invested in an income producing securities.

AS 44.55.130 establishes a capital reserve account to secure obligations of the corporation. Monies in the capital reserve account are to be used to pay principal, interest and redemption premium on obligations of the corporation. The capital reserve account is funded with the income of the corporation until that is equal to 25% of its

Hon. Sterling J. Gallagher
Hon. Clark Gruening
February 1, 1978
Page Three

outstanding obligations. Under AS 44.55.120(4) the corporation is permitted to borrow amounts up to its paid-in capital. If the corporation is conceived as a borrowing vehicle to provide money for investments or loans and there should be additional provisions establishing its rights to enter into covenants and agreements with bondholders, provisions providing that the indebtedness of the corporation is not a debt of the State and otherwise as necessary for a public bond financing. The above is not in the nature of a policy observation since it is readily perceived that the primary thrust of the fund is an investment or lending vehicle rather than a borrowing vehicle.

HB 595 provides that income from investment of the Permanent Fund, becomes part of the Permanent Fund and may be used to provide for guarantees of indebtedness issued by governmental agencies of the State for power projects. This is a worthy and sensible goal for the use of Permanent Fund income in my opinion. However, I feel that the efficacy of a guarantee of debt of public authorities, municipalities or agencies issued for power projects may well be subject to the legislature's appropriating income to the fund for this purpose on an annual basis. Further, the requirement that the fund itself be invested in income producing investments may not be satisfied by a guarantee or indebtedness of another body. When AS 37.13.200 provides for the guarantee of indebtedness issued for power projects of monies transferred to the Permanent Fund from its income, the actual obligation which is entered into by the board of trustees of the Alaska Permanent Fund Corporation may amount only to an annual direction to use income for the purpose stated rather than a long term obligation requiring the corporation to devote the income to that purpose without further act. As I have stated before, I may well be wrong in my reading of the power and permission to devote Permanent Fund income on a long term basis without further appropriation of the legislature, but I think there is at least a substantial question whether an effective guarantee can be entered into under HB 595 of such income to secure indebtedness of another party.

As to HB 682 creating an Alaska Renewable Resources Corporation, the primary purposes appear to be research and development in renewable resource industries and investment

Hon. Sterling J. Gallagher
Hon. Clark Gruening
February 1, 1978
Page Four

in projects related to research and development. The investment permission in AS 37.12.170 is limited in size (\$1,500,000) and in percentage of a project (25%) unless a greater amount or percentage is fixed by concurrent legislative resolution. Under AS 37.12.050, the corporation is allocated 5% of mineral lease bonuses and rentals, half of which are to be placed in the fund. Under AS 37.12.150(11) the corporation "may make financial assistance available in the form of grants, loans, loan guarantees or other appropriate forms to public research and development groups in the state in order to facilitate investment" and in (13) may further make grants. The power to make grants seems to run counter to the constitutional requirement that the Permanent Fund may only be invested in income producing investments. As to guarantees, please see my comments above.

EEW:jr

D R A F T

*done for Rep. Parr
by G. W. King*

April 25, 1978

Mr. George E. Gordon
President
College Utilities Corporation
600 University Ave.
P. O. Box 80909
College, Alaska 99708

Dear George:

I appreciate receiving your letter of March 24, 1978 in regard to the College Utilities Corporation's need for long term financing at reasonable interest rates.

First, it should be pointed out that the Fairbanks Daily News Miner article of March 23, 1978 headlined "House Fund Control Approach Conservative" did not correctly describe all the permissible permanent fund investments provided for in the House proposal. In addition to corporate securities which include bonds of corporations, a substantial portion of five-sixths of the fund's principal would be available for first lien mortgage money on Alaska reality or leaseholds. The emphasis of the House proposal is on secure high-return investments. A good portion of these investments will not be made outside but will be placed in Alaska.

Nevertheless, the demand on the permanent fund (which will contain only a portion of the money from oil revenues) for long-term low-interest loans for capital investments in water, sewer, hydroelectric and other community projects would quickly absorb all available fund capital without

leaving a flexible and liquid fund balance for the future.

The large portion of oil money in the general fund will be available through various programs which are more appropriately structured for utility financing. The following are some possibilities which you should pursue:

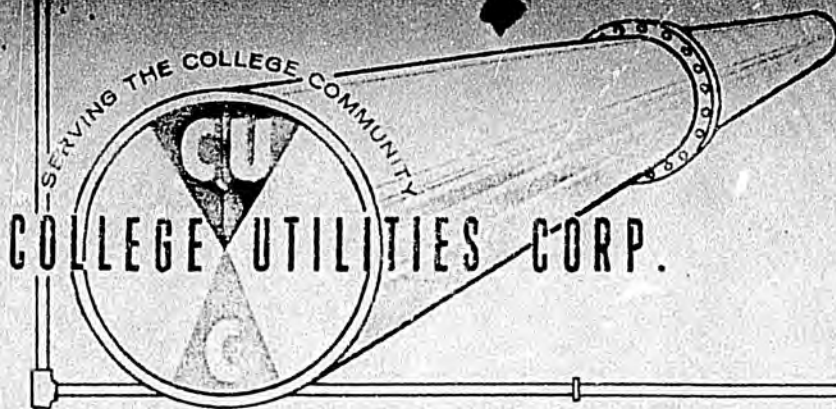
1. The Municipal Bond Bank is seeking legislative authority to assist community utilities to obtain reasonable revenue bonding (This bill, SB 430, hopefully will pass this session):

2. HB 855, has passed the House and if approved by the Senate will allow municipalities to establish corporations or instrumentalities which could also help obtain revenue bonding or longer term financing for utilities.

3. Both the House and Senate are considering appropriations to the Water Resources Revolving Loan Fund within the Department of Commerce and Economic Development and the Power Projects Revolving Loan Fund (within the Alaska Power Authority) both of which may make direct long-term loans for potable water supply projects.

4. A general obligation bond has been proposed this year containing 17.5 million for water and sewer grants to be administered by the Department of Environmental Conservation and, if the bond issue is passed by voters, you would be able to make application to DEC.

The Permanent Fund present balance of about \$34 million is managed by the Commissioner of Revenue and is held in mostly marketable securities outside the state. The House proposal for the Permanent Fund while conservative would make permanent fund monies available in the state. However, more appropriate state financing assistance for utilities will be available sooner through the other mechanisms described above. If you have further questions please don't hesitate to contact me, Rep. Steve Cowper or Rep. Clark Gruening.



600 UNIVERSITY AVE.
P.O. BOX 80909
COLLEGE, ALASKA 99708

PHONE
(907) 479-2760

March 24, 1978

The Honorable Charles H. Parr
State of Alaska House of Representatives
Pouch "V"
Mail Stop 3100
Juneau, Alaska 99811

Dear Representative Parr:

In an article on the front page of the Fairbanks Daily News Miner on Thursday, March 23, 1978, we note that the House has voted 34 - 6 to approve what is labeled in the News Miner as a "conservative approach to management of the Alaska Permanent Fund". The principal error in this legislation is that it would set aside 5/6 of the funds principal for investment in blue chip securities and stocks, and only 1/6 would be able to be available for financial investments in Alaska through the Alaska Enterprise Investment Corporation, which presumably would make it extra difficult for this money to be used in the State of Alaska. We find this approach appalling. The State of Alaska has been capital starved as long as it has been in existence.

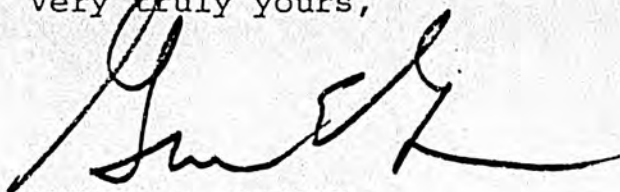
College Utilities Corporation, in attempts to provide water and sewer service to its existing and expected customers has found it almost impossible to obtain financing of any sort to help in this endeavor. We are currently attempting to secure what is known by banks as "long-term financing" for construction of facilities that have 35 year lives, and the rates and terms quoted are 11% to 12% for a five year term. The complexity of attempting to construct a plant which has a depreciable life of 35 years with 5 year money is obvious. We believe that some New York banks are probably offering 5 year loans for automobiles to fortunate customers in the "Lower 48".

Representative Charles Parr Page 2
State of Alaska
House of Representatives

March 24, 1978

We find this enormous, continuing problem of financing difficult to comprehend when our elected representatives insist on shipping Alaska's investment wealth out for use by "Lower 48" multi-national corporations which have their own channels into the nation's money supply. We hope that a more practical stance for all Alaska might be adopted for permanent fund monies.

Very truly yours,

A handwritten signature in black ink, appearing to read "Gordon", written in a cursive style.

GEORGE E. GORDON
President

COLLEGE UTILITIES CORPORATION

GEG/cjs

Alaska State Legislature

REPRESENTATIVE
STEVE COWPER
210 HERLAND BUILDING
FAIRBANKS, ALASKA 99701



House of Representatives

April 5, 1978

892

704
905

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA
99811
(007) 465-3706

Mr. George E. Gordon
President
College Utilities Corp.
P. O. Box 80909
College, Alaska 99708

Dear George:

Thank you for your letter of March 24, 1978, regarding the Permanent Fund and the problems of financing for the College Utilities Corp.

First of all, I should point out that only a portion of the money from oil revenues goes into the Permanent Fund, which was specifically created for high-return low-risk investments. However, there are avenues already established for providing capital to Alaskan businesses and corporations.

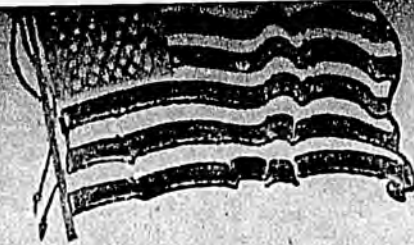
335
A general obligation bond has been proposed this year for \$18,570,000 in capital improvements for water and sewerage systems. Of this, \$17.5 million will be issued in grants by the Dept. of Environmental Conservation, and if this is passed by the voters, you would be able to make your application to DEC.

I appreciate your keeping me posted and will, of course, be keeping your needs in mind as the session moves along.

Very truly yours,

Steve Cowper

SCC/mas



Inside

State News	2
Local News	3
Comment & Opinion	4
Stock Market	5
Northern Life	7
Ann Landers	11
Sports	13-15
Comics	16
Crossword Puzzle	17
Horoscope	17
Classified Ads	17-23

"WE CAN PAY OUR BILLS." So says Cindy Fields, president of the Fairbanks Festival Association, referring to the success of the recent winter carnival. She says an even bigger carnival is planned for next year. 3

GRAVEL'S REQUEST. Sen. Mike Gravel's request that both Alaskan senators serve temporarily on the panel considering the d-2 bill is considered unlikely to be granted. 6

OPPOSE REGULATION. Arguing that federal intervention could put some firms out of business, auto dealers spoke out against federal regulation of the auto repair industry. 10.

TALK IS EASIER. Carter administration efforts to close some military bases are meeting with delays and reversals due to political pressures. 12.

WHERE THE EARTH SHAKES. The "earth" of the swamp, or much of it, was born of decomposed leaves and twigs turned to thick peat from which new vegetation grows. and the

House Fund control approach conservative

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU—The House stamped overwhelming approval today to legislation which adopts a conservative approach to management of the Alaska Permanent Fund.

A small group of House Republicans argued that the proposal drafted by the Democratic leadership wasn't conservative enough, but they failed to convince even a majority of their own party and the bill was sent to the Senate on a 34-6 vote.

The House bill would increase contributions to the Permanent Fund from 25 per cent of oil and gas royalties and bonuses to 30 per cent of royalties and 100 per cent of bonuses.

It would set aside five-sixths of the fund's principal for investment in blue chip securities and stocks, but the

remaining one-sixth, up to a maximum of \$100 million, would go to an Alaska Enterprise Investment Corp. for loans to small and medium scale business and community projects around the state.

Republican lawmakers Ed Dankworth and Kris Lethin of Anchorage and Larry Carpenter of Fairbanks tried to junk the investment corporation concept but were defeated on an 8-32 vote.

They also tried to boost Permanent Fund contributions to 50 per cent of all royalties and bonuses but lost that effort on a 9-31 ballot.

Dankworth argued that using Permanent Fund principal for investments in anything other than blue chip securities would violate the intent of voters who established the fund in a 1976 constitutional amendment.

The first-term GOP lawmaker said voters wanted a "single fund to protect some of the state's oil wealth from spendthrift legislators."

"Instead, what the people are getting is two funds—the Permanent Fund and a not-so-Permanent Fund," he said. "That's just plain irresponsible to the will of the people."

Carpenter argued that use of the fund for diversifying the state's economy should await more specific information on actual in-state financial needs, contending that the House's special committee on the Permanent Fund reached the same conclusion in limiting the investment corporation to \$100 million.

Rep. Clark Gruening, D-Anchorage and chairman of the House special committee, said his panel did adopt a cautious approach to using the fund for loans to Alaska enterprises, but said he was convinced that "Alaskans want to see some current benefits from the Permanent Fund."

"Ours is the most conservative of any of the bills introduced on the Permanent Fund," Gruening said. "It meets the primary goal of permanence but says we are going to try to diversify

(See FUND, page 5)

OK capital bond first—consultant

Spanish director assassinated

MADRID, Spain (AP)—Police believe the terrorist band known as GRAPO assassinated the Spanish director of prisons despite protests by other antigovernment guerrillas that they killed him on the spot.

Interior Minister Rodolfo Martin Villa said the submachine-gun killing of Jesus Haddad was similar to the March 10 ambush slaying of a Madrid policeman for which the Maoist Revolutionary Anti-Communist Oct. 1 Group, or GRAPO, claimed responsibility.

Martin Villa said descriptions of the three young men who killed Haddad Wednesday morning as he waited in front of his home for a chauffeur to drive him to work matched those of the earlier slayings. A note signed by GRAPO to the Madrid newspaper *Informaciones* said it killed Haddad in retaliation for the killing of a young anarchist in a Madrid prison eight days ago. The director of the prison and 10 members of his staff have been indicted in that connection.

The prisoner's death set off a flurry of leftist demonstrations, but these subsided after the indictments.

Martin Villa said police gave little credence to telephone calls to newspapers from two other leftist groups—the Frankfurt Red Army and the Marxist Popular Anti-Fascist Revolutionary Front—claiming to have killed Haddad.

The minister said 20 members of GRAPO are behind bars but 20 others are still active, most of them in Madrid.

The organization surfaced Oct. 1, 1975, with the ambush killing of three Madrid policemen in revenge for the execution of five anti-government guerrillas by the Franco regime.

Several months after the death of dictator Francisco Franco, GRAPO challenged the government by kidnapping an advisor to King Juan Carlos and an army general. Both were rescued and armed by police and several GRAPO members were jailed.

Trudeau outlines 'love-hate' pact

NEW YORK (AP)—Prime Minister Pierre Elliott Trudeau says Canada maintains a "love-hate relationship" with the United States even though the two nations have never been more neighborly.

"There's no question that we love you very much. But do we love you wisely?" Trudeau asked more than 2,000 American businessmen and others at a dinner at the prestigious Economic Club here during his speech on Canada's economic outlook.

The prime minister explained that Canada is trying to encourage U.S. investment while at the same time ensure that its national identity does not become too Americanized. He noted that Canadians already are surrounded by American culture because they read U.S.-edited magazines, eat U.S.-grown food and wear U.S.-made clothes.

"Foreign investment will always be welcome in Canada, yet there is one very important provision," Trudeau said in answer to a question. "We hope it will be not only to the benefit of the foreign investor but also to the benefit of the Canadian people."

Trudeau noted that 46 per cent of all manufacturing in Canada is foreign-controlled. Some industries, such as oil and cars, are at least 90 per cent controlled by U.S. giants like Exxon and Ford.

"But we have reached a stage now when we can become a little more choosy," the prime minister said. Canada recently set up the Foreign Investment Review Agency to examine potential foreign investors and determine if their services would serve Canada's interests.

Before questioning, Trudeau delivered an hour-long speech broadcast live on Canadian television in which he predicted Canada's problem-plagued economy would continue its slow recovery.

Trudeau, sometimes speaking in French to emphasize certain points to French-speaking Canadians, acknowledged that Quebec's separatist movement is damaging Canada's economy. But he expressed confidence that residents of Quebec will reject any move for independence.

April while Bennett, a legislator, and his wife were in Juneau for the legislative session.

According to testimony in the trials, Mossberg was unhappy about losing \$2,000 in earnest money in an unsuccessful attempt to buy the lodge and offered \$1,000 for someone to burn it.

A key witness in the trial was James Judkins, who turned state's evidence to win leniency on theft charges pending against him.

Judkins, who wired himself to record conversations with Mossberg for the Troopers, told the jury that Mossberg approached him and asked him if he would burn down the lodge. Judkins said he declined, but contacted Smith,

Van Hoomissen sentenced Mossberg to 15 years with no recommendation of probation. He did not order restitution, leaving that for any civil litigation.

In sentencing Smith, Van Hoomissen admitted that his role may have been a minor one in the fire, but he was "an important cog in the overall picture which resulted in burning the place down."

F&G kills 15 more wolves

Fifteen more wolves have been killed in Game Management Unit 20-A south of Fairbanks over the past week, putting the Department of Fish and Game closer to its goal of bagging about 35 wolves in the predator control program this year.

A light snowfall in the unit enabled biologists to resume hunting this weekend, when five wolves were killed. Another 10 were shot Wednesday. Biologists were hunting again today.

The department did not hunt between the weekend and Wednesday due to poor light conditions caused by cloud cover, said game biologist Kelleyhouse.

The total wolf take by Fish and Game personnel this season is 29. Biologists had taken 14 animals earlier, although lack of snow, winds and light conditions hampered their efforts.

FUND . . .

(Continued from page 1)

the economy with caution."

Gruening also noted that the Legislature would have plenty of time to further study in-state financial needs because the investment corporation could not begin lending money until fund contributions totaled \$50 million. He said that benchmark would not be reached until the early or mid-80s.

"To say we are going to throw it away is a slander on Alaska businessmen," Gruening said. "We can do some good at the same time we are saving."

The Republican trio of Dankworth, Lethin and Carpenter also argued for boosting royalty and bonus contributions to the permanent fund from 25 to 50 per cent to "make more assets available for conservative income-producing investments."

But Gruening countered that it would be unwise to dramatically increase the fund at the present time because of "grave uncertainties" over the level of future royalty payments to the state because of higher than anticipated trans-Alaska pipeline tariffs and tanker transportation charges.

Rep. Terry Gardiner, D-Ketchikan, also said any increase in Permanent Fund contributions would lower funds available for general fund expenditures and lessen the possibility of passage of proposals for income tax reductions in the state.

Lethin, however, said the Legislature should "start learning to live with dwindling revenues now."


The Senate bill is expected to come up for a floor vote next week.

Interested in
MUNICIPAL BONDS?
Thank you for calling . . .



Foster & Marshall Inc.
Member New York Stock Exchange, Inc., American Stock Exchange, Inc., and The Chicago Board Options Exchange.
STOCKS • BONDS • TAX SHELTERS and OPTIONS
211 Cushman, Fairbanks, AK. 99701

Only 22 days left!
"If the IRS calls you in, we'll go with you. No extra charge."



Henry W. Block
When we prepare your return, stand behind our work. So if the should call you in, H&R Block go along with you at no charge. as your legal representative, but answer any questions about how taxes were prepared. That's Reason No. 5 why H&R Block should prepare your taxes.

H&R BLOCK
THE INCOME TAX PEOPLE
203 Cushman Street
P. O. Box 1494
Fairbanks, Alaska 99707 • 456-
3525 College Road
(Second Floor) Suite No.
Fairbanks, Alaska 99701 • 479-
Mile 1315.6 P. O. Box 94
Tok, Alaska 99780 • 833-4-
107 Aspen — Anderson
Box 174
Clear, Alaska 99704 • 832-
Hours: Mon.-Fri. 9 a.m. to 5 p.m.
Sat. & Sun. 9 a.m. to 5 p.m.

ALASKA FEDERATION OF NATIVES, INC.

550 West 8th Avenue ■ Anchorage, Alaska 99501 ■ Phone 907-274-3611



April 11, 1978

Representative Clark Gruening
Pouch V
Juneau, Ak 99811

Dear Mr. Gruening:

I would like to express my appreciation and that of our Board of Directors to you for taking the time to present your progress and concerns regarding the Permanent Fund legislation. You and your staff are to be commended for the work you have done thus far and for your candid expression of the problem areas requiring monitoring and input.

Please continue to keep us informed and don't hesitate to call if we can be of any assistance.

Sincerely,

Byron Mallott
President

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

Alaska State Legislature

Representative
CLARK GRUENING
940 Tyonek Drive
Anchorage, Alaska
99501
907-274-2446



Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

April 10, 1978

Mr. Carl Jack, President
Association of Village
Council Presidents
P. O. Box 219
Bethel, Alaska 99559

Dear *Carl* Mr. Jack:

Please excuse my delay in responding to your written testimony regarding the House Permanent Fund Committee's bill, HB 596. I appreciate your taking the time to detail specific comments for the Permanent Fund Committee.

The Committee specifically addressed many of the points you brought up in your letter during its February meetings and your testimony was entered into the record. After considerable deliberation, a Committee Substitute for HB 596 was passed out of Committee on February 22. The House Finance Committee also made some changes.

I am enclosing a copy of House Finance CS for HB596 for your information. The bill has been referred to the Senate Judiciary Committee.

Thank you for your recommendations and I would be pleased to further discuss with you the House proposal or the Senate proposal, SB 429.

Cordially,

Clark Gruening
Representative Clark Gruening

CG:jl

Enclosure
One

AVCP, INC.

Association of Village Council Presidents
P.O. Box 219 • Bethel, Alaska 99559 • Phone 543-3521

February 7, 1978

The Honorable Clark Gruening, Chairman
Special Committee on the Alaskan Permanent Fund
Pouch - V
Juneau, Alaska 99811

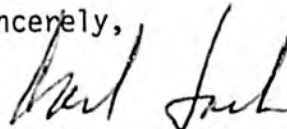
Dear Clark:

Attached you will find my testimony on House Bill No. 596 which needs to be submitted as part of the record for the hearings on the Permanent Fund.

If the bill is revised due to the hearings, we would appreciate receiving a copy of the revised bill.

Thanks.

Sincerely,



Carl Jack, President

CJ:alo

AVCP, INC.

Association of Village Council Presidents
P.O. Box 219 • Bethel, Alaska 99559 • Phone 543-3521

TESTIMONY ON HOUSE BILL NO. 596

BEFORE

SPECIAL COMMITTEE ON ALASKA PERMANENT FUND

Honorable members of the Special Committee on the Alaska Permanent Fund, my name is Carl Jack, President of the Association of Village Council Presidents, Inc., and our business address is Box 219, Bethel, Alaska 99559.

We generally agree to the concept of House Bill No. 596 as an enabling legislation; however, we certainly analyze that the language within certain provisions of the present bill will need minor, and major modifications in order for it to become a viable law for the citizens of our state.

Our first concern involves the Powers of the Investment Oversight Committee. Under section 24.20.670 (4), we analyze that the committee needs establish guidelines for the eventual selection of the Board of Trustees of the Alaska Permanent Fund, Corporation, Board of Trustees of the Alaskan Renewable Resource Corporation, and the Alaska Enterprise Investment Corporation Policy Board. Though there are qualifications relative to certain individuals on all three boards, we foresee that there is a need to establish qualifications for all the individuals whom will be involved as members of the three entities. This particular consideration would probably curtail undue pressure by the public that certain members are not duly qualified to sit as members relative to any of the three institutions.

Under item 6 of the Powers, we analyze that the Committee can place on paper every recommendation relative to the structure and operating procedure of the various state agencies; however, those recommendations can be nil and void if they are not implemented. Therefore, we are recommending that added language be instituted where every recommendations shall be implemented by the appropriate agency affected.

Under Section 37.13.040., we have a concern since there is a stipulation which states that the Alaska Permanent Fund Corporation is going to be the "...government instrumentality in the Department of Revenue..." We feel that the Fund Corporation should not, in anyway, be wired into the State Bureauacracy since it should be free from State Administrative procedures. Our analysis is that the Alaska Permanent Fund Corporation should be an independent corporation, and be free from any State Departmental Agency. However, this does not mean that total cooperation will be avoided by any State Agency with the Corporation. The cooperation is needed in order for the Corporation to be an affective corporation in which guidance can be acquired like say from the Department of Revenue, and other Departments.

The other reasoning is that the corporation is initially being formed as a corporation which will be answerable to the public. Therefore, there should be a type of independence from the other Departments since it will be responsible, and responsive to the public due to the fact that the corporation is dealing with accrued funds for the benefit of the present, and future generations of our State.

AVCP, INC.

Association of Village Council Presidents
P.O. Box 219 • Bethel, Alaska 99559 • Phone 543-3521

Under Section 37.13.080 (a), we analyze that the possible trustee relative to his/her residency is too short. We believe that the three year residency within the State need to be changed to five years or more. This requirement would, at least, instill in the possible appointee the needed time to analyze, comprehend, and fully understand the needs of the people. The situation would also provide the needed time for the individual to understand the diversity of the state population on any one statewide issue whether of the past or the future.

Under Section 37.13.110, we are concerned about the employment and the determination of the salary of the Executive Director. There needs to be stipulated statements within the enabling legislation relative to the qualifications of the Executive Director. It seems that the Executive Director would need knowledge of, experienced on, and qualified for the operation of a major monetary fund. Otherwise, without these types of stipulations, we assume that the Board of Trustees would just about hire anybody who could even be a streetwalker.

Under Section 37.13.130 (b), there needs to be added language relative to income producing investments. The addition should state "... investments which have shown a percentage of net earnings the previous year" or similar to this language. Otherwise, the Board of Trustees will have no stipulated guidelines to follow while considering certain types of investments. Also, this situation would insure that the trustees be required to invest only on income producing entities.

Within provision (e) of the above section, it would seem prudent to state that "The corporations may not borrow funds for and/or guarantee the obligations of others."

Within provision (h) of the same section, it would also seem prudent that instead of just the necessary review of the investment guidelines by the Investment Oversight Committee that whatever guidelines are considered need to be adopted by the legislators through the basis of majority vote. The adoption may not be necessary for every guideline and word; however, the necessity may be needed on major investment guidelines where consideration of guidelines would be requirements for major monetary investments matters.

Under Section 37.13.140, a laymen, a lawyer, and an accountant may be at a loss due to the words within the section. The section talks initially on securities, then it proceeds on the discussion of bonds. As a result, there is a definite need for clearer language within this particular section; otherwise every attorney will be arguing as to what the intent of the provision would mean like say section 7 (1) of the Alaskan Native Claims Settlement Act.

Under Section 37.13.190, there is a definite need for another item. Since the Board of Trustees will eventually be involved with major investments for the benefit of the permanent fund accruing monetary returns, it would seem prudent for the appointee to disclose his/her interests. We believe that after the appointment by the governor, and before the appointment is approved by the legislators, the appointee definitely needs to disclose his monetary interests to the public, the governor, and the Investment Oversight Committee. This language needs to be added due to the fact that there is language in the other sections which states to the affect that a Board Member will not vote on his investments if the Trustees want to invest in the member's corporation.

AVCP, INC.

Association of Village Council Presidents
P.O. Box 219 • Bethel, Alaska 99559 • Phone 543-3521

✓ Under Chapter 55 and Section 44.55.010, we have a concern relative to the Alaska Enterprise Investment Corporation being the government instrumentality of the Department of Revenue. We believe that the same or similar arguments can apply to this section as Section 37.13.040 of House Bill No. 596.

Under Section 44.55.030, though the purpose can remain as is, there is possibly a need for an addition to the provision or another section to the bill. There should be an applicable rule of thumb as to what would be the maximum amount in dollars for each of the two purposes. Otherwise, every private enterprise and community development will request for major financing from the Investment Corporation without any consideration for equalization and diversification of funds for the maximum benefit by the other state citizens who want to acquire loans.

✓ Under Section 44.55.060, there is a need for additional language relative to the Board's duties. The addition would be that the Policy Board will be responsible for drafting, and finalizing investment guidelines for private enterprise and community projects. The guidelines would at least clarify any quandries relative to monetary investments within the two areas.

Under Section 44.55.070 (3), we believe that the President should "be responsible after approval by the Investment Committee for making investments in investment grade securities..."

Under Section 44.55.080, we analyze that the Enterprise Investment Corporation Policy Board members need to each be specialized in certain areas of investments. Due to each member having a specialized field would generally guide the corporation as to its diversified investments.

Under Section 44.55.125 (i), there needs to be a stipulation that states that the former Committee members and former employees will not have the right to any state investments. This requirement would provide a better situation due to the fact that the former member/employees will have an extensive knowledge relative to the total operation and procedural information as to how the investments are made.

✓ Under Section 7, (Transition), the Commissioner of Revenue needs to transfer all the funds after the Permanent Fund Corporation is established to handle the funds. We believe that this needs to be an understanding.

Aside from the above recommendations which may be minor and major for the benefit of the Special Committee's analysis and consideration, we would like to recommend the following to be included in House Bill No. 596:

- A. Due to the fact that there will be many legal documents coming out of the mentioned corporations, boards, and committees, we analyze that there is a need for a close working relationship by these entities with the State Attorney General's office. Under this particular bill no mention is made of attorneys from the viewpoint of the state except that the President and/or Executive Director can hire his staff when needed. We believe that another section is needed relative to the State Attorneys who need to be working closely for the various corporations under House Bill No. 596.

AVCP, INC.

Association of Village Council Presidents
P.O. Box 219 • Bethel, Alaska 99559 • Phone 543-3521

- B. If there is a question as to where the earnings of the investments will go to, we believe that the earnings need to go back into the permanent fund. This procedure would insure that, the fund will be for the benefit of the future Alaskan generations. In fact, it would be appropriate to reinvest the earnings up to a certain point in dollars. Any excess of the earnings would then be placed back into the permanent fund. This situation would always insure that the dollars are working and earning money on a continual basis for the benefit of Alaskans.
- C. Mention is not made on collection procedures within the House Bill. It seems that some of the presently existing state loan programs have a high delinquency rate. Since this situation does exist, there needs to be a procedure developed in order for the State to work the contractual obligation due to the loan(s).
- D. We have stressed in our testimony for the appropriate designee under the bill to establish a maximum amount in dollars for any type of loan. In fact, it would seem appropriate to incorporate some of the ideas of the Senate Bill for the Permanent Fund relative to the type of loans and the loan amount within House Bill 596.
- Simultaneous to the above situation, it would be appropriate, as stressed before, to incorporate loan granting, and record keeping procedures within the bill.
- E. Within the various provisions of the bill, mention is made of hiring new staff members in order to implement the legislation if passed by both Houses of the Legislature. It would seem appropriate for the committee to consider on transferring some of the State employees from the Department of Revenue, and other Departments. It would seem more expedient to utilize some of the existing State staff members in order to implement the legislation, immediately, and if House Bill No. 596 passes both Houses. This situation would at least cut down the State Budget instead of increasing it.
- F. We are highly stressing that if 596 becomes a reality that the administration of the various corporations do not become bogged-down in a bureaucracy maze like what has happened to the other loan programs, such as, the Alaska Housing Finance Corporation of 1971. If this situation occurs, any of the benefits as proposed will not become a reality for the future Alaskan generation.

Overall, House Bill No. 596 is very general in nature, and it needs to be more specific within its certain provisions. If it is not improved in total, the Association of Village Council Presidents, Inc. will be leaning toward the Senate Bill on the Permanent Fund.

Alaska State Legislature

Representative
CLARK GRUENING
940 Tyonek Drive
Anchorage, Alaska
99501
907-274-2446



Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

March 20, 1978

Mr. Rodney A. Blakestad
P. O. Box 80747
Fairbanks, Alaska 99708

Dear Mr. Blakestad:

Representative Sally Smith forwarded your letter regarding investment in gold and silver through the Permanent Fund to me for response.

The House Special Committee on the Alaska Permanent Fund has passed out a bill that will hopefully contain the security of which you speak and the flexibility to manage the money to the greatest benefit of Alaskans as a whole on the ever changing money market and also make it available in small part to a loan program for Alaskans.

The Committee did consider investing in gold and silver but opted for conventional but secure money market investments and securities which allow flexibility and profit while maintaining a significant safety of principal.

I am enclosing a copy of CS HB 596 for your information and please contact me if you have further comments.

Thank you for your interest.

Cordially,

Clark Gruening
Representative Clark Gruening

cc: Rep. Sally Smith

CG:jl

Alaska State Legislature

REPRESENTATIVE
SALLY SMITH
321 CHURCH
FAIRBANKS, ALASKA 99701



WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811

House of Representatives
March 20, 1978

Mr. Rodney A. Blakestad
P.O. Box 80747
Fairbanks, Alaska 99708

Dear Mr. Blakestad:

Thank you so much for taking the time to write me of your concern with state taxes. It's hard to explain the total tax situation in Alaska, and particularly hard since that's not my field of expertise. Although I do know that the statistics say Alaskans pay more in taxes, Alaskans also receive more from the federal government per capita than any state in the union. The expenses involved in getting services out within the state are phenomenal, and admittedly, we don't always do it in the best way. We are simply so spread out that we don't see the inefficiencies in the system as quickly as we should.

There are efforts being made to lower the personal income tax as the revenues from development come in. But there are, of course, other prices to pay with the development.

Your suggestion of investing in gold and silver, I found quite interesting. The permanent fund is still setting policy. I have sent a copy of your letter to Clark Gruening who chairs the House Permanent Fund Committee. I don't know of their consideration of a gold and silver investment, but perhaps Clark can comment directly to you.

I think the future of Alaska is exciting, particularly with the caliber of people we have trying to make that future the best possible. Your input is a help in that planning. Thank you for taking the time to write and please do so again.

Sincerely,

Sally Smith
Alaska State Representative

cc. Gruening